

Orion Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2015

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Independent Auditors' Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
Orion Corporation

We have audited the accompanying consolidated financial statements of Orion Corporation and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards, as adopted by the Republic of Korea (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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with the Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Orion Corporation and its subsidiaries as of December 31, 2015, and their financial performance and cash flows for the year then ended in accordance with the Korean IFRS.

Other Matter

The consolidated financial statements of Orion Corporation and its subsidiaries as of and for the year ended December 31, 2014, presented herein for comparative purposes, were audited by other auditors whose report dated March 16, 2015, expressed an unqualified opinion on those statements.

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

Samil PricewaterhouseCoopers

Seoul, Korea
March 17, 2016

This report is effective as of March 17, 2016, 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 the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Orion Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2015 and 2014

<i>(In thousands of Korean won)</i>	Notes	2015	2014
Assets			
Property, plant and equipment	9,27	₩ 1,757,468,057	₩ 1,727,056,590
Intangible assets	10	28,916,888	27,371,353
Goodwill	8,11,41	24,058,250	12,335,100
Investments property	12	21,938,242	22,162,095
Investments in associates	13,42	17,318,067	19,907,316
Available-for-sale financial assets	14,35	8,879,701	10,967,736
Held-to-maturity financial assets	14,35	-	2,347,505
Long-term trade and other receivables	17,35,38	2,731,995	12,727,092
Long-term deposits	18,35,38	106,683,307	202,099
Deferred income tax assets	37	6,090,099	10,728,065
Other non-current assets	15	63,073,543	58,093,164
Non-current assets		2,037,158,149	1,903,898,115
Inventories	16	188,124,039	215,502,126
Available-for-sale financial assets	14,35	20,558	-
Held-to-maturity financial assets	14,35	-	265,925
Trade and other receivables	17,35,38	171,346,031	189,285,024
Short-term deposits	18,35,38	257,868,922	271,871,869
Cash and cash equivalents	18,35,38	252,770,602	216,225,991
Other current assets	15	69,610,539	103,973,680
Current assets		939,740,691	997,124,615
Non-current asset held for sale	8	21,939,953	31,496,489
Total assets		₩ 2,998,838,793	₩ 2,932,519,219

Orion Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2015 and 2014

<i>(In thousands of Korean won)</i>	Notes	2015	2014
Equity			
Capital stock	19	₩ 29,880,455	₩ 29,874,845
Capital surplus	19	66,891,050	66,616,534
Treasury shares	20	(32,423,770)	(32,566,544)
Other capital	21	(15,463,728)	(17,111,253)
Reserves	22	642,269,682	652,201,558
Retained earnings	23	687,557,126	548,109,187
Equity attributable to owners of the Parent		<u>1,378,710,815</u>	<u>1,247,124,327</u>
Non-controlling interest	5	147,465,124	155,398,153
Total equity		<u>1,526,175,939</u>	<u>1,402,522,480</u>
Liabilities			
Long-term debts	27,35,38	653,190,779	584,524,237
Long-term trade and other payables	26,35,38,42	1,199,995	3,032,486
Defined benefit liabilities	28	3,798,500	6,042,928
Deferred tax liabilities	37	71,329,545	70,767,316
Other non-current liabilities	29	873,458	2,128,958
Non-current liabilities		<u>730,392,277</u>	<u>666,495,925</u>
Current portion of long-term debts	27,35,38	176,578,756	185,133,610
Short-term borrowings	27,35,38	177,187,106	261,464,155
Trade and other payables	26,35,38,42	297,038,662	350,121,917
Derivative liabilities		-	3,302
Current income tax liabilities	37	23,732,591	16,566,874
Other current liabilities	29	60,731,756	44,125,060
Current liabilities		<u>735,268,871</u>	<u>857,414,918</u>
Liabilities related to non-current asset held for sale	8	7,001,706	6,085,896
Total liabilities		<u>1,472,662,854</u>	<u>1,529,996,739</u>
Total equity and liabilities		<u>₩ 2,998,838,793</u>	<u>₩ 2,932,519,219</u>

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

Orion Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015 and 2014

(In thousands of Korean won,
except earnings per share)

	Notes	2015	2014
Continuing operations			
Revenue	30	₩ 2,382,377,301	₩ 2,199,788,176
Cost of sales	30,34,42	(1,267,654,384)	(1,162,408,612)
Gross profit		<u>1,114,722,917</u>	<u>1,037,379,564</u>
Selling expenses	31,34	(681,733,742)	(655,789,030)
General and administrative expenses	31,34	(133,668,928)	(132,718,622)
Operating profit		<u>299,320,247</u>	<u>248,871,912</u>
Net other expenses (income)	32	(7,211,344)	26,439,499
Net finance costs	33,35	(39,985,672)	(47,778,787)
Share of profit (loss) of associates	13	(326,940)	1,373,750
Profit before income tax		<u>251,796,291</u>	<u>228,906,374</u>
Income tax expense	37	(75,253,096)	(51,675,462)
Profit from continuing operations		<u>176,543,195</u>	<u>177,230,912</u>
Discontinued operations			
Profit (loss) from discontinued operations, net of tax	7,8	564,402	(2,933,754)
Profit for the year		<u>177,107,597</u>	<u>174,297,158</u>
Other comprehensive income(loss):			
Items that may be subsequently reclassified to profit or loss			
Change in fair value of available-for-sale financial assets	14,35,37	110,894	698,479
Exchange differences on translating foreign operations		2,294,496	(85,815)
Share of other comprehensive income (loss) of associates	13	(633,074)	(52,345)
Income tax of other comprehensive income		21,758	(63,026)
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gain(loss)	28,37	(1,622,725)	(4,296,953)
Income tax of other comprehensive income		385,351	987,069
Other comprehensive income(loss) for the year, net of tax		<u>556,700</u>	<u>(2,812,591)</u>
Total comprehensive income for the year		<u>₩ 177,664,297</u>	<u>₩ 171,484,567</u>

Orion Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015 and 2014

*(In thousands of Korean won,
except earnings per share)*

	Notes	2015	2014
Profit (loss) attributable to:			
Profit from continuing operations	₩	162,197,221	₩ 166,278,271
Profit(Loss) from discontinued operations		121,005	(2,807,778)
Owners of the Parent		<u>162,318,226</u>	<u>163,470,493</u>
Profit from continuing operations		14,345,975	10,952,641
Profit(Loss) from discontinued operations		443,396	(125,976)
Non-controlling interests		<u>14,789,371</u>	<u>10,826,665</u>
Profit for the year		<u><u>177,107,597</u></u>	<u><u>174,297,158</u></u>
Total comprehensive income attributable to			
Owners of the Parent		162,242,164	159,468,970
Non-controlling interests		15,422,133	12,015,597
Total comprehensive income for the year	₩	<u><u>177,664,297</u></u>	₩ <u><u>171,484,567</u></u>
Earnings(loss) per share: (In won)			
	24		
Basic earnings per share from continuing operations		30,891	31,583
Basic earnings(loss) per share from discontinued operations		23	(533)
Diluted earnings per share from continuing operations		30,883	31,569
Diluted earnings(loss) per share from discontinued operations		23	(533)

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

Orion Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2015 and 2014

<i>(In thousands of Korean won)</i>	Capital stock	Capital surplus	Treasury shares	Other capital	Reserve	Retained earnings	Non-controlling interests	Total equity
Balance at January 1, 2014	₩ 29,855,675	₩ 65,581,340	₩ (16,731,529)	₩ (11,892,366)	₩ 641,873,095	₩ 413,992,468	₩ 146,597,457	₩ 1,269,276,140
Comprehensive income:								
Profit for the year	-	-	-	-	-	163,470,494	10,826,665	174,297,159
Other comprehensive income:								
Change in fair value of available-for-sale financial assets	-	-	-	310,403	-	-	300,719	611,122
Exchange differences on translating foreign operations	-	-	-	(1,048,842)	-	-	980,735	(68,107)
Share of other comprehensive income of associates	-	-	-	(23,479)	-	-	(22,244)	(45,723)
Remeasurements of net defined benefit liability	-	-	-	-	-	(3,239,606)	(70,278)	(3,309,884)
Total comprehensive income for the year	-	-	-	(761,918)	-	160,230,888	12,015,597	171,484,567
Total transactions with owners of the Company, recognized directly in equity								
Dividends	-	-	-	-	-	(15,785,706)	(5,010,996)	(20,796,702)
Exercise of stock options	19,170	1,035,194	-	(331,868)	-	-	-	722,496
Acquisition of non-controlling interests	-	-	-	(3,865,376)	-	-	1,743,433	(2,121,943)
Transfer to statutory reserve	-	-	-	-	9,661,796	(9,661,796)	-	-
Transfer to voluntary reserve	-	-	-	-	4,000,000	(4,000,000)	-	-
Transfer from voluntary reserve	-	-	(15,835,015)	(259,725)	(3,333,333)	3,333,333	-	-
Other equity transactions (Acquisition of subsidiaries)	-	-	-	-	-	-	52,662	(16,042,078)
Total transactions with owners of the Company, recognized directly in equity	19,170	1,035,194	(15,835,015)	(4,456,969)	10,328,463	(26,114,169)	(3,214,901)	(38,238,227)
Balance at December 31, 2014	₩ 29,874,845	₩ 66,616,534	₩ (32,566,544)	₩ (17,111,253)	₩ 652,201,558	₩ 548,109,187	₩ 155,398,153	₩ 1,402,522,480

Orion Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2015 and 2014

	Capital stock	Capital surplus	Treasury shares	Other capital	Reserve	Retained earnings	Non-controlling interests	Total equity
<i>(In thousands of Korean won)</i>								
Balance at January 1, 2015	₩ 29,874,845	₩ 66,616,534	₩ (32,566,544)	₩ (17,111,253)	₩ 652,201,558	₩ 548,109,187	₩ 155,398,153	₩ 1,402,522,480
Comprehensive income:								
Profit for the year	-	-	-	-	-	162,318,226	14,789,371	177,107,597
Other comprehensive income:								
Change in fair value of available-for-sale financial assets	-	-	-	84,917	-	-	-	84,917
Exchange differences on translating foreign operations	-	-	-	1,330,725	-	-	931,415	2,262,140
Share of other comprehensive income of associates	-	-	-	(283,957)	-	-	(269,026)	(552,983)
Remeasurements of net defined benefit liability	-	-	-	-	-	(1,207,747)	(29,627)	(1,237,374)
Total comprehensive income for the year	-	-	-	1,131,685	-	161,110,479	15,422,133	177,664,297
Total transactions with owners of the Company, recognized directly in equity								
Dividends	-	-	-	-	-	(31,594,416)	(4,823,406)	(36,417,822)
Exercise of stock options	5,610	274,516	-	(86,403)	-	-	-	193,723
Acquisition of non-controlling interests	-	-	142,774	602,243	-	-	(18,553,428)	(17,808,411)
Transfer to statutory reserve	-	-	-	-	12,734,791	(12,734,791)	-	-
Transfer from voluntary reserve	-	-	-	-	(22,666,667)	22,666,667	-	-
Other equity transactions (Mergers and acquisitions)	-	-	-	-	-	-	21,672	21,672
Total transactions with owners of the Company, recognized directly in equity	5,610	274,516	142,774	515,840	(9,931,876)	(21,662,540)	(23,355,162)	(54,010,838)
Balance at December 31, 2015	₩ 29,880,455	₩ 66,891,050	₩ (32,423,770)	₩ (15,463,728)	₩ 642,269,682	₩ 687,557,126	₩ 147,465,124	₩ 1,526,175,939

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

Orion Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

(In thousands of Korean won)

	2015	2014
Cash flows from operating activities		
Profit from continuing operations	₩ 176,543,196	₩ 177,230,912
Profit(Loss) from discontinued operations	564,402	(2,933,754)
Adjustments for:		
Retirement benefits	12,392,389	8,932,241
Depreciation	104,154,616	94,261,376
Depreciation of investment property	223,854	154,694
Amortization	77,894,007	52,036,482
Impairment loss on property, plant and equipment	9,160,437	1,765,000
Impairment loss on intangible assets	2,297,897	2,068,531
Bad debt expenses	3,868,223	9,276,949
Impairment loss on assets classified as held for sale	-	31,666,904
Loss on sale of property, plant and equipment	5,498,168	4,335,785
Loss on sale of intangible assets	130,983	1,440,843
Loss on sale of investments	2,666,380	-
Impairment loss on available-for-sale financial assets	1,000,372	3,200,854
Loss on sale of available-for-sale financial assets	-	59,867
Impairment loss on investments in associates	774,597	-
Impairment loss on other receivables	132,774	3,413,656
Valuation loss on derivatives	-	4,228
Contribution to provisions for litigation	1,621,513	-
Foreign currency translation loss	20,524,597	18,925,010
Interest expense	29,888,969	34,733,837
Other expenses	603,451	3,162,497
Income tax expense	80,739,669	50,605,291
Share of loss (gain) of associates, net	326,940	(1,373,750)
Gain on sale of property, plant and equipment	(2,990,754)	(4,222,108)
Reversal of bad debt allowance	(2,253,953)	-
Gain on sale of available-for-sale financial assets	(28,300)	(43,043)
Foreign currency translation gain	(3,538,657)	(4,829,416)
Gain on valuation of derivatives	(3,302)	(926)
Gain on bargain purchase	-	(29,939,987)
Interest income	(12,119,594)	(9,952,695)
Dividend income	(497)	(449)
Other income	(813,808)	(34,466)
Subtotal	332,150,971	269,647,205
Changes in:		
Trade receivables	(8,105,614)	18,412,313
Other receivables	(23,768,145)	(54,387,761)
Inventories	31,007,916	16,696,307

Orion Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

(In thousands of Korean won)

	<u>2015</u>	<u>2014</u>
Short-term deposits	₩ 85,899,238	₩ 3,585,405
Other current assets	3,462,274	(11,171,038)
Other non-current assets	7,496,931	(2,941,024)
Trade payables	19,994,957	(23,044,747)
Other payables	(73,304,912)	(36,034,640)
Plan assets	(5,638,297)	(4,300,668)
Payment of defined benefit obligations	(10,901,530)	(9,510,598)
Other current liabilities	24,482,786	(34,205,153)
Other non-current liabilities	(1,780,129)	884,686
Subtotal	<u>48,845,475</u>	<u>(136,016,918)</u>
Interest received	11,642,848	9,287,530
Dividend received	497	449
Interest paid	(24,842,269)	(37,671,609)
Income tax paid	(62,826,587)	(63,836,880)
Net cash inflow from operating activities	<u>482,078,533</u>	<u>215,706,935</u>
Cash flows from investing activities		
Proceeds from sale of held-to-maturity financial assets	257,565	1,699,765
Proceeds from sale of available-for-sale financial assets	3,559,733	1,802,371
Proceeds from sale of investment in associates	-	2,770,560
Proceeds from sale of property, plant and equipment	6,878,713	8,839,142
Proceeds from sale of intangible assets	401,913	3,729,520
Decrease in rental deposits	5,524,366	2,010,088
Decrease in short-term loans	2,789,680	9,627,574
Decrease in short- and long-term deposits	568,897,559	434,717,101
Proceeds from disposal of assets and liabilities held for sales	2,714,575	-
Other cash inflows from investing activities	1,608,102	137,384
Acquisition of held-to-maturity financial assets	(51,045)	(81,610)
Acquisition of available-for-sale financial assets	(24,925)	(600,290)
Acquisition of investment in subsidiary	-	(10,128,787)
Acquisition of investment in associates	-	(3,500,000)
Acquisition of property, plant and equipment	(134,956,818)	(155,008,441)
Acquisition of intangible assets	(5,440,813)	(2,796,564)
Increase in rental deposits	(5,825,894)	(1,467,435)
Increase in long-term loans	-	(23,333)
Increase in short-term loans	(4,989,361)	(2,408,947)
Increase in short- and long-term deposits	(737,756,285)	(409,890,010)
Decrease in cash due to merger	(3,522,104)	-
Other cash outflows from investing activities	(2,230,020)	(71,262)

Orion Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

(In thousands of Korean won)

	<u>2015</u>	<u>2014</u>
Net cash outflow from investing activities	<u>(302,165,059)</u>	<u>(120,643,174)</u>
Cash flows from financing activities		
Proceeds from exercise of stock options	193,723	722,497
Increase in security deposits	4,805,317	-
Increase in short-term borrowings	239,198,263	205,292,808
Increase in long-term borrowings	101,565,897	129,906,529
Issuance of bond	69,825,600	99,663,200
Other cash inflows from financing activities	-	67,166
Decrease in security deposits	(4,537,248)	-
Redemption of short-term borrowings	(353,127,951)	(352,795,148)
Redemption of current portion of long-term borrowings	(76,097,560)	(77,003,339)
Redemption of current portion of bonds	(40,000,000)	(40,000,000)
Redemption of long-term borrowings	(31,941,838)	(54,893,271)
Dividends paid	(36,324,216)	(20,796,702)
Acquisition of additional interests in subsidiaries and others	(17,293,324)	(2,121,942)
Other cash outflows from financing activities	(138,191)	-
Net cash outflow from financing activities	<u>(143,871,528)</u>	<u>(111,958,202)</u>
Effect of exchange rate fluctuations on cash held, and others	<u>1,339,673</u>	<u>188,921</u>
Net increase(decrease) in cash and cash equivalents	<u>37,381,619</u>	<u>(16,705,520)</u>
Cash and cash equivalents at the beginning of year	<u>216,473,623</u>	<u>233,179,143</u>
Cash and cash equivalents at the end of year	<u>253,855,242</u>	<u>216,473,623</u>
Cash and cash equivalents of disposal group classified as held for sale	<u>(1,084,640)</u>	<u>(247,632)</u>
Cash and cash equivalents at the end of the year on the consolidated statement of financial position	<u>₩ 252,770,602</u>	<u>₩ 216,225,991</u>

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

Orion Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Information

Description of the Controlling Company

Orion Corporation ("the Company") was founded on July 25, 1956, and listed on the Korea Stock Exchange on June 27, 1975. As of December 31, 2015, the Company engages in the business of manufacturing and selling confectioneries with its headquarters in Baekbeom-ro, Yongsan-gu, Seoul, Korea, and its manufacturing plants in Iksan, Jeollabuk-do, and others. The Company has increased its capital stock several times since incorporation and as of December 31, 2015, the Company has capital stock of ₩29,880 million, and its major stockholders are Lee Hwa Kyoung (14.48%) and five related individuals (14.05%).

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together referred to as "the Group"), and the Group's interests in associates.

