

Orion Corporation and Subsidiaries

Consolidated Financial Statements

December 31, 2016 and 2015

ORION Corporation and Subsidiaries
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December 31, 2016 and 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 at December 31, 2016 and 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the years 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 audits. 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 at December 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with the Korean IFRS.

March 23, 2017

Seoul, Korea

This report is effective as at March 23, 2017, 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, 2016 and 2015

<i>(In thousands of Korean won)</i>	Notes	2016		2015	
Assets					
Property, plant and equipment	9,27	₩	1,817,464,496	₩	1,757,468,057
Intangible assets	10		28,977,493		28,916,888
Goodwill	11,42		24,338,225		24,058,250
Investments property	12		39,670,509		21,938,242
Investments in associates and joint ventures	13,43		33,091,222		17,318,067
Available-for-sale financial assets	14,36		7,768,397		8,879,701
Long-term trade and other receivables	17,36,39		986,086		2,731,995
Long-term deposits	18,36,39		102,418,715		106,683,307
Deferred income tax assets	38		4,660,975		6,090,099
Other non-current assets	15		69,145,595		63,073,543
Non-current assets			2,128,521,713		2,037,158,149
Inventories	16		194,383,140		188,124,039
Available-for-sale financial assets	14,36		-		20,558
Trade and other receivables	17,36,39		191,469,568		171,346,031
Short-term deposits	18,36,39		55,676,639		257,868,922
Derivative assets	29		1,141,907		-
Other current assets	15		76,684,912		69,610,539
Cash and cash equivalents	18,36,39		239,537,403		252,770,602
Current assets			758,893,569		939,740,691
Non-current asset held for sale	8		21,449,182		21,939,953
Total assets		₩	2,908,864,464	₩	2,998,838,793

Orion Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2016 and 2015

<i>(In thousands of Korean won)</i>	Notes	2016	2015
Equity			
Capital stock	19	₩ 30,042,175	₩ 29,880,455
Capital surplus	19	66,913,633	66,891,050
Treasury shares	20	(32,477,479)	(32,423,770)
Other capital	21	(1,470,589)	(15,463,728)
Reserves	22	639,830,615	642,269,682
Retained earnings	23	896,684,094	687,557,126
Equity attributable to owners of the Parent		<u>1,599,522,449</u>	<u>1,378,710,815</u>
Non-controlling interest	5	<u>105,373,002</u>	<u>147,465,124</u>
Total equity		<u>1,704,895,451</u>	<u>1,526,175,939</u>
Liabilities			
Long-term debts	27,36,39	276,564,601	653,190,779
Long-term trade and other payables	26,36,39,43	1,122,658	1,199,995
Defined benefit liabilities	28	1,512,043	3,798,500
Deferred tax liabilities	38	51,516,337	71,329,545
Other non-current liabilities	30	865,511	873,458
Non-current liabilities		<u>331,581,150</u>	<u>730,392,277</u>
Current portion of long-term debts	27,36,39	376,429,539	176,578,756
Short-term borrowings	27,36,39	93,934,025	177,187,106
Trade and other payables	26,36,39	285,187,261	297,038,662
Derivative liabilities	29	162,671	-
Current income tax liabilities	38	26,571,329	23,732,591
Other current liabilities	30	90,056,874	60,731,756
Current liabilities		<u>872,341,699</u>	<u>735,268,871</u>
Liabilities related to non-current asset held for sale	8	<u>46,164</u>	<u>7,001,706</u>
Total liabilities		<u>1,203,969,013</u>	<u>1,472,662,854</u>
Total equity and liabilities		<u>₩ 2,908,864,464</u>	<u>₩ 2,998,838,793</u>