The Company and its consolidated subsidiaries as of December 31, 2015 and 2014, are as follows:

	Name	Location	Immediate controlling party	2015		
				The Company	Subsidiary	Total
				Percentage of ownership		
Orion Corporation		Korea	The Ultimate Parent Company	-	-	-
Orion Reports Corp. ¹		Korea	Orion Corporation	100.00%	-	100.00%
RION Asset Development Co, Ltd.		Korea	Orion Corporation	100.00%	-	100.00%
SHOWBOX Corp. ²		Korea	Orion Corporation	57.5%	-	57.5%
Sports Toto Co., Ltd. ³		Korea	Orion Corporation	77.57%	-	77.57%
Mega Mark Co., Ltd.		Korea	Orion Corporation	100.00%	-	100.00%
PAN Orion Corp. Limited.		Hong Kong	Orion Corporation	95.15%	-	95.15%
Orion Food (Rus) Co., LLC. ⁴		Russia	Orion Corporation	-	-	-
Orion Food NOVO LLC. ⁴		Russia	Orion Corporation	-	-	-
Orion International Euro LLC. ⁴		Russia	Orion Corporation	100.00%	-	100.00%
Orion Food VINA Co., Ltd.		Vietnam	Orion Corporation	100.00%	-	100.00%
Supreme Star Investment Limited.		Hong Kong	Orion Corporation	62.66%	11.23%	73.89%
PT.Orion Food Indonesia ⁵		Indonesia	Orion Corporation	83.33%	16.67%	100.00%
HighLand D&C Co., Ltd.		Korea	Orion Corporation	100.00%	-	100.00%
Ipak Co., Ltd. ⁶		Korea	Orion Corporation	-	-	-

Orion Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

GEMINI VENTURE INVESTMENT ASSOCIATION NO.8	Korea	SHOWBOX Corp.	-	92.86%	92.86%
Supreme Star Holdings Limited.	Hong Kong	SHOWBOX Corp.	-	100.00%	100.00%
SHOWBOX Inc. ⁷	China	SHOWBOX Corp.	-	100.00%	100.00%
Misoin Co., Ltd.	Korea	Mega Mark Co., Ltd.	-	100.00%	100.00%
Sports Toto On-line Co., Ltd.	Korea	Sports Toto Co., Ltd.	30.00%	70.00%	100.00%
Crespo Co., Ltd.	Korea	Sports Toto Co., Ltd.	-	100.00%	100.00%
Orion Food Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.00%
Orion Food (Shanghai) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.00%
Orion Food Guangzhou Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.00%
Orion Snack Co., Ltd. ⁸	China	PAN ORION Corp. Ltd.	-	-	-
Orion Food (Shen Yang) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.00%
Orion (Bei Tun) Agro Processing Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.00%
Orion Argo BeiTun Co. Ltd ⁹	China	Orion (Bei Tun) Agro Processing Co., Ltd.	-	100.00%	100.00%
Orion Consulting Co., Ltd.	China	Supreme Star Investment Limited.	-	100.00%	100.00%
Beijing Supreme Star Consulting Co., Ltd.	China	Supreme Star Holdings Limited.	-	100.00%	100.00%
Orion Argo Co., Ltd. ¹⁰	China	Orion Food Co., Ltd.	-	100.00%	100.00%
Orion Argo DuoLun Co., Ltd. ¹⁰	China	Orion Food Co., Ltd.	-	100.00%	100.00%
Prime Link International Investment Limited.	Hong Kong	Orion Corporation	100.00%	-	100.00%
Beijing media tech Co., Ltd. ¹¹	China	Orion Corporation	100.00%	-	100.00%
Beijing mega media Co., Ltd ¹¹	China	Orion Corporation	100.00%	-	100.00%
STELLA WAY LIMITED ¹²	Hong Kong	Orion Food Co., Ltd	-	100.00%	100.00%
LANGFANG IPAK Co., Ltd. ¹²	China	STELLA WAY LIMITED	-	100.00%	100.00%
Orion Beverages Corp ¹³	Korea	Orion Corporation	100.00%	-	100.00%

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Name	Location	Immediate controlling party	Percentage of ownership		
			The Company	Subsidiary	Total
Orion Corporation	Korea	The Ultimate Parent Company	-	-	-
Orion Reports Corp. ¹	Korea	Orion Corporation	86.00	-	86.00
RION Asset Development Co, Ltd.	Korea	Orion Corporation	100.00	-	100.00
SHOWBOX Corp. ²	Korea	Orion Corporation	57.50	-	57.50
Sports Toto Co., Ltd. ³	Korea	Orion Corporation	70.50	-	70.50
Mega Mark Co., Ltd.	Korea	Orion Corporation	100.00	-	100.00
PAN Orion Corp. Limited.	Hong Kong	Orion Corporation	95.15	-	95.15
Orion Food (Rus) Co., LLC. ⁴	Russia	Orion Corporation	100.00	-	100.00
Orion Food NOVO LLC. ⁴	Russia	Orion Corporation	100.00	-	100.00
Orion International Euro LLC. ⁴	Russia	Orion Corporation	100.00	-	100.00
Orion Food VINA Co., Ltd.	Vietnam	Orion Corporation	100.00	-	100.00
Supreme Star Investment Limited.	Hong Kong	Orion Corporation	62.66	11.23	73.89
PT.Orion Food Indonesia ⁵	Indonesia	Orion Corporation	100.00	-	100.00
HighLand D&C Co., Ltd.	Korea	Orion Corporation	100.00	-	100.00
Ipak Co., Ltd. ⁶	Korea	Orion Corporation	53.33	-	53.33
GEMINI VENTURE INVESTMENT ASSOCIATION NO.8	Korea	SHOWBOX Corp.	-	92.86	92.86
Supreme Star Holdings Limited.	Hong Kong	SHOWBOX Corp.	-	100.00	100.00
Showbox Inc. ⁷	China	SHOWBOX Corp.	-	-	-
Misojin Co., Ltd.	Korea	Mega Mark Co., Ltd.	-	100.00	100.00
Sports Toto Online Co., Ltd.	Korea	Sports Toto Co., Ltd.	30.00	70.00	100.00
Crespo Co., Ltd.	Korea	Sports Toto Co., Ltd.	-	100.00	100.00
Orion Food Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Food (Shanghai) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Food Guangzhou Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00

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Orion Snack Co., Ltd. ⁸	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Food (Shen Yang) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion (Bei Tun) Agro Processing Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Argo BeiTun Co. Ltd. ⁹	China	Orion (Bei Tun) Agro Processing Co., Ltd.	-	-	-
Orion Consulting Co., Ltd.	China	Supreme Star Investment Limited	-	100.00	100.00
Beijing Supreme Star Consulting Co., Ltd.	China	Supreme Star Holdings Limited	-	100.00	100.00
Orion Argo Co., Ltd. ¹⁰	China	Orion Food Co., Ltd.	-	100.00	100.00
Orion Argo DuoLun Co., Ltd. ¹⁰	China	Orion Food Co., Ltd.	-	-	-
Prime Link International Investment Limited	Hong Kong	Orion Corporation.	-	100.00	100.00
Beijing media tech Co., Ltd. ¹¹	China	Orion Corporation	-	-	-
Beijing mega media Co., Ltd. ¹¹	China	Orion Corporation	-	-	-
STELLA WAY LIMITED ¹²	Hong Kong	Orion Food Co., Ltd.	-	-	-
LANGFANG IPAK Co., Ltd. ¹²	China	STELLA WAY LIMITED	-	-	-
Orion Beverages Corp ¹³	Korea	Orion Corporation	-	-	-

The reporting dates of the consolidated financial statements of the Controlling Company and the subsidiaries are December 31, 2015 and December 31, 2014, respectively.

¹ In 2015, the Group acquired an additional interest in ORION Reports Corp., increasing its ownership.

² In 2015, Mediaplex Corp. changed the company name to SHOWBOX Corp.

³ In 2015, the Group acquired an additional interest in Sports Toto Co., Ltd., increasing its ownership.

⁴ In 2015, Orion Food Rus Co., LLC and ORION FOOD NOVO LLC merged into Orion International Euro LLC. (Note 40).

⁵ In 2015, PT. Orion Food Indonesia increased the capital stock, resulting in a change in the ownership of the Ultimate Parent Company.

⁶ In 2015, Ipak Co., Ltd merged with Orion Corporation (Note 40).

⁷ In 2015, the Group newly established SHOWBOX Inc.

Orion Corporation and Subsidiaries
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⁸ In 2015, Orion Snack Co., Ltd. merged with Orion Food co., Ltd. (Note 40).

⁹ In 2015, the Group newly established Orion Argo BeiTun Co. Ltd.

¹⁰ In 2015, Orio Agro Co., Ltd. and Orion Agro DuoLun Co., Ltd were established through the equity spin off from Orio Agro Co., Ltd.

¹¹ Due to the merger of Ipak Co., Ltd and Orion Corporation, Beijing Media Tech Co., Ltd. and Beijing Mega Media Co., Ltd. were newly included as consolidated subsidiaries.

¹² The Group obtained control of STELLA WAY LIMITED and its subsidiary named LANGFANG IPAK Co., Ltd. by acquiring 100% shares on December 30, 2015 (Note 41).

¹³ Orion Beverages Corp. was reclassified as an investment in subsidiary in 2015. It was previously classified as an available-for-sale financial asset.

Orion Corporation and Subsidiaries Notes to the Consolidated Financial Statements December 31, 2015 and 2014

Financial information of the Company and its consolidated subsidiaries is summarized as follows:

(In millions of Korean won)

2015

Name	Main business	Total assets	Total liabilities	Total equity	Sales	Net income (loss)	Comprehensive income (loss)
Orion Corporation	Manufacturing and selling confectioneries	₩ 1,424,076	₩ 580,167	₩ 843,909	₩ 707,438	₩ 15,354	₩ 14,360
Orion Reports Corp.	Managing the basketball team	920	42	878	5,183	(253)	(253)
RION Asset Development Co., Ltd.	Real estate	7,976	41,236	(33,260)	-	(12,440)	(12,440)
SHOWBOX Corp.	Movie, broadcasting, and performance	214,332	98,370	115,962	141,467	11,681	11,611
Sports Toto Co., Ltd.	Sports/Entertainment	219,973	15,458	204,515	137,452	(1,811)	(1,811)
Mega Mark Co., Ltd.	Construction	29,107	700	28,407	-	(23,548)	(23,548)
PAN ORION Corp. Limited	Holding company	325,661	200,017	125,644	-	(5,334)	(5,334)
Orion Food (Rus) Co., LLC ¹	Manufacturing confectioneries	-	-	-	21,106	972	972
Orion Food NOVO Co., LLC ¹	Manufacturing confectioneries	-	-	-	16,367	(3,839)	(3,839)
Orion International Euro Co., Ltd.	Selling confectioneries	42,201	29,640	12,561	58,086	917	917
Orion Food VINA Co., Ltd.	Manufacturing and selling confectioneries	158,777	54,794	103,983	164,877	9,419	9,419
Supreme Star Investment Limited	Investment	24,182	29	24,153	-	1,722	1,722
PT. Orion Food Indonesia	Holding Company	703	409	294	1,751	(859)	(859)
HighLand D&C Co., Ltd.	Selling confectioneries	6,694	31,256	(24,562)	-	(8,186)	(8,186)
GEMINI VENTURE INVESTMENT	Developing and Selling buildings for residence	168	-	168	112	98	98
ASSOCIATION NO.8 Supreme Star Holdings Limited	Investing in movie industry	3,636	14	3,622	-	(1,117)	(1,117)
SHOWBOX Inc.	Holding company	2,329	1,501	828	508	(251)	(252)
MisoIn Co., Ltd.	Planning and developing movie	10,339	61,099	(50,760)	-	(14,855)	(14,855)
Sports Toto Online Co., Ltd.	Developing and Supplying buildings for residence	57,517	56	57,461	7,061	2,863	2,863
	Processing the information and operating computer system						

Orion Corporation and Subsidiaries
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(In millions of Korean won)

2014

Name	Total assets		Total liabilities		Total equity		Sales		Net income (loss)		Comprehensive income(loss)	
	₩	W	₩	W	₩	W	₩	W	₩	W	₩	W
Orion Corporation	₩	1,428,068	₩	581,192	₩	846,876	₩	751,707	₩	5,209	₩	2,004
Orion Reports Corp.		1,902		770		1,132		7,567		708		708
RION Asset Development Co, Ltd.		18,146		38,965		(20,819)		-		(2,656)		(2,656)
Mediaplex Corp.		141,413		37,062		104,351		72,014		(1,694)		(986)
Orion Snack International Corp. ¹		-		-		-		157,394		20,335		20,087
Sports Toto Co., Ltd.		347,172		130,835		216,337		264,017		(32,401)		(32,401)
Mega Mark Co., Ltd.		52,638		683		51,955		1,725		(7,677)		(7,676)
PAN ORION Corp. Limited		321,326		184,265		137,061		-		(6,170)		(6,170)
Orion Food (Rus) Co., LLC		19,437		4,011		15,426		27,776		1,874		1,874
Orion Food NOVO Co., LLC		23,215		19,457		3,758		21,391		(7,814)		(7,814)
Orion International Euro Co., Ltd.		20,928		22,485		(1,557)		82,664		(878)		(878)
Orion Food VINA Co., Ltd.		155,281		62,273		93,008		150,091		8,351		8,351
Supreme Star Investment Limited		21,260		21		21,239		-		1,105		1,107
PT. Orion Food Indonesia.		1,111		625		486		1,519		(1,345)		(1,345)
HighLand D&C Co., Ltd.		13,143		29,519		(16,376)		-		(2,373)		(2,373)
Ipak Co., Ltd.		46,525		9,302		37,223		-		-		-
GEMINI VENTURE INVESTMENT ASSOCIATION NO.8		4,337		36		4,301		379		(457)		(457)
Supreme Star Holdings Limited		4,418		-		4,418		-		(154)		(206)
Misojin Co., Ltd.		23,990		59,896		(35,906)		4,460		(7,811)		(7,811)
Sports Toto Online Co., Ltd.		63,618		9,020		54,598		15,390		8,818		8,818
Crespo Co., Ltd.		28,568		6,086		22,482		-		(7,169)		(7,169)
Orion Food Co., Ltd.		509,234		213,764		295,470		1,161,400		46,779		46,779
Orion Food(Shanghai) Co., Ltd.		210,266		63,391		146,875		169,121		19,709		19,709
Orion Food Guangzhou Co., Ltd.		242,519		157,394		85,125		118,888		12,135		12,135
Orion Snack Co., Ltd.		164,799		36,277		128,522		177,777		24,230		24,230

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Orion Food (Shen Yang) Co., Ltd.	168,831	99,093	69,738	60,649	6,636	6,636
Orion(Bei Tun) Agro Processing Co., Ltd.	21,690	1	21,689	-	(28)	(28)
Orion Consulting Co., Ltd.	1,332	57	1,275	1,125	148	148
Beijing Supreme Star Consulting Co., Ltd.	925	2	923	-	14	14
Orion Argo Co., Ltd.	14,184	1,093	13,091	9,303	2,303	2,303
Prime Link International Investment Limited	65	-	65	-	-	-
Total	W 4,070,341	W 1,767,575	W 2,302,766	W 3,256,357	W 79,727	W 76,933

¹ Orion Snack Co., Ltd., was merged into the Company and the amount stated above presents financial information before the merger.

The financial information presented above is based on the separate financial reports of each subsidiary.

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Subsidiaries that are newly included in the consolidated financial statements are as follows.

Subsidiary	Location	Remark
SHOWBOX Inc	China	Subsidiary's acquisition of ownership
Orion Agro BeiTun Co. Ltd	China	Subsidiary's acquisition of ownership
Orion Agro DuoLun Co., Ltd.	China	Equity spin-off of subsidiary
Beijing media tech Co., Ltd.	China	Merger of subsidiaries
Beijing mega media Co., Ltd	China	Merger of subsidiaries
STELLA WAY LIMITED	HongKong	Subsidiary's acquisition of ownership
LANGFANG IPAK Co., Ltd.	China	Subsidiary's acquisition of ownership
Orion Beverages Corp	Korea	Reclassification

2. 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 the 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 preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of 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 2.3.

The consolidated financial statements were authorized to be issued by the Board of Directors on February 11, 2016, which will be submitted for approval to the shareholders' meeting to be held on March 25, 2016.

2.1 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets.

Orion Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

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2.2 Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Group operates. The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

2.3 Use of estimates and judgments

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 11 : Goodwill
- Note 17 : Trade and other receivables
- Note 28 : Measurement of defined benefit obligations for employees
- Note 29 : Estimation of provision loss on sales return
- Note 37 : Deferred tax asset(liability)
- Note 39 : Financial commitments and contingencies

If certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the Tax System For Recirculation of Corporate Income, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. 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.

(b) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and report directly to the CFO.

When measuring the fair value of an asset of a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 : inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 : inputs for the assets or liability that are not based on observable market data

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(unobservable inputs)

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following note:

- Note 35 : Financial Instruments by categories

2.4 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2015 consolidated financial statements of the Company was approved by the Board of Directors on February 11, 2016, which is subject to change with the approval of the shareholders at their annual shareholders' meeting to be held on March 25, 2016.

3. Changes in accounting policies

(a) New and amended standards adopted by the Group

The Group newly applied the following amended and enacted standards for the annual periods beginning January 1, 2015

- Amendment to Korean IFRS 1019, *Employee Benefits*

Korean IFRS 1019, *Employee Benefits*, allows a practical expedient for companies that operate defined benefit plans and when contributions are made by employees or third parties. The application of this amendment does not have a material impact on the consolidated financial statements.

- Annual Improvements to Korean IFRS 2010-2012 *Cycle*
- Amendment to Korean IFRS 1102, *Share-based payment*

Korean IFRS 1102, *Share-based payment*, clarifies the definition of a 'vesting conditions', 'performance condition', and 'service condition'.

- Amendment to Korean IFRS 1103, *Business Combination*

Korean IFRS 1103, *Business Combination*, clarifies the classification and measurement of contingent consideration in the business combination.

- Amendment to Korean IFRS 1108, *Operating Segments*

Korean IFRS 1108, *Operating Segments*, requires disclosures of the judgments made by management in aggregating operating segments and a reconciliation of the reportable segments' assets to the entity's assets.

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- Amendment to Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1038, *Intangible assets*.

Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1038, *Intangible assets*, clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

- Amendment to Korean IFRS 1024, *Related Party Disclosures*

Korean IFRS 1024, *Related Party Disclosures*, includes, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

- Annual Improvements to Korean IFRS 2011-2013 Cycle:

- Amendment to Korean IFRS 1103, *Business Combination*

Korean IFRS 1103, *Business Combination*, clarifies that Korean IFRS 1103 does not apply to the accounting for the formation of any joint arrangement.

- Amendment to Korean IFRS 1113, *Fair Value Measurement*

Korean IFRS 1113, *Fair Value Measurement*, clarifies that the portfolio exception, which allows an entity to measure the fair value of a group of financial instruments on a net basis, applies to all contracts (including non-financial contracts) within the scope of Korean IFRS 1039.

- Amendment to Korean IFRS 1040, *Investment property*

Korean IFRS 1040, *Investment property*, clarifies that Korean IFRS 1040 and Korean IFRS 1103 are not mutually exclusive.

(b) New and amended standards not yet adopted

New standards and amendments issued but not effective for the financial year beginning January 1, 2015, and not early adopted are enumerated below. The Group expects that these standards and amendments would not have a material impact on its consolidated financial statements.

- Amendment to Korean IFRS 1001, *Presentation of Financial Statements*

- Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1041, *Agriculture and fishing: Productive plants*

- Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1038, *Intangible assets: Amortization based on revenue*

- Korean IFRS 1110, *Consolidated Financial Statements*, Korean IFRS 1028, *Investments in Associates and Joint Ventures*, and Korean IFRS 1112, *Disclosures of Interests in Other Entities: Exemption for consolidation of investee*

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- Korean IFRS 1111, *Joint Agreements*

- Annual Improvements to Korean IFRS 2012-2014 *Cycle*.

Other standards and amendments which are effective for the annual period beginning on January 1, 2015, do not have a material impact on the consolidated financial statements of the Group.

Furthermore, new standards issued, but not effective for the financial year beginning January 1, 2015, and not early adopted are enumerated below:

- Korean IFRS 1109, *Financial Instruments*

The new Standard issued in December 2015 regarding financial instruments replaces Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*.

Korean IFRS 1109, *Financial Instruments*, requires financial assets to be classified and measured on the basis of the holder's business model and the instrument's contractual cash flow characteristics. The Standard requires a financial instrument to be classified and measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss, and provides guidance on accounting for related gains and losses. The impairment model is changed into an expected credit loss model, and changes in those expected credit losses are recognized in profit or loss. The new Standard is effective for the financial year initially beginning on or after January 1, 2018, but early adoption is allowed. Early adoption of only the requirements related to financial liabilities designated at fair value through profit or loss is also permitted. The Group is in the process of determining the effects resulting from the adoption of the new Standard.

- Korean IFRS 1115, *Revenue from Contracts with Customers*

The new Standard for the recognition of revenue issued in December 2015 will replace Korean IFRS1018, *Revenue*, Korean IFRS 1011, *Construction Contracts*, and related Interpretations.

Korean IFRS 1115, *Revenue from Contracts with Customers*, will replace the risk-and-reward model under the current standards and is based on the principle that revenue is recognized when control of goods or services transfer to the customer by applying the five-step process. Key changes to current practices include guidance on separate recognition of distinct goods or services in any bundled arrangement, constraint on recognizing variable consideration, criteria on recognizing revenue over time, and increased disclosures. The new Standard is effective for annual reporting beginning on or after January 1, 2018, but early application is permitted. The Group is in the process of determining the effects resulting from the adoption of the new Standard.

Also, new and amended standards issued after December 31, 2015, and effective for the financial year beginning January 1, 2016, are as follows:

- Korean IFRS 1011, *Construction Contract*; Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*; and Interpretation 2115, *Arrangements for Property Construction*

These standards and interpretation clarify the requirement that specific accounting estimates for contract-based industry and information relating to potential risk should be disclosed in detail classified by individual constructions and operating segments. These amendments will be effective for annual periods beginning on or after January 1, 2016. The Group is in the process of determining the effects resulting from the adoption

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of the new Standard.

4. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, except for the change in accounting policy as explained in Note 3.

4.1 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

4.2 Basis of consolidation

(a) Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or business under common control.

The consideration transferred in the acquisition is generally measured at fair value, as are identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(b) Non-controlling Interests("NCI")

NCI are measured at their proportionate share of the acquiree's identifiable net assets ant the acquisition date.

Changes in the Group's interest in subsidiary that do not result in loss of control are accounted for as equity transaction.

(c) Subsidiaries

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Subsidiaries are entities controlled by the Group. The Group controls entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(d) Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(e) Interests in equity-method Investees

The Group's interests in equity-method investees comprise interest in associates. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, Group's share of the profit or loss and OCI of equity-method investees and the dividends from equity-method investees are adjusted from the carrying amount of the investment, until the date on which significant influence ceases.

(f) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way unrealized gains, but only to the extent that there is no evidence of impairment.

(g) Business combination under common control

The assets and liabilities acquired under business combinations under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is recognized as part of share premium.

4.3 Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value. Generally equity investments are excluded from cash and cash equivalents; however, preferred shares acquired within a short period of their maturity and with a specific redemption date can be classified as cash equivalents.

4.5 Inventories

The cost of inventories is determined by the specific identification method for materials-in-transit and by the weighted average method for all other inventories. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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The allocation of fixed manufacturing overheads which are included in the costs of products and work-in-process is based on the normal capacity of the production facilities.

The carrying amount of inventories is recognized as cost of sales during the period when revenue from the sale of related goods is recognized.

Inventories are stated at the lower of cost and net realizable value. Amounts of inventory written down to net realizable value due to losses occurring in the normal course of business are recognized as cost of sales and are deducted as an allowance from the carrying value of inventories.

The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense (cost of sales) in the period in which the reversal occurs.

4.6 Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Upon initial recognition, non-derivative financial assets are measured at their 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 asset's acquisition or issuance.

(a) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(b) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, with changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

(e) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

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If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group should determine whether the Group has retained control or not

The Group derecognizes the financial asset if the Group has not retained control and if the Group has retained control, the Group continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes the consideration received as financial liabilities.

(f) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

4.7 Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

4.8 Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

The objective evidences that a financial asset is impaired are below;

- The significant financial difficulty of the issuer or obligor.
- A breach of contract such as a delinquency in interest or principal payments
- The disappearance of an active market for that financial asset because of financial difficulties

Besides instances above, in case of a financial asset classified as an available-for sale, a significant or prolonged decline in fair value below its initial cost is considered as an objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

(a) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(b) Financial assets carried at cost

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The amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are recognized in profit and loss and cannot be reversed.

(c) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (less the impairment amount which had been already recognized in profit or loss) that had been recognized in other comprehensive income is reclassified from equity to profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale cannot be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

4.9 Property, plant and equipment

Property, plant and equipment are initially measured at cost. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

The costs of the replaced part are recognized in the carrying amount of property, plant and equipment or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized.

The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

The estimated useful lives of the Group's assets are as follows:

<u>Asset</u>	<u>Useful lives (years)</u>
Buildings	15 ~ 55
Structures	10 ~ 30
Machinery	5 ~ 17
Other	4 ~ 10, Indefinite

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

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Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

4.10 Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

4.11 Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which rights to use facility are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

<u>Asset</u>	<u>Useful lives (years)</u>
Industrial property rights	5~10
Rights to use facility	Indefinite
Copyright	Period over which related revenue is realized
Other	5

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

(a) Research and development

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Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(b) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

4.12 Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over 50 ~ 55 years as estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

4.13 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed

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the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

4.14 Leases

Lease is classified as a finance lease if the lessor transfers substantially all of the risks and rewards incidental to ownership of a leased asset to the group. Lease is classified as an operating lease if the lessor does not transfer substantially all of the risk and rewards of ownership.

Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

4.15 Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work in progress is presented as part of trade and other receivables in the consolidated statement of financial position for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as deferred income in the consolidated statement of financial position.

4.16 Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 *Impairment of Assets*.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

4.17 Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(b) Other financial liabilities

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Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (that is, when the obligation specified in the contract is discharged, cancelled or expires).

4.18 Employee benefits

(a) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(b) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(c) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

The calculation of defined benefit liability is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the assets ceiling (if any, excluding interest), are recognized immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (assets) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (assets), taking into account any change in the net defined benefit liability (assets) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of plans are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailments is recognized immediately in profit or loss. The Group recognized gains and losses on the settlement of a defined benefit plan when the settlement occurs.

4.19 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

4.20 Foreign currencies

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss shall be recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss.

(b) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

- The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

4.21 Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

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4.22 Share-based payment transactions

The Company has granted shares or share options to its employees and other parties. For equity-settled, share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Company cannot reliably estimate the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Company measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest.

For cash-settled share-based payment transactions, the Company measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period

4.23 Revenue

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and are recognized as a reduction of revenue.

(a) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(b) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

(c) Film revenue

In case of revenue from films, revenue shall be recognized when the installment is settled after a movie is released and in case of selling videos through the distributor, revenue shall be recognized when the quantity of videos to be sold is confirmed. As for secondary copyrights of TV and Cable, revenue shall be recognized when the copyright can be utilized after signing a contract.

(d) Sports lottery

Revenue from sports lottery is recognized on each settlement day.

(e) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

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4.24 Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

4.25 Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(a) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the year since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(b) Deferred tax

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and joint ventures 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. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. And the Group reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

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4.26 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

5. Non-Controlling Interests

The following table summarizes the information relating to each of the Group's subsidiaries that has material non-controlling interests, before any intra-group eliminations.

Major consolidated subsidiaries are summarized as follows:

Subsidiary	Location	Non-controlling interests percentage	
		2015	2014
SHOWBOX Corp.	Korea	42.50%	42.50%
Sports Toto Co., Ltd.	Korea	22.43%	29.50%

Cumulative non-controlling interests and dividends paid to non-controlling interests:

(In thousands of Korean won)

Subsidiary		Profit allocated to non-controlling interests		Cumulative non-controlling interests		Dividends paid to non-controlling interests
SHOWBOX Corp.	₩	4,878,092	₩	49,713,357	₩	-
Sports Toto Co., Ltd.		2,418,982		56,993,516		4,823,406

Financial position and financial performance:

(In thousands of Korean won)

Subsidiary		SHOWBOX Corp.		Sports Toto Co., Ltd.
Current assets	₩	172,166,261	₩	130,636,142
Non-current assets		43,611,425		89,337,182
Current liabilities		99,290,828		475,396
Non-current liabilities		381,897		14,982,293
Revenue		142,003,138		137,451,981
Profit(loss)		11,469,705		(1,810,773)
Comprehensive income(expense)		11,022,670		(1,810,773)

Cash flow:

(In thousands of Korean won)

Subsidiary		SHOWBOX Corp.		Sports Toto Co., Ltd.
Cash flows from operating activities	₩	86,949,675	₩	7,474,674

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Cash flows from investing activities	(53,261,281)	(8,832,336)
Cash flows from financing activities	(302,225)	(5,657,915)
Effect of exchange rate fluctuations on cash held	122,508	-
Net increase (decrease) in cash and cash equivalents	33,508,677	(7,015,577)

Summarized financial information of SHOW BOX Corp. is based on its consolidated financial statements.

6. Operating Segments

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis.

The following summary describes the operations in each of the Group's reportable segments:

Operating segments	Principal operations
Confectioneries	Manufacturing and selling of snacks and confectioneries
Sports/Leisure	Sports club operation
Entertainment	Film investments and distribution
Construction	Construction and sale of real estate
Others	Sports Complex Development Project, Sports Lottery and related business Information services, Investment and Trading business

The Group has reclassified the sports complex business with other operating segment based on its decision to sell Crespo Co., Ltd., which was included in the sports and leisure segment as described in Note 8. Also, the Group has reclassified sports lottery and related business with other operating segments based on its decision to sell Sports Toto Co., Ltd. and Sports Toto Online Co., Ltd., which were included in the sports and leisure segment as described in Note 7. The comparative information has been re-classified accordingly.

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Segment results for the years ended December 31, 2015 and 2014, are as follows:

	2015						Consolidated Total
	Confectioneries	Sports/ Leisure	Entertainment	Construction	Others	Elimination	
Total segment sales	₩ 2,899,803,437	₩ 5,519,206	₩ 142,896,533	₩ -	₩ 144,513,368	₩ (810,355,243)	₩ 2,382,377,301
Less: Inter-segment sales	(661,233,810)	(4,435,000)	(173,065)	-	(7,873,955)	673,715,830	-
External sales	2,238,569,627	1,084,206	142,723,468	-	136,639,413	(136,639,413)	2,382,377,301
Depreciation	106,269,502	55,935	75,338,548	11,152	525,925	(152,440)	182,048,622
Profit(loss) for the year	315,565,974	(1,466,213)	14,140,846	(29,999,557)	14,038,472	(12,959,274)	299,320,248
	2014						Consolidated Total
	Confectioneries	Sports/ Leisure	Entertainment	Construction	Others	Elimination	
Total segment sales	₩ 2,889,680,241	₩ 7,566,587	₩ 73,518,529	₩ 6,184,597	₩ 279,407,364	₩ (1,056,569,142)	₩ 2,199,788,176
Less: Inter-segment sales	(770,018,391)	(6,649,289)	(494,098)	-	(16,157,735)	793,319,513	-
External sales	2,119,661,850	917,298	73,024,431	6,184,597	263,249,629	(263,249,629)	2,199,788,176
Depreciation	95,761,688	71,998	49,466,105	23,601	1,204,988	(230,522)	146,297,858
Profit(loss) for the year	251,315,800	690,689	1,686,194	(9,275,587)	30,131,379	(25,676,563)	248,871,912

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Segment assets and liabilities as of December 31, 2015 and 2014, as follows:

	2015						
	Confectioneries	Sports/ Leisure	Entertainment	Construction	Others	Elimination	Consolidated
Total assets	₩ 3,489,743,491	₩ 920,116	₩ 246,807,938	₩ 54,115,451	₩ 299,307,184	₩ (1,092,055,388)	₩ 2,998,838,792
Total liabilities	1,459,907,083	41,574	100,453,959	134,290,906	22,554,514	(244,585,182)	1,472,662,854
Investments in associate	-	-	17,318,067	-	-	-	17,318,067
Increase of non-current assets	43,310,373	(318,838)	835,762	(29,152)	(9,975,107)	12,886,281	46,709,319

	2014						
	Confectioneries	Sports/ Leisure	Entertainment	Construction	Others	Elimination	Consolidated
Total assets	₩ 3,348,548,552	₩ 1,901,550	₩ 172,615,583	₩ 107,917,269	₩ 439,358,345	₩ (1,137,822,080)	₩ 2,932,519,219
Total liabilities	1,454,771,069	769,662	37,030,690	129,063,072	145,940,915	(237,578,669)	1,529,996,739
Investments in associate	548,601	-	19,358,715	-	-	-	19,907,316
Increase of non-current assets	65,320,082	(31,966)	(3,180,553)	(1,796,175)	(21,126,737)	(51,888,210)	(12,703,559)

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The Group analyses and categorizes its revenue and non-financial assets according to geographical locations. The information on revenue from each segment is specified based on the regions where the related revenue is earned and the information on non-financial assets from each segment is based on where the listed assets are located.

Information on regional sales for the years ended December 31, 2015 and 2014, is as follows:

(In thousands of Korean won)

		2015							
		Domestic		China		Others		Total	
Regional sales	₩	829,995,989	₩	1,332,041,506	₩	220,339,806	₩	2,382,377,301	

(In thousands of Korean won)

		2014							
		Domestic		China		Others		Total	
Regional sales	₩	821,375,590	₩	1,160,116,279	₩	218,296,307	₩	2,199,788,176	

Information on regional non-current assets for the years ended December 31, 2015 and 2014, is as follows:

(In thousands of Korean won)

		2015		2014	
Domestic	₩	799,147,770	₩	785,489,983	
China		960,999,613		921,141,864	
Other		133,580,238		140,386,456	
Total	₩	1,893,727,621	₩	1,847,018,303	

Financial assets and deferred tax assets have been excluded from non-current assets above.

The detailed information on revenues of the Group for the years ended December 31, 2015 and 2014, are as follows:

(In thousands of Korean won)

		2015		2014	
Finished goods	₩	2,229,857,612	₩	2,103,056,810	
Merchandise		2,157,811		7,918,673	
Others		150,361,878		88,812,693	
Total	₩	2,382,377,301	₩	2,199,788,176	

There is no main customer who contributes more than 10% of the Group's revenues for the years ended December 31, 2015 and 2014.

7. Discontinued Operations

In 2014, as the Group decided to dispose of Crespo Co., Ltd., the Group classified its assets and liabilities into assets and liabilities held for sale, and the related profit or loss into profit (loss) from discontinued

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operations separately from continuing operations.

In 2015, because the operations of Sports Toto Co., Ltd. and Sports Toto Online Co., Ltd., which were included in the sector of Sports and Leisure were discontinued, the Group classified the related profit or loss into profit (loss) from discontinued operations. The comparative consolidated statement of comprehensive income is reclassified by separating the discontinued operations from continuing operations.

Profit or loss from discontinued operations and cash flows originated from activities of discontinued operations are as follows. The prior year's profit or loss from discontinued operations and cash flows originated from activities of discontinued operations were reclassified accordingly.

Results of discontinued operations:

(In thousands of Korean won)

	<u>2015</u>	<u>2014</u>
Results of discontinued operation		
Revenue	₩ 136,639,413	₩ 263,249,629
Expenses	<u>123,245,890</u>	<u>233,660,711</u>
Results from operating activities	13,393,523	29,588,918
Non-operating income (expense)	7,342,548	4,377,634
Income tax	<u>5,486,573</u>	<u>(1,070,171)</u>
Results from operating activities, net of tax	564,402	26,281,455
Impairment loss on assets classified as held for sale	-	2,559,601
Goodwill impairment	-	<u>26,655,608</u>
Profit(loss) from discontinued operations	<u>₩ 564,402</u>	<u>₩ (2,933,754)</u>

Cash flow used in discontinued operations:

(In thousands of Korean won)

	<u>2015</u>	<u>2014</u>
Cash flow used in discontinued operations		
Net cash from operating activities	₩ 1,555,769	₩ 33,442,447
Net cash from investing activities	(13,097,436)	(18,739,467)
Net cash from financing activities	<u>(4,707,915)</u>	<u>(10,403,806)</u>
Net cash from discontinued operation	(16,249,582)	4,299,174
Cash and cash equivalents at the beginning of year	<u>18,191,237</u>	<u>13,892,062</u>
Cash and cash equivalents at the end of year	<u>₩ 1,941,655</u>	<u>₩ 18,191,236</u>

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8. Non-current Assets and Liabilities Classified as Held for sale

In December 2014, the Group decided to dispose of Crespo Co., Ltd., whose assets and liabilities were classified as held for sale as of December 31, 2014. Non-current assets and Liabilities held for sale as of December 31, 2015 and 2014, are as follows:

(In thousands of Korean won)

	<u>2015</u>		<u>2014</u>
Current assets	₩ 891,264	₩	405,821
Non-current assets	17,527,689		29,383,269
Goodwill	-		26,655,608
Book value on assets classified as held for sale	<u>₩ 18,418,953</u>	₩	<u>56,444,698</u>
Current liabilities	₩ 7,001,706	₩	6,035,896
Non-current liabilities	-		50,000
Book value on liabilities classified as held for sale	<u>₩ 7,001,706</u>	₩	<u>6,085,896</u>
Impairment loss on assets classified as held for sale (discontinue operations)	₩ -	₩	<u>(29,215,209)</u>

Also, in December 2014, the Group decided to dispose certain land and buildings of the Sports leisure segment, whose assets were classified as held for sale as of December 31, 2014. Non-current assets held for sale as of December 31, 2015 and 2014, are as follows:

(In thousands of Korean won)

	<u>2015</u>		<u>2014</u>
Land	₩ 2,382,850	₩	4,921,242
Building	1,138,150		1,797,452
Book value on assets classified as held for sale	<u>₩ 3,521,000</u>	₩	<u>6,718,694</u>
Impairment loss on assets classified as held for sale (other expense)	₩ -	₩	<u>(2,451,694)</u>

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9. Property, Plant and Equipment

Changes in property, plant and equipment for the year ended December 31, 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>Land</u>	<u>Buildings</u>	<u>Structures</u>	<u>Machinery</u>	<u>Others</u>	<u>Construction in-progress</u>	<u>Total</u>
Cost							
Balance at January 1, 2015	₩ 326,020,152	₩ 629,652,195	₩ 17,862,508	₩ 1,132,412,189	₩ 153,197,749	₩ 34,349,567	₩ 2,293,494,360
Additions	1,626,866	6,486,339	29,689	13,812,380	14,737,880	86,991,372	123,684,526
Disposals	(462,840)	(7,126,941)	(29,702)	(7,894,535)	(12,560,682)	(483,445)	(28,558,145)
Acquisition from business combination	-	8,239,475	-	7,216,869	205,990	257,903	15,920,237
Others ¹	(213,608)	58,038,285	(580,191)	51,483,331	4,864,137	(108,782,313)	4,809,641
Balance at December 31, 2015	₩ 326,970,570	₩ 695,289,353	₩ 17,282,304	₩ 1,197,030,234	₩ 160,445,074	₩ 12,333,084	₩ 2,409,350,619
Accumulated depreciation and impairment							
Balance at January 1, 2015	₩ -	₩ (86,055,778)	₩ (10,615,969)	₩ (391,308,978)	₩ (78,457,045)	₩ -	₩ (566,437,770)
Depreciation	-	(15,020,855)	(916,696)	(72,950,302)	(14,837,627)	-	(103,725,480)
Depreciation of discontinued operations	-	(232,403)	-	-	(196,733)	-	(429,136)
Impairment	-	(331,662)	-	-	-	-	(331,662)
Disposals	-	1,413,787	21,154	6,786,414	11,674,331	-	19,895,686
Others ¹	-	(534,188)	170,666	1,216,394	(1,707,072)	-	(854,200)
Balance at December 31, 2015	₩ -	₩ (100,761,099)	₩ (11,340,845)	₩ (456,256,472)	₩ (83,524,146)	₩ -	₩ (651,882,562)
Book value							
Balance at January 1, 2015	₩ 326,020,152	₩ 543,596,417	₩ 7,246,539	₩ 741,103,211	₩ 74,740,704	₩ 34,349,567	₩ 1,727,056,590
Balance at December 31, 2015	₩ 326,970,570	₩ 594,528,254	₩ 5,941,459	₩ 740,773,762	₩ 76,920,928	₩ 12,333,084	₩ 1,757,468,057

¹ Fluctuations due to foreign currency translation of foreign operations are included in others.

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Changes in property, plant and equipment for the year ended December 31, 2014, are as follows:

<i>(In thousands of Korean won)</i>	Land	Buildings	Structures	Machinery	Others	Construction in-progress	Total
Cost							
Balance at January 1, 2014	₩ 326,579,926	₩ 519,886,903	₩ 17,219,846	₩ 977,600,876	₩ 137,498,426	₩ 198,860,819	₩ 2,177,646,796
Additions	33,318	240,519	57,456	11,687,899	9,169,867	130,510,728	151,699,787
Disposals	(1,584,726)	(3,282,634)	(99,878)	(4,045,920)	(8,478,047)	(2,884,578)	(20,375,783)
Others ¹	5,912,876	115,114,792	685,084	147,169,334	11,484,470	(264,773,552)	15,593,004
Held for sale	(4,921,242)	(2,307,385)	-	-	(130,842)	(27,363,850)	(34,723,319)
Balance at December 31, 2014	₩ 326,020,152	₩ 629,652,195	₩ 17,862,508	₩ 1,132,412,189	₩ 149,543,874	₩ 34,349,567	₩ 2,289,840,485
Accumulated depreciation and impairment							
Balance at January 1, 2014	₩ -	₩ (72,189,168)	₩ (9,325,753)	₩ (322,734,178)	₩ (64,906,482)	₩ -	₩ (469,155,581)
Disposals	-	860,837	79,140	2,734,069	7,248,990	-	10,923,036
Depreciation	-	(13,566,618)	(1,237,327)	(63,971,868)	(14,411,561)	-	(93,187,374)
Depreciation of discontinued operations	-	(295,092)	-	-	(778,910)	-	(1,074,002)
Impairment	-	-	-	-	(1,765,000)	-	(1,765,000)
Others ¹	-	(1,375,669)	(132,029)	(7,337,001)	(300,566)	-	(9,145,265)
Held for sale	-	509,932	-	-	110,359	-	620,291
Balance at December 31, 2014	₩ -	₩ (86,055,778)	₩ (10,615,969)	₩ (391,308,978)	₩ (74,803,170)	₩ -	₩ (562,783,895)
Book value							
Balance at January 1, 2014	₩ 326,579,926	₩ 447,697,735	₩ 7,894,093	₩ 654,866,698	₩ 72,591,944	₩ 198,860,819	₩ 1,708,491,215
Balance at December 31, 2014	₩ 326,020,152	₩ 543,596,417	₩ 7,246,539	₩ 741,103,211	₩ 74,740,704	₩ 34,349,567	₩ 1,727,056,590

¹ Fluctuations due to foreign currency translation of foreign operations are included in others.

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Borrowing costs of ₩330,320 thousand (2014: ₩25,226 thousand) in relation to the completion of construction, were capitalized as part of the cost of qualifying assets for the year ended December 31, 2015. The capitalization rates were 3.29% (2014: 3.62%) for the year ended December 31, 2015.

As of December 31, 2015, the Group has fire and other insurance coverage from Hyundai Marine & Fire Insurance Co., Ltd and others of up to ₩1,059,976 million (2014: ₩ 680,555 million) on the Group's inventories, property, plant and equipment against fire and others.

In addition, as of December 31, 2015, the Group maintains insurance policies covering loss and liability arising from cash robbery, products, gas accidents, directors' and officers' liability and automobile accidents.

10. Intangible Assets

Changes in intangible assets for the year ended December 31, 2015, are as follows:

<i>(In thousands of Korean won)</i>	Industrial property rights		Publication rights		Rights to use facility		Other intangible assets		Total	
Cost										
Balance at January 1, 2015	₩	15,404,963	₩	322,334,900	₩	13,376,735	₩	14,531,785	₩	365,648,383
Additions		1,004,970		-		3,651,939		819,213		5,476,122
Disposals		(868)		-		(1,717,489)		(236,181)		(1,954,538)
Acquisition from business combination		-		-		268,830		-		268,830
Others		13,558		74,700,501		1,779,027		(332,962)		76,160,124
Balance at December 31, 2015	₩	<u>16,422,623</u>	₩	<u>397,035,401</u>	₩	<u>17,359,042</u>	₩	<u>14,781,855</u>	₩	<u>445,598,921</u>
Accumulated amortization and impairment										
Balance at January 1, 2015	₩	(8,977,570)	₩	(321,824,473)	₩	(2,068,531)	₩	(5,406,455)	₩	(338,277,029)
Amortization		(1,382,118)		(75,186,284)		-		(1,229,840)		(77,798,242)
Amortization (Discontinued operations)		-		-		-		(95,765)		(95,765)
Disposals		708		-		1,202,869		215,337		1,418,914
Impairment		-		-		(1,747,297)		-		(1,747,297)
Impairment (Discontinued operations)		-		-		(550,600)		-		(550,600)
Others		(11,047)		-		-		379,033		367,986
Balance at December 31, 2015	₩	<u>(10,370,027)</u>	₩	<u>(397,010,757)</u>	₩	<u>(3,163,559)</u>	₩	<u>(6,137,690)</u>	₩	<u>(416,682,033)</u>
Book value										
Balance at January 1, 2015	₩	6,427,393	₩	510,427	₩	11,308,204	₩	9,125,330	₩	27,371,354
Balance at December 31, 2015	₩	<u>6,052,596</u>	₩	<u>24,644</u>	₩	<u>14,195,483</u>	₩	<u>8,644,165</u>	₩	<u>28,916,888</u>

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Others mainly include transfers from prepayments and fluctuation due to foreign currency translation of foreign operations. Also during 2015, the Group recognized the impairment loss of the rights to use facility and others whose recoverable amounts were less than the book values.

Changes in intangible assets for the year ended December 31, 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>Industrial property rights</u>	<u>Publication rights</u>	<u>Rights to use facility</u>	<u>Other intangible assets</u>	<u>Total</u>
Cost					
Balance at January 1, 2014	₩ 14,632,384	₩ 275,900,178	₩ 20,876,970	₩ 13,918,816	₩ 325,328,348
Additions	1,109,404	-	1,357,090	330,070	2,796,564
Disposals	-	-	(4,930,108)	(622,902)	(5,553,010)
Others	(335,307)	46,434,722	(3,927,217)	912,398	43,084,596
Held for sale	(1,518)	-	-	(6,599)	(8,117)
Balance at December 31, 2014	₩ <u>15,404,963</u>	₩ <u>322,334,900</u>	₩ <u>13,376,735</u>	₩ <u>14,531,783</u>	₩ <u>365,648,381</u>
Accumulated amortization and impairment					
Balance at January 1, 2014	₩ (7,837,944)	₩ (272,468,328)	₩ (1,340,200)	₩ (4,439,124)	₩ (286,085,596)
Amortization	(1,420,929)	(49,356,145)	-	(1,153,603)	(51,930,677)
Amortization (Discontinued operations)	-	-	-	(105,805)	(105,805)
Impairment	-	-	(2,068,531)	-	(2,068,531)
Disposals	-	-	-	622,247	622,247
Others	280,143	-	1,340,200	(336,614)	1,283,729
Held for sale	1,160	-	-	6,445	7,605
Balance at December 31, 2014	₩ <u>(8,977,570)</u>	₩ <u>(321,824,473)</u>	₩ <u>(2,068,531)</u>	₩ <u>(5,406,454)</u>	₩ <u>(338,277,028)</u>
Book value:					
Balance at January 1, 2014	₩ 6,794,440	₩ 3,431,850	₩ 19,536,770	₩ 9,479,692	₩ 39,242,752
Balance at December 31, 2014	₩ <u>6,427,393</u>	₩ <u>510,427</u>	₩ <u>11,308,204</u>	₩ <u>9,125,329</u>	₩ <u>27,371,353</u>

Others mainly include transfers from prepayments and fluctuation due to foreign currency translation of foreign operations.

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11. Goodwill

Changes in goodwill for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Cost		
Balance at beginning of year	₩ 31,454,469	₩ 58,110,077
Reclassification to assets held for sale	-	(26,655,608)
Acquisition from business combination	<u>11,723,150</u>	-
Balance at end of year	₩ <u>43,177,619</u>	₩ <u>31,454,469</u>
Accumulated impairment		
Balance at beginning of year	₩ (19,119,369)	₩ (19,119,369)
Impairment	-	-
Balance at end of year	₩ <u>(19,119,369)</u>	₩ <u>(19,119,369)</u>
Book value		
Balance at beginning of year	₩ <u>12,335,100</u>	₩ <u>38,990,708</u>
Balance at end of year	₩ <u>24,058,250</u>	₩ <u>12,335,100</u>

Impairment of goodwill

The Group's goodwill is allocated to two cash generating units ("CGU"), Domestic Snack Manufacturing and Selling and STELLA WAY LIMITED (including LANGFANG IPAK Co., Ltd.), which is a subsidiary of the Company. The amount of each CGU is ₩12,335,100 thousand and ₩ 11,723,150 thousand, respectively. As Crespo Co., Ltd., which was included in the sports and leisure segment, was classified as held for sale as described in Note 8, the Group reclassified goodwill of ₩ 26,655,608 thousand which was allocated to this relevant cash generating unit into non-current assets held for sale. The Group tested the recoverable amount of CGU as of December 31, 2015, no impairment of goodwill was recognized. The key assumptions used in the test are as follows.

The recoverable amount of the CGU is based on its value in use and is determined by discounting the estimated future cash flows generated from the continuing use of the CGU. Key assumptions to calculate the value in use reflect the management expectation of future trend of the industry considered with external and internal (historical) information. The Group estimates that the expected growth rate of cash flow is 2.8% which will be consistent for five years starting from 2016 and after that, the future cash flow is estimated by using the expected growth rate of 0%. These expectations are based on statistical analysis for long-term market price trend. The recoverable amount of the CGU of Domestic Snack Manufacturing and Selling is determined by using a pre-tax discount rate of 7.13%, and as for STELLA WAY LIMITED (including LANGFANG IPAK Co., Ltd.), a pre-tax discount rate of 16.00% is applied in order for the estimated future cash flow generated from the CGU to be discounted.

The Group expects that the carrying values of the CGUs may not exceed the recoverable amounts if the assumptions applied by the management in order to determine the recoverable amount of the CGUs change within the reasonably probable range.

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12. Investment Property

Changes in investment property for the year ended December 31, 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>Land</u>		<u>Buildings</u>		<u>Total</u>	
Cost						
Balance at January 1, 2015	₩	12,110,569	₩	11,840,711	₩	23,951,280
Reclassification from property, plant and equipment		-		-		-
Balance at December 31, 2015	₩	<u>12,110,569</u>	₩	<u>11,840,711</u>	₩	<u>23,951,280</u>
Accumulated depreciation						
Balance at January 1, 2015	₩	-	₩	(1,789,185)	₩	(1,789,185)
Depreciation		-		(223,853)		(223,853)
Reclassification from property, plant and equipment		-		-		-
Balance at December 31, 2015	₩	<u>-</u>	₩	<u>(2,013,038)</u>	₩	<u>(2,013,038)</u>
Book value						
Balance at January 1, 2015	₩	<u>12,110,569</u>	₩	<u>10,051,526</u>	₩	<u>22,162,095</u>
Balance at December 31, 2015	₩	<u>12,110,569</u>	₩	<u>9,827,673</u>	₩	<u>21,938,242</u>

Changes in investment property for the year ended December 31, 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>Land</u>		<u>Buildings</u>		<u>Total</u>	
Cost						
Balance at January 1, 2014	₩	8,651,677	₩	7,222,959	₩	15,874,636
Reclassification from property, plant and equipment		3,458,892		4,617,752		8,076,644
Balance at December 31, 2014	₩	<u>12,110,569</u>	₩	<u>11,840,711</u>	₩	<u>23,951,280</u>
Accumulated depreciation						
Balance at January 1, 2014	₩	-	₩	(1,203,827)	₩	(1,203,827)
Depreciation		-		(154,694)		(154,694)
Reclassification from property, plant and equipment		-		(430,664)		(430,664)
Balance at December 31, 2014	₩	<u>-</u>	₩	<u>(1,789,185)</u>	₩	<u>(1,789,185)</u>
Book value						
Balance at January 1, 2014	₩	<u>8,651,677</u>	₩	<u>6,019,132</u>	₩	<u>14,670,809</u>
Balance at December 31, 2014	₩	<u>12,110,569</u>	₩	<u>10,051,526</u>	₩	<u>22,162,095</u>

The amounts recognized in profit or loss from investment property for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>		<u>2014</u>	
Rental income	₩	987,667	₩	1,240,691
Direct operating expense		(223,854)		(154,694)
	₩	<u>763,813</u>	₩	<u>1,085,997</u>

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The fair values of investment property as of December 31, 2015, are as follows:

(In thousands of Korean won)

		<u>Fair value</u>
Land	₩	12,218,893
Buildings		<u>17,757,752</u>
	₩	<u>29,976,645</u>

As of December 31, 2015, investment property (buildings) of the Group is secured by leasehold rights for ₩ 600 million.

13. Investments in Associates

Investments in associates as of December 31, 2015 and 2014, are summarized as follows:

(In thousands of Korean won)

<u>Associate</u>	<u>2015</u>		<u>2014</u>	
	Percentage of ownership	Book value	Percentage of ownership	Book value
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	49.0%	₩ 5,476,583	49.0%	₩ 3,714,246
Michigan Global Contents Investment Fund	20.0%	685,182	20.0%	715,968
Michigan Global Contents Investment Fund #3	43.3%	5,045,686	43.3%	6,157,488
Michigan Global Contents Investment Fund #4	23.0%	1,906,093	23.0%	3,000,778
Gemini Contents Investment Partnership #1	33.3%	33,568	33.3%	22,473
CJ Global Contents Venture Capital #11	25.0%	52,741	25.0%	461,840
Hubei Radio&TV Mega Trading Co., Ltd. ¹	-	-	49.0%	1,787,780
SMCI Korea Film Fund #5	25.9%	4,118,214	25.9%	3,498,142
Daehan distributor Corp. ²	35.3%	-	35.3%	-
Beijing mega media Co., Ltd. ³	-	-	100.0%	548,601
Beijing media tech Co., Ltd. ³	-	-	100.0%	-
		₩ <u>17,318,067</u>		₩ <u>19,907,316</u>

¹ In 2015, the Group sold Hubei Radio & TV Mega Trading Co., Ltd.

² Although this associate was liquidated as of December 31, 2015, a lawsuit is in progress because the Group argues that its liquidation was illegal.

³ Due to the merger of Ipak Co., Ltd. and Orion Corporation, Beijing Media Tech Co., Ltd. and Beijing Mega Media Co., Ltd. were newly included as consolidated subsidiaries.

The reporting date of the financial statements of associates which are used in order to prepare the consolidated financial statements is December 31, 2015.

Orion Corporation and Subsidiaries Notes to the Consolidated Financial Statements December 31, 2015 and 2014

Changes in investments in associates for the year ended December 31, 2015 and 2014, are as follows:

(In thousands of Korean won)

Associate	2015						
	Balance at beginning of year	Impairment	Increase due to merger	Disposal	Share of profit (loss) of associates	Other ¹	Balance at end of year
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	₩ 3,714,246	₩ -	₩ -	₩ -	₩ 1,688,165	₩ 74,172	₩ 5,476,583
Michigan Global Contents Investment Fund	715,968	-	-	-	(30,786)	-	685,182
Michigan Global Contents Investment Fund #3	6,157,488	-	-	-	(1,111,802)	-	5,045,686
Michigan Global Contents Investment Fund #4	3,000,778	-	-	-	(1,094,685)	-	1,906,093
Gemini Contents Investment Partnership #1	22,473	-	-	-	11,095	-	33,568
CJ Global contents Venture Capital #11	461,840	-	-	-	(409,099)	-	52,741
Hubei Radio&TV Mega Trading Co., Ltd.	1,787,780	(774,597)	-	(1,113,017)	6,240	93,594	-
SMCI Korea Film Fund #5	3,498,142	-	-	-	620,072	-	4,118,214
Daehan distributor Corp.	-	-	-	-	-	-	-
Beijing mega media Co., Ltd.	548,601	-	(546,862)	-	(6,140)	4,401	-
Beijing media tech Co., Ltd.	-	-	-	-	-	-	-
	₩ 19,907,316	₩ (774,597)	₩ (546,862)	₩ (1,113,017)	₩ (326,940)	₩ 172,167	₩ 17,318,067

¹ Fluctuations due to foreign currency translation of foreign operations are included in others.

(In thousands of Korean won)

Associate	2014						
	Balance at beginning of year	Acquisition	Increase due to business combination	Disposal	Share of profit (loss) of associates	Other ¹	Balance at end of year
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	₩ 2,615,444	₩ -	₩ -	₩ -	₩ 1,014,662	₩ 84,140	₩ 3,714,246
Michigan Global Contents Investment Fund	1,082,232	-	-	(420,000)	53,736	-	715,968
Michigan Global Contents Investment Fund #3	5,836,670	-	-	-	320,818	-	6,157,488

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Michigan Global Contents Investment Fund #4	2,909,430	-	-	-	91,348	-	3,000,778
Gemini Contents Investment Partnership #1	1,151,018	-	(1,197,007)	-	68,462	-	22,473
CJ Global contents Venture Capital #11	1,496,573	-	(1,153,295)	-	118,562	-	461,840
Hubei Radio&TV Mega Trading Co., Ltd.	2,058,579	-	-	21,181	(291,980)	-	1,787,780
Baksugundal Culture Co., Ltd.	257	-	(257)	-	-	-	-
SMCI Korea Film Fund #5	-	3,500,000	-	-	(1,858)	-	3,498,142
Daehan distributor Corp.	-	-	-	-	-	-	-
Beijing mega media Co., Ltd.	-	-	-	548,601	-	-	548,601
Beijing media tech Co., Ltd.	-	-	-	-	-	-	-
	<u>₩ 17,150,203</u>	<u>₩ 3,500,000</u>	<u>₩ (2,770,559)</u>	<u>₩ 548,601</u>	<u>₩ 1,373,750</u>	<u>₩ 105,321</u>	<u>₩ 19,907,316</u>

¹ Fluctuations due to foreign currency translation of foreign operations are included in others

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Michigan Global Contents Investment Fund	3,789,841	210,000	3,579,841	525,268	268,679	268,679
Michigan Global Contents Investment Fund #3	15,291,193	158,827	15,132,366	2,521,667	2,263,342	2,263,342
Michigan Global Contents Investment Fund #4	13,772,003	130,189	13,641,814	1,304,591	1,071,234	1,071,234
Gemini Contents Investment Partnership #1	75,217	1,831	73,386	438,756	217,352	217,352
CJ Global contents Venture Capital #11	1,672,381	2,080	1,670,301	1,198,967	1,168,014	1,168,014
Hubei Radio&TV Mega Trading Co., Ltd.	17,116,960	13,468,525	3,648,435	20,029,538	(595,861)	(552,636)
SMCI Korea Film Fund #5	13,492,834	-	13,492,834	41,395	(7,166)	(7,166)
Daehan distributor Corp.	10,762,858	21,804,268	(11,041,410)	-	(1,424,653)	(1,424,653)
Beijing mega media Co., Ltd.	563,081	14,480	548,601	-	(8,009)	9,574
Beijing media tech Co., Ltd.	5,010	467,724	(462,714)	-	(5,225)	(5,225)

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The details of investments in associates as of December 31, 2015 and 2014, are as follows:

(In thousands of Korean won)

Associate	2015		
	Net assets	Percentage of ownership(%)	Group's share of net assets
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	₩ 11,176,701	49.00%	₩ 5,476,583
Michigan Global Contents Investment Fund	3,425,911	20.00%	685,182
Michigan Global Contents Investment Fund #3	12,013,831	43.30%	5,045,686
Michigan Global Contents Investment Fund #4	8,658,808	23.00%	1,906,093
Gemini Contents Investment Partnership #1	100,702	33.30%	33,568
CJ Global contents Venture Capital #11	164,269	25.00%	52,741
SMCI Korea Film Fund #5	13,769,044	25.90%	4,118,214
Daehan distributor Corp.	(11,816,248)	35.30%	(4,171,136)
			-

(In thousands of Korean won)

Associate	2014		
	Net assets	Percentage of ownership(%)	Group's share of net assets
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	₩ 7,580,094	49.0%	₩ 3,714,246
Michigan Global Contents Investment Fund	3,579,841	20.0%	715,968
Michigan Global Contents Investment Fund #3	15,132,366	43.3%	6,157,488

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Michigan Global Contents Investment Fund #4	13,641,814	23.0%	3,000,778	3,000,778
Gemini Contents Investment Partnership #1	73,386	33.3%	22,473	22,473
CJ Global contents Venture Capital #11	1,670,301	25.0%	461,840	461,840
Hubei Radio&TV Mega Trading Co., Ltd.	3,648,435	49.0%	1,787,780	1,787,780
SMCI Korea Film Fund #5	13,492,834	25.9%	3,498,142	3,498,142
Daehan distributor Corp.	(11,041,410)	35.3%	(3,897,618)	-
Beijing mega media Co., Ltd.	548,601	100.0%	548,601	548,601
Beijing media tech Co., Ltd.	(462,714)	100.0%	(462,714)	-

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14. Available-for-sale Financial Assets and Held-to-maturity Financial Assets

Changes in available-for-sale financial assets and held-to-maturity financial assets for the years ended December 31, 2015 and 2014, are as follows:

*(In thousands
of Korean won)*

	2015		2014	
	Available-for-sale Financial Assets	Held-to-maturity Financial Assets	Available-for-sale Financial Assets	Held-to-maturity Financial Assets
Balance at beginning of year	₩ 10,967,736	₩ 2,613,430	₩ 13,331,307	₩ 4,232,085
Acquisitions	24,925	51,045	600,290	81,610
Disposals	(3,509,833)	(257,565)	(1,819,194)	(1,700,265)
Net changes in fair value before tax	110,893	-	(28,986)	-
Reclassification adjustments before tax	-	-	727,465	-
Impairment	(1,000,372)	-	(3,200,854)	-
Other changes	2,306,910	(2,406,910)	1,357,708	-
Balance at end of year	<u>₩ 8,900,259</u>	<u>₩ -</u>	<u>₩ 10,967,736</u>	<u>₩ 2,613,430</u>
- Current	₩ 20,558	₩ -	₩ -	₩ 265,925
- Non-current	8,879,701	-	10,967,736	2,347,505
	<u>₩ 8,900,259</u>	<u>₩ -</u>	<u>₩ 10,967,736</u>	<u>₩ 2,613,430</u>

During 2015 and 2014, the Group recognized impairment loss on equity instruments of ₩1,002,372 thousand and ₩ 3,200,854 thousand, respectively, for the reason that the investee was about to go into liquidation or is capital deficient.

During 2015, the Group reclassified a held-to-maturity investment into an available-for-sale financial asset, since the Group did not have the positive intention to hold the investment, which is measured at amortized cost, to its maturity. The carrying amount of the reclassified investment was ₩ 2,406,910 thousand and the fair value was ₩ 2,445,758 thousand.

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Available-for-sale financial assets as of December 31, 2015 and 2014, are summarized as follows:

(In thousands of Korean won)

	<u>2015</u>	<u>2014</u>
Available-for-sale financial assets:		
Listed		
- Crown Confectionery Co., Ltd.	₩ 542	₩ 190
- Lotte Confectionery Co., Ltd.	2,279	1,780
- Tong Yang Networks Co., Ltd.	216,097	105,278
	<u>218,918</u>	<u>107,248</u>
Unlisted		
- Orion Beverage Corp.	-	100,000
- Ilshin leisure	1,000	-
- Daegu Football Club	3,000	-
- Everyday Retail Co., Ltd	81	-
- Chung Gu Co., Ltd	195	-
- Korea Food Industry Association	20,000	-
- The Korea Economics Daily Co., Ltd	28,400	-
- New Core Co., Ltd	1,077	-
- E Land Leisurvice Co., Ltd	80	-
- Tong Yang leisure	802,340	1,215,841
- KM Culture	50,000	50,000
- Boston Film Contents	17,509	30,503
- Geon Contents Investment Limited#3	1,500,000	1,500,000
- Leading Asia Culture Investment Limited	1,700,000	1,700,000
- ACTI Culture & Contents Fund Limited Partnership	168,000	1,415,894
- TV Chosun & Daesung Win-Win	2,000,000	2,000,000
- CJ Global Contents Venture Capital #12	593,283	1,000,000
- Vision Hills co.	445,000	445,000
- KT-CKP New Media Venture Capital	1,200,000	1,200,000
- Others	130,817	203,250
	<u>8,660,782</u>	<u>10,860,488</u>
Debt instruments		
- Government and Public bond	20,559	-
Total available-for-sale financial assets	<u>₩ 8,900,259</u>	<u>₩ 10,967,736</u>

The Group measured the fair value of listed equity investments based on the quoted prices in active markets, and unlisted equity instruments that do not have a quoted market price in an active market and fair value cannot be reliably measured were measured at cost.

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15. Other Assets

Other assets as of December 31, 2015 and 2014, are summarized as follows:

(In thousands of Korean won)

	2015		2014	
	Current	Non-current	Current	Non-current
Prepayments	₩ 57,780,944	₩ 7,463,432	₩ 76,068,957	₩ 7,780,773
Prepaid expenses	5,041,334	45,828,419	4,672,089	41,355,473
Others	6,788,260	9,781,692	23,232,634	8,956,918
	<u>₩ 69,610,538</u>	<u>₩ 63,073,543</u>	<u>₩ 103,973,680</u>	<u>₩ 58,093,164</u>

16. Inventories

Inventories as of December 31, 2015 and 2014, are summarized as follows:

(In thousands of Korean won)

	2015	2014
Merchandise and finished goods	₩ 79,807,359	₩ 83,723,868
Work-in-progress	6,189,650	10,888,362
Raw materials	62,842,963	63,160,610
Supplies	1,439,425	3,023,878
Raw materials-in-transit	11,779,424	8,362,525
Sites for construction	23,549,235	45,768,501
Others	2,515,983	574,382
	<u>₩ 188,124,039</u>	<u>₩ 215,502,126</u>

The amount of inventories recognized as an expense and included as part of cost of sales during 2015 is ₩828,548 million(2014: ₩ 745,066 million).

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17. Trade and Other Receivables

Trade and other receivables as of December 31, 2015 and 2014, are summarized as follows:

<i>(In thousands of Korean won)</i>	2015		2014	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 182,892,938	₩ -	₩ 176,789,549	₩ -
Less: allowance for bad debts	(25,952,966)		(24,678,454)	
Other receivables	8,529,184	-	40,510,028	840,000
Less: allowance for bad debts	(2,959,363)		(7,492,722)	
Accrued income	5,423,584	6,934	1,454,993	6,934
Guarantee deposits	2,744,321	2,725,061	2,300,995	11,856,825
Loans	1,166,182	-	1,771,064	23,333
Less: allowance for bad debts	(786,713)		(1,506,760)	
Others	288,864	-	136,331	-
	<u>₩ 171,346,031</u>	<u>₩ 2,731,995</u>	<u>₩ 189,285,024</u>	<u>₩ 12,727,092</u>

The aging analysis of the trade receivables, other receivables and loans as of December 31, 2015 and 2014, is as follows:

<i>(In thousands of Korean won)</i>	2015	2014
Receivables not past due	₩ 157,950,312	₩ 165,730,313
Past due but not impaired ¹		
Up to 3 months	₩ 4,833,341	₩ 690,011
3 to 6 months	59,785	14,452,881
Over 6 months	45,824	5,382,834
Total	₩ 4,938,950	₩ 20,525,726
Impaired		
Up to 6 months	₩ 3,336,933	₩ 267,867
Over 6 months	26,362,109	33,410,069
Total	29,699,042	33,677,936
Impairment loss	₩ (29,699,042)	₩ (33,677,936)

¹ Trade receivables past due but not impaired are related to a number of independent customers who have no recent history of default.

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Changes in the allowance accounts for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>		<u>2015</u>		<u>2014</u>
Balance at beginning of year	₩	33,677,936	₩	26,386,891
Write - off		(5,959,889)		(5,483,163)
Reversal of bad debt allowance		(1,216,234)		-
Impairment		3,194,251		10,229,618
Impairment(discontinued operations)		-		2,460,987
Changes due to business combination		13,870		83,603
Fluctuations due to foreign currency translation		(10,892)		-
Balance at end of year	₩	<u>29,699,042</u>	₩	<u>33,677,936</u>

The trade and other receivables which are measured at amortized cost using the effective interest rate method as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>		<u>2015</u>			<u>2014</u>		
		<u>Effective interest rate</u>	<u>Current</u>	<u>Non-current</u>	<u>Effective interest rate</u>	<u>Current</u>	<u>Non-current</u>
Guarantee deposits	1.65%~4.98%	₩ 2,744,321	₩ 2,843,120	2.32%~4.98%	₩2,300,995	₩ 12,052,792	
Less discount		-	(118,059)		-	(195,967)	
		<u>₩ 2,744,321</u>	<u>₩ 2,725,061</u>		<u>₩2,300,995</u>	<u>₩ 11,856,825</u>	

There is no material difference between the book amount and their amortized cost, except for the guarantee deposits described above, because the majority of trade and other receivables have short-term maturity.

18. Cash and Cash Equivalents, and Restricted Deposits

Cash and cash equivalents as of December 31, 2015 and 2014, are summarized as follows:

<i>(In thousands of Korean won)</i>		<u>2015</u>		<u>2014</u>
Cash on hand	₩	1,487,576	₩	215,013
Demand deposits		251,283,026		216,010,978
	₩	<u>252,770,602</u>	₩	<u>216,225,991</u>

Deposits which are restricted in use as of December 31, 2015 and 2014, are summarized as follows:

<i>(In thousands of Korean won)</i>		<u>2015</u>		<u>2014</u>
Long-term deposits	₩	84,439,548	₩	95,395
Short-term deposits		47,617		85,946,855
Cash equivalents		-		72,789,114
Total	₩	<u>84,487,165</u>	₩	<u>158,831,364</u>

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19. Capital stock and capital surplus

Details of capital stock as of December 31, 2015 and 2014, are as follows:

<i>(In Korean won, except number of shares)</i>	<u>2015</u>	<u>2014</u>
Number of common shares:		
- Authorized	48,000,000	48,000,000
- Issued	5,976,091	5,974,969
- Share capital	₩ 29,880,455,000	₩ 29,874,845,000
Par value per share	₩ 5,000	₩ 5,000

Changes in the capital stock and capital surplus for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousand of won, except number of shares)</i>	<u>2015</u>			<u>2014</u>		
	<u>Number of Common shares</u>	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Number of Common shares</u>	<u>Share capital</u>	<u>Share premium</u>
Beginning of year	5,974,969	₩ 29,874,845	₩ 66,616,534	5,971,135	₩ 29,855,675	₩ 65,581,340
Issuance of ordinary shares upon exercise of stock options	1,122	5,610	274,516	3,834	19,170	1,035,194
End of year	<u>5,976,091</u>	<u>₩ 29,880,455</u>	<u>₩ 66,891,050</u>	<u>5,974,969</u>	<u>₩ 29,874,845</u>	<u>₩ 66,616,534</u>

Cumulative participating preferred stocks can be issued as non-voting registered stocks for up to 24,000,000 shares with dividend rate of more than 5% preferred dividend rates based on the face amount with the approval of the Board of Directors. As of December 31, 2015, no preferred stocks have been issued.

The Company is allowed to grant stock options within 15/100 of the total number of stocks issued with the approval from the shareholders and within 3/100 of the total number of stocks issued with the approval of the Board of Directors to its employees who contribute or are able to contribute to the establishment, management, or technological innovation of the Company. The stock options that have been granted as of December 31, 2015, are described in Note 25.

According to its Articles of Incorporation, the Company can issue convertible bonds and bonds with stock warrants up to the face value of ₩ 300 billion with the approval from the Board of Directors. As of December 31, 2015, no convertible bonds or bonds with stock warrants have been issued.

20. Treasury Shares

Treasury shares that the Company has as of December 31, 2015, consists of the 709,233 shares with the acquisition cost of ₩ 16,588,756 thousand acquired at the market price with the purpose of stabilizing the security market, and the 15,601 shares with the acquisition cost of ₩ 15,835,014 thousand) acquired as a result of the merger with Ipak Co., Ltd. Treasury shares will be sold depending on the market condition in the foreseeable future.

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21. Other Capital

Details of other capital as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Changes from equity transactions	₩ (3,299,911)	₩ (4,183,341)
Changes in fair value of available-for sale financial assets	(81,856)	(166,773)
Stock options	79,164	165,567
Exchange differences on translating foreign operations	(12,325,358)	(13,656,083)
Share of other comprehensive income of associates	205,615	489,573
Others	(41,382)	239,804
	<u>₩ (15,463,728)</u>	<u>₩ (17,111,253)</u>

22. Reserves

Details of reserves as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Legal reserve	₩ 68,569,682	₩ 55,834,891
Voluntary reserve	573,700,000	596,366,667
	<u>₩ 642,269,682</u>	<u>₩ 652,201,558</u>

Legal Reserve

The Korean Commercial Code requires the Group to appropriate a legal reserve at the minimum 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to ordinary shares in connection with a free issuance of shares. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed in accordance with a resolution of the shareholders' meeting.

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23. Retained Earnings

The appropriation of retained earnings for the years ended December 31, 2015 and 2014, is as follows:

<i>(In thousands of Korean won)</i>	2015	2014
Unappropriated retained earnings	₩ 5,571,767	₩ 12,207,784
Net income	15,353,749	5,208,975
Remeasurements of the defined benefit liability	(1,176,475)	(2,917,242)
I. Retained earnings available for appropriation	₩ 19,749,041	₩ 14,499,517
Voluntary reserve	10,000,000	20,000,000
Research and human development reserves	4,000,000	2,666,666
II. Transfer from voluntary reserves and others	14,000,000	22,666,666
III. Total (I + II)	33,749,041	37,166,183
IV. Appropriation of retained earnings		
Voluntary reserves	-	-
Dividend		
(Cash dividend (%): ordinary share for current year: ₩ 6,000 (120%), prior year: ₩ 6,000 (120%))	31,507,542	31,594,416
V. Unappropriated retained earnings to be carried over to subsequent year	₩ 2,241,499	₩ 5,571,767

The appropriation of retained earnings above is prepared based on the separate financial statements of the Controlling Company.

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24. Earnings per Share

Basic earnings per share from continuing operations

(In Korean won, except share information)

	<u>2015</u>		<u>2014</u>
Profit for the year from continuing operations attributable to owners of the Group	₩ 162,197,220,881	₩	166,278,271,256
Weighted-average number of ordinary shares	<u>5,250,646</u>		<u>5,264,794</u>
Basic earnings per share from continuing operations	₩ 30,891	₩	31,583

Weighted average number of ordinary shares

	<u>2015</u>		<u>2014</u>
The number of ordinary shares issued at January 1, 2015	5,974,969		5,971,135
Effect of exercise of stock options	511		2,978
Treasury Shares	<u>(724,834)</u>		<u>(709,319)</u>
Weighted average number of ordinary shares	<u>5,250,646</u>		<u>5,264,794</u>

Diluted earnings per share from continuing operations

(In Korean won, except share information)

	<u>2015</u>		<u>2014</u>
Profit for the year from continuing operations attributable to owners of the Group	₩ 162,197,220,881	₩	166,278,271,256
Adjusted Profit for the year attributable to owners of the Group	162,197,220,881		166,278,271,256
Diluted weighted average number of ordinary shares	<u>5,251,947</u>		<u>5,267,098</u>
Diluted earnings per share from continuing operations	₩ 30,883	₩	31,569

Diluted weighted average number of ordinary shares

(In Korean won, except share information)

	<u>2015</u>		<u>2014</u>
Basic weighted average number of ordinary shares	5,250,646		5,264,794
Effect of stock options	1,301		2,304
Diluted weighted average number of ordinary shares	<u>5,251,947</u>		<u>5,267,098</u>

Basic earnings per share and diluted earnings per share from discontinued operations:

(In Korean won)

	<u>2015</u>		<u>2014</u>
Basic and diluted earnings per share	₩ 23	₩	(533)

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25. Share-based Payments

The terms and conditions of grants as of December 31, 2015, are as follows:

(In Korean won, except number of shares)

Arrangement	Equity or cash settled			
Date of grant	2006.1.31	2007.3.23	2008.3.12	2009.2.27
The first grant quantity	8,458	5,825	3,505	4,797
Exercise quantity	(8,458)	(5,416)	(2,886)	(3,448)
Cancel quantity	-	-	(619)	(813)
Exercise price	255,120	235,500	187,500	149,800
Date of maturity	2016.1.31	2017.3.23	2018.3.12	2019.2.27
Vesting conditions	3 years' service	3 years' service	3 years' service	3 years' service

The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

(In Korean won)

	Inputs			
Date of grant	2006.1.31	2007.3.23	2008.3.12	2009.2.27
Fair value at grant date	124,295	102,777	63,616	71,772
Current price at grant date	259,000	231,000	162,000	150,000
Exercise price	255,120	235,500	187,500	149,800
Expected volatility	42.2%	40.0%	39.5%	47.8%
Option life (expected weighted average life)	6 years	6 years	6 years	6 years
Expected dividend	0.4%	0.4%	0.8%	1.1%
Risk-free interest rate	5.40%	4.90%	5.40%	5.20%

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26. Trade and Other Payables

Trade and other payables as of December 31, 2015 and 2014, are summarized as follows:

<i>(In thousands of Korean won)</i>	2015		2014	
	Current	Non-current	Current	Non-current
Trade payables	₩ 122,168,302	₩ -	₩ 100,108,772	₩ -
Other payables	100,202,471	-	177,297,285	37,218
Withholdings	56,302,011	-	57,603,277	-
Accrued expenses	16,916,448	-	15,110,816	-
Deposits received	1,344,059	1,199,995	-	2,995,268
Others	105,371	-	1,767	-
	<u>₩ 297,038,662</u>	<u>₩ 1,199,995</u>	<u>₩ 350,121,917</u>	<u>₩ 3,032,486</u>

Details of trade and other payables that are measured at amortized cost as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	2015			2014		
	Effective interest rate	current	Non-current	Effective interest rate	current	Non-current
Deposits received	1.71%~3.52%	₩ 1,344,059	₩ 1,265,965	2.75%~3.52%	₩ -	₩ 3,056,224
Less discount		-	(65,970)		-	(60,956)
		<u>₩ 1,344,059</u>	<u>₩ 1,199,995</u>		<u>₩ -</u>	<u>₩ 2,995,268</u>

There is no material difference between the book amount and their amortized cost, except the deposits received described above, because the majority of trade and other payables have short-term maturity.

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27. Borrowings and Debentures

Borrowings and debentures as of December 31, 2015 and 2014, are summarized as follows:

<i>(In thousands of Korean won)</i>		<u>2015</u>	<u>2014</u>
Non-current			
Debentures	₩	330,000,000	₩ 340,000,000
Less discount		(606,424)	(786,765)
Long-term debts		<u>323,797,203</u>	<u>245,311,002</u>
		<u>653,190,779</u>	<u>584,524,237</u>
Current			
Current portion of debentures		80,000,000	40,000,000
Less discount		(34,401)	(11,274)
Current portion of long-term debts		96,613,157	145,144,884
Short-term borrowings		<u>177,187,106</u>	<u>261,464,155</u>
		<u>353,765,862</u>	<u>446,597,765</u>
	₩	<u>1,006,956,641</u>	<u>₩ 1,031,122,002</u>

Terms and conditions of debentures as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>		<u>Maturity</u>	<u>Interest rate</u>		<u>2015</u>		<u>2014</u>
Controlling Company	95th	2016-06-09	4.30%	₩	80,000,000	₩	80,000,000
	96th-1	2015-03-05	3.93%		-		40,000,000
	96th-2	2017-03-05	4.13%		60,000,000		60,000,000
	97th	2017-11-26	3.27%		100,000,000		100,000,000
	98th	2019-04-17	3.47%		50,000,000		50,000,000
	99th	2017-09-23	2.57%		50,000,000		50,000,000
	100th	2020-04-24	2.11%		<u>70,000,000</u>		-
					410,000,000		380,000,000
					<u>(80,000,000)</u>		<u>(40,000,000)</u>
Less current portion of debentures				₩	<u>330,000,000</u>	₩	<u>340,000,000</u>

Terms and conditions of long-term debts as of December 31, 2015 and 2014 are as follows:

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Korean won, US
dollars, Chinese
yuan)

	<u>Maturity</u>	<u>Interest rate</u>	<u>Currency</u>		<u>2015</u>		<u>2014</u>
The export- Import Bank of Korea	2017	1.45% ~ 4.85%	USD	₩	34,000,165	₩	31,449,641
Kookmin Bank	2018	LIBOR(3M)+3.50%	USD		-		10,070,082
	2022	2.70%	KRW		-		610,046
Hana Bank	2015	LIBOR(3M)+3.20%	USD		-		4,409,092
	2015	LIBOR(3M)+2.65%	USD		-		38,618,369
	2016	4.70%	CNY		16,249,500		15,950,700
	2016	LIBOR(3M)+2.15%	USD		35,172,584		32,534,111
	2018	LIBOR(3M)+1.90%	USD		23,531,397		-
Industrial & Commercial Bank of China	2017	LIBOR(3M)+2.70%	USD		-		21,689,407
Korea Development Bank	2015	LIBOR(3M)+2.10%~3.60%	USD		-		56,926,484
	2016	4.85%	CNY		13,582,586		14,053,520
	2016	LIBOR(3M)+1.45%~2.70%	USD		18,065,663		30,481,295
	2017	LIBOR(3M)+2.15%~2.08%	USD		41,774,599		17,637,148
	2018	LIBOR(3M)+1.68%~1.74%	USD		69,768,073		-
DBS Bank	2015	LIBOR(3M)+2.40%	USD		-		27,584,549
	2018	LIBOR(3M)+1.86%	USD		17,648,548		-
Industrial Bank of Korea	2016	LIBOR(3M)+2.70%	USD		11,724,195		10,844,704
	2017	LIBOR(3M)+1.06%	USD		16,471,978		15,447,347
	2018	LIBOR(3M)+0.85%~1.80%	CNY		47,021,291		-
	Woori Bank	2017	LIBOR(3M)+1.60% 2.30%~	USD		29,414,247	
HSBC Siheung	2017	LIBOR(3M)+1.20%~1.55%	USD		45,685,533		34,204,842
Environmental Management Center	2018	-	KRW		300,000		360,000
					420,410,359		390,455,886
Less current portion					(96,613,156)		(145,144,884)
				₩	<u>323,797,203</u>	₩	<u>245,311,002</u>

Short-term borrowings as of December 31, 2015 and 2014 are as follows:

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dollars, Chinese
yuan, Euro)

	<u>Interest rate</u>	<u>Currency</u>	<u>2015</u>	<u>2014</u>
Kookmin Bank	1.88%~1.92%	USD ₩	428,926 ₩	-
NH Bank	1.43%	EUR	-	329,628
Shinhan Bank	5.25%~5.40%	KRW	-	18,752,068
	LIBOR(3M)+1.90%~1.95%	USD	10,932,859	13,294,884
	1.23%	USD	-	873,336
	1.05%~1.06%	USD	-	596,034
	LIBOR(3M)+2.90%	EUR	-	33,535
The Export- Import Bank of Korea	LIBOR(3M)+1.15%	USD	5,862,097	5,422,352
	LIBOR(3M)+1.15%	USD	11,724,195	10,844,704
Korea Development Bank	3.23%	KRW	-	30,000,000
	4.37%	CNY	2,708,250	2,796,872
	2.00%~LIBOR(3M)+2.10%	USD	16,413,873	23,316,113
Hana Bank	3.47%	KRW	-	3,000,000
	1.90%~LIBOR(3M)+2.30%~ 4.30%	USD	51,301,845	58,033,558
Industrial Bank of Korea	LIBOR(3M)+1.85%	USD	7,747,089	8,057,998
	4.88%	CNY	-	14,178,400
Agriculture bank of China	2.33%	USD	-	37,596
Woori Bank	1.46%~LIBOR(3M)+2.10%	USD	11,678,137	18,855,456
HSBC	2.50%~Libor(3M)+1.55%	USD	-	7,629,116
	4.08%	CNY	11,073,796	-
Industrial & Commercial Bank of China	1.15%~2.44%	USD	-	6,412,505
Woori Investment Bank	2.37%	KRW	-	10,000,000
Sumimoto Mitsui Banking Corporation	LIBOR(3M)+1.00%	USD	5,816,039	-
Meritz Securities Co., Ltd.	1.65%~1.88%	KRW	41,500,000	29,000,000
		₩	<u>177,187,106</u>	₩ <u>261,464,155</u>

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The following assets are pledged as collateral for the Group's accounts and notes payable – trade, short-term borrowings, long-term debts and debentures as of December 31, 2015:

(In thousands of Korean won)

<u>Asset</u>	<u>Lender</u>	<u>Type of borrowings</u>	<u>Borrowing amount</u>		<u>Book value</u>		<u>Collateralized amount</u>
Assets under construction (including asset held for sale)	Woori Bank	Short & Long - term borrowing	₩	7,000,000	₩	17,466,695	₩ 8,400,000
Land and buildings	Siheung Environmental Management Center	Short & Long - term borrowing		300,000		1,124,289	780,000
Buildings and Machinery	Shinhan Bank	Short-term borrowing		1,627,196		6,183,183	6,183,183
				(USD 1,388,392)		(USD 5,275,754)	(USD 5,275,754)
			₩	<u>8,927,196</u>	₩	<u>24,774,167</u>	₩ <u>15,363,183</u>

Book value and fair value of borrowings as of December 31, 2015 and 2014, are as follows:

(In thousands of Korean won)

	<u>2015</u>				<u>2014</u>			
	<u>Book value</u>		<u>Fair value(*)</u>		<u>Book value</u>		<u>Fair value ¹</u>	
Short-term borrowings	₩	353,765,862	₩	353,765,862	₩	446,597,765	₩	446,597,765
Long-term borrowings		653,190,779		653,842,093		584,524,237		585,336,750
	₩	<u>1,006,956,641</u>	₩	<u>1,007,607,955</u>	₩	<u>1,031,122,002</u>	₩	<u>1,031,934,515</u>

¹ The fair values of short-term borrowings equal their book value as the impact of discounting is not significant. The fair values of long-term liabilities are based on discounted cash flows at the weighted average borrowing rates of 2.60% for long-term borrowings (2014: 3.13%).

28. Employee Benefits

The Group operates defined contribution plan. According to this plan, the Group pays retirement benefits calculated under the plan's benefit formula at the time employees leave the Group. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method.

The retirement benefit expenses for the years ended December 31, 2015 and 2014, are as follows:

(In thousands of Korean won)

	<u>2015</u>		<u>2014</u>	
Contributions to defined contribution plans	₩	1,047,179	₩	1,695,808
Expenses related to post-employment defined benefit plans		12,392,389		8,932,241
	₩	<u>13,439,568</u>	₩	<u>10,628,049</u>

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Changes in net defined benefit liability for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2015	2014	2015	2014	2015	2014
Balance at January 1	₩ 64,534,960	₩ 57,826,311	₩ (58,492,032)	₩ (50,835,215)	₩ 6,042,928	₩ 6,991,096
Included in profit or loss:						
Current service costs	12,253,040	8,716,785	-	-	12,253,040	8,716,785
Interest costs (income)	1,692,893	2,023,218	(1,553,544)	(1,807,762)	139,349	215,456
	13,945,933	10,740,003	(1,553,544)	(1,807,762)	12,392,389	8,932,241
Included in other comprehensive income:						
Remeasurements loss (gain)	(1,519,160)	(3,034,692)	-	-	(1,519,160)	(3,034,692)
- Actuarial loss (gain) arising from:	(1,621,597)	(963,111)	-	-	(1,621,597)	(963,111)
Experience adjustment	4,521,231	7,869,616	-	-	4,521,231	7,869,616
Demographic assumptions	-	-	242,251	425,140	242,251	425,140
Financial assumptions	-	-	242,251	425,140	242,251	425,140
- Return on plan assets excluding interest income	1,380,474	3,871,813			1,622,725	4,296,953
Other:						
Contributions paid by the employer	-	-	(15,911,132)	(13,898,268)	(15,911,132)	(13,898,268)
Benefits paid	(10,901,530)	(9,510,597)	10,272,835	9,597,600	(628,695)	87,003
Other	283,272	1,607,430	(2,987)	(1,973,527)	280,285	(366,097)
	(10,618,258)	(7,903,167)	(5,641,284)	(6,274,195)	(16,259,542)	(14,177,362)
Balance at December 31	₩ 69,243,109	₩ 64,534,960	₩ (65,444,609)	₩ (58,492,032)	₩ 3,798,500	₩ 6,042,928

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The components of plan assets as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>		<u>2014</u>	
Equity securities	₩	9,335,212	₩	2,735,782
Debt securities		33,001,602		35,122,130
Others		23,107,795		20,634,120
	₩	<u>65,444,609</u>	₩	<u>58,492,032</u>

The principal actuarial assumptions as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Discount rate	2.37%~2.61%	2.79%~2.90%
Future salary growth	4.00%~5.00%	3.97%~5.41%

For the purpose of calculating present value of defined benefit obligation, the Group used the discount rate determined based on the yield rate of bonds with good ratings which are in line with defined benefit obligations in terms of currency and maturity.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

<i>(In thousands of Korean won)</i>	<u>2015</u>	
	<u>1% increase</u>	<u>1% decrease</u>
Discount rate	₩ (3,850,962)	₩ 4,327,001
Future salary growth	4,232,548	(3,845,063)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

The weighted average duration of the defined benefit obligations is 6.37 years as of December 31, 2015.

Maturity analysis of pension benefit payments that are not currently discounted is shown below.

<i>(In thousands of Korean won)</i>	<u>2015</u>				
	<u>Within 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Beyond 5 years</u>	<u>Total</u>
Benefit payments	₩ 7,256,409	₩ 16,901,999	₩ 25,957,915	₩ 119,943,557	₩ 170,059,880

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29. Other Liabilities

Other liabilities as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	2015		2014	
	Current	Non-current	Current	Non-current
Advances received	₩ 56,839,371	₩ -	₩ 38,330,720	₩ -
Unearned revenue	4,868	65,077	3,309	59,955
Provision for loss on sales return ¹	3,383,759	-	3,910,345	-
Others	503,758	808,382	1,880,685	2,069,003
	<u>₩ 60,731,756</u>	<u>₩ 873,459</u>	<u>₩ 44,125,059</u>	<u>₩ 2,128,958</u>

¹ The Group recognized provision for sales returns based on past experience with similar sales for the revenue during the weighted average circulation.

30. Sales and Cost of Sales

Sales and cost of sales for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	2015		2014	
Sales				
Confectionary	₩	2,238,569,627	₩	2,119,661,850
Sports/Leisure		1,084,205		917,298
Entertainment		142,723,469		73,024,431
Construction		-		6,184,597
	₩	<u>2,382,377,301</u>	₩	<u>2,199,788,176</u>
Cost of sales				
Confectionary	₩	1,116,332,112	₩	1,090,185,528
Sports/Leisure		4,528,087		4,232,378
Entertainment		117,638,033		62,211,509
Construction		29,156,152		5,779,197
	₩	<u>1,267,654,384</u>	₩	<u>1,162,408,612</u>

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31. Selling Expenses and General and Administrative Expenses

Details of selling expenses for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Salaries	₩ 198,727,497	₩ 174,703,205
Retirement and termination benefits	5,358,146	5,299,804
Employee welfare	16,271,839	17,338,139
Travel expenses	13,523,623	11,582,947
Taxes and dues	15,235,328	13,628,725
Rental expenses	21,457,711	18,011,587
Depreciation	7,679,314	6,981,224
Amortization	1,326,605	1,359,237
Advertising expenses	100,875,691	114,976,114
Ordinary development expense	1,335,222	3,315,379
Freight and custody	100,070,805	90,718,239
Commissions	52,339,495	55,117,951
Promotion	113,501,440	99,977,133
Bad debt expenses	3,868,223	8,803,931
Others	30,162,803	33,975,415
	<u>₩ 681,733,742</u>	<u>₩ 655,789,030</u>

Details of general and administrative expenses for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Salaries	₩ 63,777,530	₩ 69,246,042
Retirement and termination benefits	6,055,144	3,293,294
Employee welfare	8,404,460	9,951,176
Travel expenses	2,680,692	2,763,493
Taxes and dues	8,722,621	9,148,350
Rental expenses	4,254,213	3,954,076
Depreciation	8,975,855	6,642,292
Amortization	1,245,053	1,198,424
Commissions	15,445,533	13,335,298
Others	14,107,827	13,186,177
	<u>₩ 133,668,928</u>	<u>₩ 132,718,622</u>

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32. Other Income and Other Expenses

Details of other income and other expenses for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Other income		
Foreign currency transaction gain	₩ 6,334,782	₩ 5,500,458
Foreign currency translation gain	1,893,273	4,669,530
Gain on sale of property, plant and equipment	2,968,546	4,212,000
Bargain purchase	-	29,939,987
Reversal of bad debt allowance	2,035,668	347
Others	10,154,623	7,923,582
	<u>23,386,892</u>	<u>52,245,904</u>
Other expenses		
Foreign currency transaction loss	7,133,188	5,500,786
Foreign currency translation loss	5,350,134	3,579,005
Loss on sale of investment assets	2,666,380	4,190,817
Loss on sale of property, plant and equipment	5,460,834	4,333,048
Impairment loss on property, plant and equipment	331,662	1,765,000
Loss on sale of intangible assets	63,710	33,359
Impairment loss on intangible assets	1,747,297	865,662
Others	7,845,031	5,538,728
	<u>30,598,236</u>	<u>25,806,405</u>
Net other income (expenses)	₩ <u>(7,211,344)</u>	₩ <u>26,439,499</u>

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33. Finance income and expense

Details of finance income and expense for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>		<u>2014</u>	
Finance income				
Interest income	₩	9,003,000	₩	5,659,554
Dividend income		497		449
Foreign currency transaction gain		7,980,033		1,536,436
Foreign currency translation gain		1,645,385		159,887
Gain on derivatives translations		-		53,759
Gain on derivatives valuation		3,302		926
Gain on disposal of available-for-sale financial assets		28,300		43,043
		<u>18,660,517</u>		<u>7,454,054</u>
Finance cost				
Interest expense		29,630,572		34,733,837
Foreign currency transaction loss		12,840,783		1,887,085
Foreign currency translation loss		15,174,462		15,346,005
Loss on derivatives transactions		-		980
Loss on derivatives valuation		-		4,228
Loss on disposal of available-for-sale financial assets		-		59,852
Impairment loss on available-for-sale financial assets		1,000,372		3,200,854
		<u>58,646,189</u>		<u>55,232,841</u>
Net finance cost	₩	<u>(39,985,672)</u>	₩	<u>(47,778,787)</u>

34. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>		
	<u>Cost of sales</u>	<u>Selling, general and administrative expense</u>	<u>Total</u>
Raw materials and consumables used	₩ 363,162,343	₩ -	₩ 363,162,343
Changes in inventories of finished goods and merchandise	465,385,366	-	465,385,366
Employee benefits expense	89,529,771	273,866,197	363,395,968
Depreciation and amortization	162,821,235	19,227,388	182,048,623
Service fees	20,732,544	67,731,139	88,463,683
Advertising expenses	-	100,875,691	100,875,691
Freight and custody	452,599	100,070,805	100,523,404
Others	165,570,526	253,631,450	419,201,976
	<u>₩ 1,267,654,384</u>	<u>₩ 815,402,670</u>	<u>₩ 2,083,057,054</u>

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	2014		
	Cost of sales	Selling, general and administrative expense	Total
Raw materials and consumables used	₩ 733,359,273	₩ -	₩ 733,359,273
Changes in inventories of finished goods and merchandise	11,707,099	-	11,707,099
Employee benefits expense	106,575,126	244,303,162	350,878,288
Depreciation and amortization	129,057,257	19,006,931	148,064,188
Service fees	21,140,734	7,295,803	28,436,537
Advertising expenses	-	72,853,095	72,853,095
Freight and custody	544,921	76,166,675	76,711,596
Others	160,024,202	368,881,986	528,906,188
	<u>₩ 1,162,408,612</u>	<u>₩ 788,507,652</u>	<u>₩ 1,950,916,264</u>

35. Financial Instruments by Categories

Finance income and cost by categories for the years ended December 31, 2015 and 2014, are as follows:

(In thousands of Korean won)	2015				
	Finance income	Finance cost	Net income	Other comprehensive income	Total comprehensive income
Financial assets					
Loans and receivables	₩ 18,424,828	₩ -	₩ 18,424,828	₩ -	₩ 18,424,828
Available-for-sale financial assets	28,797	(1,000,372)	(971,575)	110,894	(860,681)
Held-to-maturity financial assets	203,590	-	203,590	-	203,590
	<u>18,657,215</u>	<u>(1,000,372)</u>	<u>17,656,843</u>	<u>110,894</u>	<u>17,767,737</u>
Financial liabilities					
Financial liabilities measured at amortized cost	-	(57,645,817)	(57,645,817)	-	(57,645,817)
Financial liabilities at fair value through profit or loss	3,302	-	3,302	-	3,302
	<u>3,302</u>	<u>(57,645,817)</u>	<u>(57,642,515)</u>	<u>-</u>	<u>(57,642,515)</u>
	<u>₩ 18,660,517</u>	<u>₩ (58,646,189)</u>	<u>₩ (39,985,672)</u>	<u>₩ 110,894</u>	<u>₩ (39,874,778)</u>

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(In thousands of Korean won)	2014				
	Finance income	Finance cost	Net income	Other comprehensive income	Total comprehensive income
Financial assets					
Loans and receivables	₩ 5,386,264	₩ -	₩ 5,386,264	₩ -	₩ 5,386,264
Available-for-sale financial assets	43,492	(3,260,721)	(3,217,229)	698,479	(2,518,750)
Held-to-maturity financial assets	273,291	-	273,291	-	273,291
	<u>5,703,047</u>	<u>(3,260,721)</u>	<u>2,442,326</u>	<u>698,479</u>	<u>3,140,805</u>
Financial liabilities					
Financial liabilities measured at amortized cost	-	(34,733,836)	(34,733,836)	-	(34,733,836)
Financial liabilities at fair value through profit or loss	54,685	(5,208)	49,477	-	49,477
	<u>54,685</u>	<u>(34,739,044)</u>	<u>(34,684,359)</u>	<u>-</u>	<u>(34,684,359)</u>
	<u>₩ 5,757,732</u>	<u>₩ (37,999,765)</u>	<u>₩ (32,242,033)</u>	<u>₩ 698,479</u>	<u>₩ (31,543,554)</u>

The book value and the fair value of financial instruments as of December 31, 2015 and 2014, are summarized as follows:

(In thousands of Korean won)	2015		2014	
	Book Value	Fair value	Book Value	Fair value
Financial assets				
Loans and receivables	₩ 789,913,282	₩ 789,913,282	₩ 690,097,062	₩ 690,097,062
Available-for-sale financial assets	218,918	218,918	107,248	107,248
Available-for-sale financial assets (Unlisted)	8,660,782	8,660,782	10,860,488	10,860,488
Available-for-sale financial assets (Debt securities)	20,559	20,559	-	-
Held-to maturity investments	-	-	2,613,430	2,613,430
	<u>₩ 798,813,541</u>	<u>₩ 798,813,541</u>	<u>₩ 703,678,228</u>	<u>₩ 703,678,228</u>
Financial liabilities				
Financial liabilities at fair value through profit or loss	₩ -	₩ -	₩ 3,302	₩ 3,302
Financial liabilities measured at amortized cost	1,305,195,298	1,305,195,298	1,384,276,405	1,385,088,918
	<u>₩ 1,305,195,298</u>	<u>₩ 1,305,195,298</u>	<u>₩ 1,384,279,707</u>	<u>₩ 1,385,092,220</u>

The Group estimates the book values of financial assets, other than available-for-sale financial assets and long-term borrowings, at reasonable amounts that approximate fair values.

Available-for-sale financial assets that do not have quoted market prices in active markets and whose fair

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value cannot be reliably measured are measured at acquisition cost.

The levels of the fair value hierarchy and its application to financial assets and liabilities are described below.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs, other than quoted prices, that are observable from market for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The fair value measurements classified by fair value hierarchy as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
December 31, 2015				
Available-for-sale financial assets	₩ 218,918	₩ -	₩ -	218,918
December 31, 2014				
Available-for-sale financial assets	₩ 107,248	₩ -	₩ -	107,248
Financial liabilities at fair value through profit or loss	-	3,302	-	3,302

36. Construction Contracts

Changes in amounts of construction contracts for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Balance at beginning of year	₩ 297,225	₩ 2,001,996
Contracts change	(173,868)	-
	123,357	2,001,996
Profit recognized	-	(1,704,771)
Balance at end of year	₩ 123,357	₩ 297,225

Details of construction contracts for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	Construction site	Ordering organization	<u>Gross contract amount</u>	
			<u>2015</u>	<u>2014</u>
	Markhills	EV&A Corporation, Yuyeon D&C	₩ 2,600,000	₩ 2,600,000

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37. Income Taxes

Income tax expense (benefit) for the years ended December 31, 2015 and 2014 consists of:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Current income tax expense	₩ 57,399,510	₩ 59,039,185
Adjustment for prior periods	12,246,282	(1,529,995)
Origination and reversal of temporary differences	5,200,195	(6,550,707)
Total income tax effect	<u>74,845,987</u>	<u>50,958,483</u>
Income tax recognized in other comprehensive income	407,109	716,979
Total income tax expense	<u>₩ 75,253,096</u>	<u>₩ 51,675,462</u>

Origination and reversal of temporary differences for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Deferred tax liabilities net, beginning	₩ 60,039,251	₩ 66,589,958
Origination and reversal of temporary differences	5,200,195	(6,550,707)
Deferred tax liabilities net, ending balance	<u>₩ 65,239,446</u>	<u>₩ 60,039,251</u>

Income taxes recognized directly in other comprehensive income for the years ended December 31, 2015 and 2014 are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Current		
Remeasurements of the defined benefit liability	₩ 385,351	₩ 987,069
Deferred		
Gains/losses on valuation of available-for-sale securities	(25,977)	(87,357)
Shares of other comprehensive income of associate companies	(32,356)	17,709
Cumulative effect of foreign currency translation	80,091	6,622
Gains from changes in ownership interest in subsidiaries	-	(207,064)
Income tax recognized directly in other comprehensive income	<u>₩ 407,109</u>	<u>₩ 716,979</u>

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Reconciliation between profit before income tax and income tax expense for the years ended December 31, 2015 and 2014, follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>		<u>2014</u>	
Profit before income tax	₩	251,796,291	₩	228,906,375
Income tax using the Group's statutory tax rate	₩	60,478,014	₩	60,764,239
Non-deductible expense		1,158,748		848,968
Tax credits		(998,914)		(2,262,650)
Adjustments for prior periods		12,246,282		(1,529,995)
Tax effects of temporary differences for which no deferred tax assets (liabilities) are recognized		(1,362,699)		13,033,478
Others		3,731,665		(19,178,578)
Income tax expense	₩	<u>75,253,096</u>	₩	<u>51,675,462</u>
Effective tax rate		124.43%		85.04%

The net deferred tax liabilities are reflected in the statements of financial position after offsetting assets and liabilities only if there is the legal right to offset current tax assets and liabilities and they are levied by the same taxing authority.

Changes in deferred tax assets and liabilities for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>			
	<u>Beginning balance</u>	<u>Profit or loss</u>	<u>Other comprehensive income</u>	<u>Ending balance</u>
Bad debt expense	₩ 1,710,195	₩ (581,837)	₩ -	₩ 1,128,358
Allowance for sales returns	918,931	(120,364)	-	798,567
Research and human development reserves	(2,820,000)	932,000	-	(1,888,000)
Accumulated depreciation	(36,243,762)	(10,065,069)	-	(46,308,831)
Defined benefit liability	46,318	(141,678)	385,351	289,991
Land	(16,475,225)	(22,509)	-	(16,497,734)
Investments in subsidiaries	7,034,686	7,110,522	-	14,145,208
Others	(14,210,394)	(2,718,369)	21,758	(16,907,005)
	<u>₩ (60,039,251)</u>	<u>₩ (5,607,304)</u>	<u>₩ 407,109</u>	<u>₩ (65,239,446)</u>

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<i>(In thousands of Korean won)</i>	2014			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Bad debt expense	₩ 3,272,923	₩ (1,562,728)	₩ -	₩ 1,710,195
Allowance for sales returns	1,050,316	(131,385)	-	918,931
Research and human development reserves	(3,446,667)	626,667	-	(2,820,000)
Accumulated depreciation	(30,307,890)	(5,935,872)	-	(36,243,762)
Defined benefit liability	201,802	(1,142,553)	987,069	46,318
Land	(16,520,490)	45,265	-	(16,475,225)
Investments in subsidiaries	5,992,771	1,041,915	-	7,034,686
Reserve for gain on investment in kind	(5,502,353)	5,502,353	-	-
Others	(21,330,370)	7,183,002	(63,026)	(14,210,394)
	₩ (66,589,958)	₩ 5,626,664	₩ 924,043	₩ (60,039,251)

The amount of deductible temporary differences for which deferred tax assets are not recognized as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	2015	2014
Investments in subsidiaries	₩ 197,358,916	₩ 187,953,000
Other deductible temporary differences	81,909,003	100,083,118
Tax loss carryforwards	20,820,383	17,826,333

The Group does not recognize any deferred tax asset for the deductible temporary differences stated above as these are not probable to reverse in the foreseeable future and sufficient future taxable profits will not be available against which tax loss carryforwards can be used.

The amounts of taxable temporary differences for which no deferred tax liabilities are recognized as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	2015	2014
Investments in subsidiaries	₩ 138,340,164	₩ 185,995,508

As of December 31, 2015 and 2014, the Group does not recognize any deferred tax liability for the above, because the Group is able to control the timing of the reversal of taxable temporary differences related to investments of subsidiaries and it is probable that the temporary difference will not reverse in the foreseeable future.

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The aggregate amounts of tax assets and liabilities as of December 31, 2015 and 2014 before offsetting are as follows:

<i>(In thousands of Korean won)</i>	2015	2014
Income taxes payable	₩ 29,315,810	₩ 56,539,310
Prepaid income taxes	(5,583,220)	(39,972,436)
Income taxes payable, net	₩ 23,732,590	₩ 16,566,874

38. Financial Risk Management

The levels of Risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Currency risk
- Interest risk
- Other price risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management activities

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Finance Department is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances.

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The Finance Department has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Finance Department; these limits are reviewed quarterly.

The carrying amount of financial assets is maximum exposure to credit risk. The maximum exposure to credit risk as of December 31, 2015 and 2014 is as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Held-to-maturity financial assets	₩ -	₩ 2,613,430
Short-term and long-term deposits	364,552,229	272,073,967
Trade and other receivables	174,078,026	202,012,116
Cash equivalents	251,283,027	216,010,978
	<u>₩ 789,913,282</u>	<u>₩ 692,710,491</u>

Meanwhile, the Group deposits cash and cash equivalents in the financial institutions, such as Shinhan Bank, and since the Group has dealt with the financial institutions which have excellent credit ratings, credit risk from the financial institutions is limited.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The maturity analysis of financial liabilities as of December 31, 2015, is as follows:

<i>(In thousands of Korean won)</i>	<u>Book Value</u>	<u>Contractual cash flow</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Beyond 5 years</u>
Debentures and borrowings	₩ 1,006,956,641	₩ 1,054,411,592	₩ 246,461,153	₩ 129,771,611	₩ 391,376,716	₩ 286,802,112	₩ -
Trades and other payables	298,238,657	298,302,921	287,115,549	8,424,758	1,612,614	1,150,000	-
	<u>₩ 1,305,195,298</u>	<u>₩ 1,352,714,513</u>	<u>₩ 533,576,702</u>	<u>₩ 138,196,369</u>	<u>₩ 392,989,330</u>	<u>₩ 287,952,112</u>	<u>₩ -</u>

The maturity analysis of financial liabilities as of December 31, 2014, is as follows:

<i>(In thousands of Korean won)</i>	<u>Book Value</u>	<u>Contractual cash flow</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Beyond 5 years</u>
Debentures and borrowings	₩ 1,031,122,002	₩ 1,065,061,924	₩ 365,003,358	₩ 94,749,803	₩ 180,020,353	₩ 424,377,138	₩ 911,272
Trades and other payables	353,154,403	353,232,111	315,262,210	153,843	2,072,425	35,743,633	-
	<u>₩ 1,384,276,405</u>	<u>₩ 1,418,294,035</u>	<u>₩ 680,265,568</u>	<u>₩ 94,903,646</u>	<u>₩ 182,092,778</u>	<u>₩ 460,120,771</u>	<u>₩ 911,272</u>

The Group does not expect that this cash flow will appear substantially earlier than or substantially different in amounts from what the Group forecasts.

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Currency risk

The Group's exposure to foreign currency risk is as follows based on notional amounts:

(In thousands of Korean won)

	<u>USD</u>		<u>JPY</u>		<u>EUR</u>		<u>AUD</u>		<u>CNY</u>	
December 31, 2015										
Cash and cash equivalents	₩	4,291,542	₩	626,807	₩	-	₩	-	₩	-
Trade receivables and other receivables		3,929,338		-		-		-		-
Trade payables and other payables		(5,366,484)		-		-		-		-
Borrowings		(445,462,262)		-		-		-		(13,782,046)
	₩	<u>(442,607,866)</u>	₩	<u>626,807</u>	₩	<u>-</u>	₩	<u>-</u>	₩	<u>(13,782,046)</u>
December 31, 2014										
Cash and cash equivalents	₩	27,551,667	₩	7,269	₩	-	₩	820,621	₩	-
Trade receivables and other receivables		7,245,198		68,481		3,154,468		-		-
Trade payables and other payables		(5,289,134)		(529,661)		-		-		-
Borrowings		(368,526,852)		-		(363,163)		-		(46,258,799)
	₩	<u>(339,019,121)</u>	₩	<u>(453,911)</u>	₩	<u>2,791,305</u>	₩	<u>820,621</u>	₩	<u>(46,258,799)</u>

The exchange rates as of December 31, 2015 and 2014, are as follows:

	<u>2015</u>		<u>2014</u>	
USD		1,172.00		1,099.20
JPY		9.72		9.20
EUR		1,280.53		1,336.52
AUD		853.10		899.09
CNY		180.55		177.23

As of December 31, 2015 and 2014, the effects of a 10% appreciating or depreciating of foreign currencies against functional currency on profit before tax are as follows:

(In thousands of Korean won)	<u>December 31, 2015</u>				<u>December 31, 2014</u>			
	<u>10% strengthening</u>		<u>10% weakening</u>		<u>10% strengthening</u>		<u>10% weakening</u>	
USD	₩	(44,260,787)	₩	44,260,787	₩	(33,901,912)	₩	33,901,912
JPY		62,681		(62,681)		(45,391)		45,391
EUR		-		-		279,131		(279,131)
AUD		-		-		82,062		(82,062)
CNY		(1,378,205)		1,378,205		(4,625,880)		4,625,880

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₩	<u>(45,576,311)</u>	₩	<u>45,576,311</u>	₩	<u>(38,211,990)</u>	₩	<u>38,211,990</u>
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Interest rate risk

At the reporting date the variable rate financial liabilities are as follows:

<i>(In thousands of Korean won)</i>		<u>December 31, 2015</u>		<u>December 31, 2014</u>
Short-term borrowings	₩	121,476,135	₩	138,042,735
Long-term debts		<u>369,342,212</u>		<u>373,535,139</u>
	₩	<u>490,818,347</u>	₩	<u>511,577,874</u>

As of December 31, 2015 and 2014, the effects of a 100bp fluctuation of the interest rates on profit (loss) except long-term debts hedged at floating risk were as follows:

		<u>2015</u>			<u>2014</u>	
<i>(In thousands of Korean won)</i>		<u>10% increase</u>	<u>10% decrease</u>		<u>10% increase</u>	<u>10% decrease</u>
Net finance cost	₩	(4,908,183)	₩	4,908,183	₩	(5,115,779)
				₩	5,115,779	

Capital management

The Board's policy is to maintain a sound capital base so as to maintain investor, creditor and market confidence, and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity, excluding non-redeemable preference shares and non-controlling interests, for maximizing shareholders' wealth. The Board of Directors also monitors the level of dividends to common shareholders.

As of December 31, 2015 and 2014, the Group's net debt-to-equity ratio as follows:

<i>(In thousands of Korean won)</i>		<u>2015</u>		<u>2014</u>
Net debt:				
Debts and borrowings	₩	1,006,956,641	₩	1,031,122,002
Less: Cash and cash equivalents		<u>(252,770,602)</u>		<u>(216,225,991)</u>
		754,186,039		814,896,011
Equity		1,526,175,939		1,402,522,481
Net debt-to-equity ratio		49.42%		58.10%

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39. Financial Commitments and Contingencies

Financial commitments to financial institutions as of December 31, 2015 are as follows:

*(In thousands of Korean won, US dollars,
Chinese yuan)*

Lender	Type of commitment	Amount	
Kookmin Bank	Usance	USD	10,000,000
	General loan	KRW	5,000,000
Hana Bank	Group purchase card	KRW	30,000,000
	Usance	USD	8,000,000
	General loan	KRW	6,000,000
	General loan	USD	61,028,153
	General loan	CNY	120,500,000
Nonghyup Bank	Bank overdraft	KRW	3,000,000
	Trade bills bought	USD	1,000,000
	Bank overdraft	KRW	1,000,000
Shinhan Bank	Group purchase card	KRW	45,000,000
	Usance	USD	15,900,000
	Bank overdraft	KRW	5,000,000
	Commercial paper discount	KRW	30,000,000
	Draft at sight	USD	3,000,000
	Foreign trade contract	USD	20,000
	General loan	KRW	13,000,000
	General loan	USD	7,000,000
	General loan	CNY	30,000,000
	Commercial paper discount	KRW	30,000,000
Woori Bank	General loan	KRW	7,300,000
	General loan	USD	10,000,000
HSBC	General loan	USD	13,000,000
	General loan	CNY	65,205,000
Industrial Bank of Korea	General loan	USD	20,000,000
	General loan	CNY	80,000,000
DBS Bank	General loan	USD	20,000,000
Korea Development Bank	General loan	USD	95,784,583
	General loan	CNY	195,000,000
The Export- Import Bank of Korea	General loan	USD	44,000,000
Industrial Bank of Korea	Import and export loan	USD	9,000,000

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The Group has been provided with guarantees by financial institutions for collecting receivables from local film distributors which are as follows:

(In thousands of Korean won)

Counterparty	Guarantor	Amount
Seoul Yongbae Ltd.	Hana Bank	₩ 400,000
Taekyung Ltd.	Woori Bank	200,000
Dongbo Cinema Ltd.	Standard Chartered Bank	200,000
Click kan Kkokku Ltd.	Seoul Guarantee Insurance	12,000
RG enterworks Ltd.	Dano Ltd.	300,000
Ja Ok Kim	Seoul Guarantee Insurance	6,000
Total		₩ 1,118,000

As of December 31, 2015, guarantees of ₩1,693 million are provided to the Group by Seoul Guarantee Insurance Company for the performance of contracts

As of December 31, 2015, guarantees of ₩21,268,088 thousand are provided to the Group by Seoul Guarantee Insurance Company for the recovery of contracts.

Consignment contract of Sports Toto Co., Ltd. was terminated on February 15, 2001, with the approval of the Ministry of Culture, Sports and Tourism. Since the issuance of sports lottery was temporarily ceased on October 14, 2002, due to economic depression, the details of consignment contract were changed to normalize it based on agreement on April 18, 2003.

Additionally, agreements and amendments were entered into to clarify the details of the original contract. The Group extended the contract effective period to September 30, 2012. After expiration date, the contract was further extended to the day before Sports Promotion Act would be revised. The effective period of the contract ended on June 30, 2015, upon the announcement of Korean Sports Promotion Foundation. As of December 31, 2015, the contract was terminated.

Details of lawsuit pendings as of December 31, 2015 are summarized as follows.

(In thousands of Korean won)

Company	Plaintiff	Defendant	Contents	Amounts	Progress
Orion Corp.	Orion Corp. and 9 others	Borin construction Corp..	Void for Consolidation	₩ -	In progress
SHOWBOX Corp.	Eung Ryeol Maeng	Orion Corp. and one other	Compensation for everance pay	768,000	First trial in progress
	Taechang MP Films Corp.	SHOWBOX Corp.	Compensation for damages	326,599	Plaintiff dismissed
	Jong Rim Choi	SHOWBOX Corp. and 2 others	Compensation for damages	10,000,000	First trial in progress
Mega Mark Co., Ltd	Young Mi Park	Mega Mark Co., Ltd.	Compensation for damages	100,000	In progress
	Mega Mark Co., Ltd.	You youn D&C	Payment for cost of construction	2,700,000	Second trial in progress

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	Gyeong Min Cho	Mega Mark Co., Ltd. and 1.	Compensation for damages	2,352,000	First trial in progress
Sports Toto Co., Ltd	Bobae construction Co., Ltd	Sports Toto Co., Ltd.	Compensation for damages	1,342,000	Plaintiff partly won
	Bobae construction Co., Ltd	Sports Toto Co., Ltd.	Compensation for damages	1,428,668	Second trial in progress
Sports Toto Online Co., Ltd.	Yong Seop Sim	Sports Toto Online Co., Ltd. and one other	Compensation for damages	1,547,684	Second trial in progress

40. Merger

Ipak Co., Ltd. Merger

Ipak Co., Ltd is an unlisted corporation wholly owned by the Company. The Company calculated the percentage of merger according to Capital Markets and Financial Investment Services Act 176 Article 5, and the regulation regarding issuance of securities and Disclosure article 5-13, Article 4 and Article 8. The Company did not issue common stock for Ipak Co.,'s common stock as the Company has 100% ownership. Details of the surviving company and merged company are summarized as follows:

Details of the merger are as follows:

	<u>Surviving Company</u>	<u>Merged Company</u>
Name of company	Orion Co., Ltd.	Ipak Co., Ltd.
Location	Baekbeomro 90-da gil 13, Yongsan-gu, Seoul, Korea	Wonsidong 835-1, Danwon-gu, Ansan City, Korea
CEO	Won-Gi Kang	Sang-Kwan Choi
Type of corporate	Listed corporation	Unlisted corporation
Main business	Manufacturing and selling baked goods and snacks	Printed packaging and manufacturing
Relationship	Parent Company	Subsidiary of the Controlling Company

The assets and liabilities acquired from the merger with Ipak Co., Ltd. were recognized as the book value on the consolidated financial statements of the Company, which is the ultimate parent company of the Group, at the merger date.

The following table summarizes the consideration paid for Ipak Co., Ltd and the book value of assets acquired and liabilities assumed:

(In thousands of Korean won)

	<u>Amount</u>
Current assets	₩ 8,538,461
Non-current assets	34,206,026
Total assets	42,744,487
Current liabilities	5,356,312
Non-current liabilities	245,000

(In thousands of Korean won)

	<u>Amount</u>
Cash and cash equivalents	₩ 16,014,563

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Trade and other receivables	28,442,560
Inventories	5,998,275
Other current assets	2,535,962
Property plant and equipment	126,949,178
Intangible assets	619,980
Investments in subsidiaries	3,814,017
Other non-current asset	984,883
Trade and other payables	(3,603,691)
Current income tax liabilities	(1,901,319)
Long-term borrowings	(22,352,774)
Deferred income tax liabilities	(3,518,121)
Total book value of identifiable net assets	<u>153,983,513</u>

Merger of Orion Food Rus Co., LLC, ORION FOOD NOVO LLC, and Orion International Euro LLC under a common control

Orion International Euro LLC merged with Orion Food Rus Co., LLC and ORION FOOD NOVO LLC on December 18, 2015, with the approval of Board of Directors on August 24, 2015. The Group applied the book value method to account for the merger since the merger was a business combination of entities under a common control.

Details of the merger are as follows:

	<u>Surviving Company</u>	<u>Merged Company</u>	<u>Merged Company</u>
Name of company	Orion International Euro LLC	Orion Food Rus Co., LLC	ORION FOOD NOVO LLC
Location	117574 MOSCOW, PROSHOYUZNAYA STREET 129A PRINCE PLAZA, 5 FLOOR	170028, Tverskaya oblast, Tver, Nab.River of Lazure,b.15 INN/KPP 7730174436/695001001	630088 ST. SEVERNY PROEZD 35(KIROVOSKY RAYON) NOVOSIBIRISK RUSSIA
CEO	Won-Geun Yoon	Yang-Hui Cho	In-Ho Kim
Type of corporate	Limited company in Russia	Limited company in Russia	Limited company in Russia
Main business	Selling baked goods and snacks	Selling baked goods and snacks	Selling baked goods and snacks
Relationship	Subsidiary of the Controlling Company	Subsidiary of the Controlling Company	Subsidiary of the Controlling Company

The assets and liabilities acquired from the merger with Orion Food Rus Co., LLC and ORION FOOD NOVO LLC. were recognized as the book value on the consolidated financial statements of the Company, which is the ultimate parent company of the Group, at the merger date.

(In thousands of Korean won)

	<u>Amount</u>
Cash and cash equivalents	₩ 1,087,807
Trade and other receivables	6,206,628
Inventories	4,095,125
Other current assets	839,456

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Property plant and equipment	22,729,108
Other non-current assets	321,398
Trade and other payables	(3,790,401)
Short-term borrowings	(16,854,047)
Other current liabilities	(481,378)
Deferred income tax liabilities	(1,121,670)
Total book value of identifiable net assets	13,032,026

Orion Snack International Corp.

Orion Co., Ltd. merged with Orion Snack International Corp. on December 1, 2014, with the approval of Board of Directors on September 24, 2014. The Group applied the book value method to account for the merger, since the merger was a business combination of entities under a common control.

Details of the merger are as follows:

	Surviving Company	Merged Company
Name of company	Orion Co., Ltd.	Orion Snack International Corp.
Location	Baekbeomro 90-da gil 13, Yongsan-gu, Seoul, Korea	Baekbeomro 90-da gil 13, Yongsan- gu, Seoul, Korea
CEO	Won-Gi Kang	Jun-Sin Kim
Type of corporate	Listed corporation	Unlisted corporation
Ratio of merger	1	0

The following table summarizes the consideration paid for Orion Snack International Corp. and the book value of assets acquired and liabilities assumed:

<i>(In thousands of Korean won)</i>	Amount
Recognized amounts of identifiable assets acquired and liabilities assumed	
Current assets	₩ 48,572,902
Non-current assets	142,419,844
Total assets	190,992,746
Current liabilities	27,368,679
Non-current liabilities	2,861,441
Total liabilities	30,230,120
Total capitals	160,762,626

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41. Business Combination

The Group expects to enhance its competitiveness in the food manufacturing business by increasing its efficiency in management and maximizing synergy effect.

On August 17, 2015, the Group acquired 100% shares of STELLA WAY LIMITED. Goodwill of ₩11,723 million acquired in this business combination is a result of the synergy effect from the reduction of the manufacturing costs due to the business combination.

<i>(In thousands of Korean won)</i>	<u>Amount</u>
Consideration transferred	
Cash and cash equivalents	₩ 12,414,817
Consideration transferred total	<u>12,414,817</u>
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	8,892,713
Trade and other receivables	2,732,521
Inventories	1,624,258
Other current assets	20,379
Property plant and equipment	15,920,237
Intangible assets	268,830
Other non-current assets	2,127,328
Trade and other payables	(4,802,027)
Short-term borrowings	(25,324,727)
Other liabilities	<u>(767,845)</u>
Total fair value of identifiable net assets	691,667
Goodwill	11,723,150
Total	<u>₩ 12,414,817</u>

Because the amounts of identifiable assets and liabilities that are recognized on the consolidated financial statements are incomplete as of the end of the reporting period in which the combination occurred, the provisional amount may be adjusted during the succeeding period.

42. Related Party Transactions

Related parties as of December 31, 2015, are as follows, excluding subsidiaries:

<u>Relationship</u>	<u>Related Party</u>
Associates	Michigan Global Contents Investment Fund Michigan Global Contents Investment Fund #3 Michigan Global Contents Investment Fund #4 CJ Global Contents Venture Capital #11 Gemini Contents Investment Partnership #1 Daehan distributor Corp.

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Beijing Zhongguan Megabox Cinema Co., Ltd.
S.M.Contents Investment Fund No.5

Significant transactions which occurred in the normal course of business with related parties for the years ended December 31, 2015 and 2014, are summarized as follows:

(In thousands of Korean won)

Relationship	Related party	Transaction	2015	2014
Associates	Michigan Global Contents Investment Fund	Payment of investment deposits	₩ 4,913	₩ 7,692
		Settlement of film revenue(cost) ¹	17,351	12,616
		Receipt of investment deposits	3,100,000	3,200,000
	Michigan Global Contents Investment Fund #3	Payment of investment deposits	2,920,324	4,594,164
		Settlement of film revenue(cost)	883,480	307,255
		Receipt of investment deposits	900,000	1,400,000
	Michigan Global Contents Investment Fund #4	Payment of investment deposits	603,812	3,102,986
		Settlement of film revenue(cost)	77,093	(473,162)
		Payment of investment deposits	16,725	1,782,183
	CJ Global Contents Venture Capital #11	Settlement of film revenue(cost)	19,874	(32,598)
		Payment of investment deposits	23,145	421,427
		Settlement of film revenue(cost)	-	(216,392)
Gemini Contents Investment Partnership #1	Receipt of investment deposits	7,000,000	6,400,000	
	Payment of investment deposits	4,853,617	-	
	Settlement of film revenue(cost)	2,559,291	-	
S.M.Contents Investment Fund No.5	Purchase	-	23,416,880	
	Other expense	-	5,432	
	Purchase	17,872,540	21,859,246	
Other	LANGFANG IPAK Co., Ltd. ³	Purchase	17,872,540	21,859,246
	STELLA WAY LIMITED	Acquisition of equity	12,414,817	-

¹ The Group recognizes the settlement of revenue (expense) in film as cost of sales.

² Ipak Co., Ltd. was included as consolidated subsidiary on December 30, 2014, and the amount stated above is the result of transactions before Ipak Co., Ltd. was included in the Group.

³ LANGFANG IPAK Co., Ltd. was included as consolidated subsidiary on August 17, 2015, and the amount stated above is the result of transactions before LANGFANG IPAK Co., Ltd. was included in the Group

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Accounts payable balances with related parties as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>		2015		2014	
Relation-ship	Related party	Trade payables¹	Other payables	Trade payables¹	Other payables
	Michigan Global Contents Investment Fund	₩ 15,479	₩ 166,712	₩ 5,831	₩ 171,625
	Michigan Global Contents Investment Fund #3	844,975	1,684,389	135,165	1,504,713
Associates	Michigan Global Contents Investment Fund #4	359,765	549,560	73,263	253,372
	CJ Global Contents Venture Capital #11	-	19,874	59,262	36,599
	Gemini Contents Investment Partnership #1	-	165,276	11,629	188,422
	S.M.Contents Investment Fund No.5	2,833,547	8,546,383	-	6,400,000
Other	LANGFANG IPAK Co., Ltd.	-	-	3,188,873	-
		<u>₩ 4,053,766</u>	<u>₩ 11,132,194</u>	<u>₩ 3,474,023</u>	<u>₩ 8,554,731</u>

¹ The Group recognizes the profit share of film as trade payables.

Details of key management personnel compensation for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	2015	2014
Short-term employee benefits	₩ 2,174,873	₩ 1,333,441
Post-employment benefits	557,871	570,369
	<u>₩ 2,732,744</u>	<u>₩ 1,903,810</u>

Key management consists of registered executive officers and auditors who have the authority and responsibility in the planning, directing and control of the Group's operations.

43. Supplementalf Cash Flows Information

The principal non-cash transactions for years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	2015	2014
Reclassification from construction in progress to property, plant and equipment	₩ 103,064,755	₩ 210,378,440
Reclassification from prepayments to publication rights	74,700,501	45,959,825
Reclassification from property, plant and equipment to investment property	-	7,645,980
Reclassification from property, plant and equipment to assets held for sale	-	34,103,028

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Acquisition of property, plant and equipment	(6,055,727)	9,446,030
Disposal of intangible assets	-	279,200
Reclassification from long-term borrows to short-term borrowings	130,480,986	-
Transferred from construction in progress to the Korea Sports Promotion Ordinance	6,885,740	4,568,569

44. After the Reporting Period Events

A fire took place at the manufacturing plant in Icheon on January 2016, and inventories and tangible assets in the plant were damaged by fire. The Group investigated to assess the loss caused by fire and is discussing insurance claims with the insurance company.

Also, on January 21, 2016, an agreement for selling the shares of Crespo Co., Ltd., which was classified as non-current assets held-for-sale was concluded.

45. Reclassification of Prior Year Financial Statements

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2014, have been reclassified to conform to the December 31, 2015 financial statement presentation. These reclassifications have no effect on previously reported net income or net assets.