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

Orion Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2016 and 2015

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

	Notes	2016	2015
Continuing operations			
Revenue	31	₩ 2,386,269,282	₩ 2,382,377,301
Cost of sales	31,35,43	(1,235,596,513)	(1,267,654,384)
Gross profit		<u>1,150,672,769</u>	<u>1,114,722,917</u>
Selling expenses	32,35	(696,542,042)	(681,733,742)
General and administrative expenses	32,35	(127,884,166)	(133,668,928)
Operating profit		<u>326,246,561</u>	<u>299,320,247</u>
Net other expenses	33	(1,550,116)	(7,211,344)
Net finance costs	34,36	(18,912,956)	(39,985,672)
Share of profit (loss) of associates and joint ventures	13	1,646,716	(326,940)
Profit before income tax		<u>307,430,205</u>	<u>251,796,291</u>
Income tax expense	38	(74,783,058)	(75,253,096)
Profit from continuing operations		<u>232,647,147</u>	<u>176,543,195</u>
Discontinued operations			
Profit from discontinued operations, net of tax	7	16,402,497	564,402
Profit for the year		<u>249,049,644</u>	<u>177,107,597</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	14,36,38	14,960	110,894
Reclassification due to disposal of available-for-sale financial assets	14,36,38	(80,438)	-
Exchange differences on translating foreign operations		(31,222,283)	2,294,496
Share of other comprehensive income (loss) of associates and joint ventures	13	(303,897)	(633,074)
Income tax of other comprehensive income		16,691	21,758
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gain(loss)	28,38	1,845,894	(1,622,725)
Income tax of other comprehensive income		(381,515)	385,351
Other comprehensive income(loss) for the year, net of tax		<u>(30,110,588)</u>	<u>556,700</u>
Total comprehensive income for the year		<u>₩ 218,939,056</u>	<u>₩ 177,664,297</u>

Orion Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2016 and 2015

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

	Notes	2016	2015
Profit (loss) attributable to:			
Profit from continuing operations	₩	219,932,379	₩ 162,197,221
Profit from discontinued operations		16,734,597	121,005
Owners of the Parent		<u>236,666,976</u>	<u>162,318,226</u>
Profit from continuing operations		12,714,768	14,345,975
Profit(Loss) from discontinued operations		<u>(332,100)</u>	<u>443,396</u>
Non-controlling interests		<u>12,382,668</u>	<u>14,789,371</u>
Profit for the year		<u><u>249,049,644</u></u>	<u><u>177,107,597</u></u>
Total comprehensive income attributable to			
Owners of the Parent		209,316,654	162,242,164
Non-controlling interests		<u>9,622,402</u>	<u>15,422,133</u>
Total comprehensive income for the year	₩	<u><u>218,939,056</u></u>	₩ <u><u>177,664,297</u></u>
Earnings per share: (In won)			
	24		
Basic earnings per share from continuing operations		41,785	30,891
Basic earnings per share from discontinued operations		3,179	23
Diluted earnings per share from continuing operations		41,779	30,883
Diluted earnings per share from discontinued operations		3,179	23

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

Orion Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2016 and 2015

(In thousands of Korean won)

	Capital Stock	Capital surplus	Treasury shares	Other capital	Reserve	Retained earnings	Non-controlling interests	Total equity
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

Orion Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2016 and 2015

<i>(In thousands of Korean won)</i>		<u>Capital stock</u>		<u>Capital surplus</u>		<u>Treasury shares</u>		<u>Other capital</u>		<u>Reserve</u>		<u>Retained earnings</u>		<u>Non-controlling interests</u>		<u>Total equity</u>
Balance at January 1, 2016	₩	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
Comprehensive income:																
Profit for the year		-		-		-		-		-		236,666,976		12,382,668		249,049,644
Other comprehensive income:																
Change in fair value of available-for-sale financial assets		-		-		-		7,459		-		-		5,209		12,668
Reclassification due to disposal of available-for-sale financial assets		-		-		-		(61,455)		-		-		-		(61,455)
Exchange differences on translating foreign operations		-		-		-		(28,581,321)		-		-		(2,640,962)		(31,222,283)
Share of other comprehensive income of associates and joint ventures		-		-		-		(243,472)		-		-		(60,425)		(303,897)
Remeasurements of net defined benefit liability		-		-		-		-		-		1,528,467		(64,088)		1,464,379
Total comprehensive income for the year		-		-		-		(28,878,789)		-		238,195,443		9,622,402		218,939,056
Total transactions with owners of the Company, recognized directly in equity																
Dividends		-		-		-		-		-		(31,507,542)		(1,320,100)		(32,827,642)
Exercise of stock options		680		27,993		-		(9,617)		-		-		-		19,056
Increase(Decrease) of non-controlling interests		-		-		-		(268,747)		-		-		394,173		125,426
Other equity transactions (Mergers and acquisitions)		-		-		-		-		-		-		5,029,350		5,029,350
Other equity transactions (Business Combination)		161,040		(5,410)		(53,709)		43,150,292		-		-		(55,817,947)		(12,565,734)
Transfer to statutory reserve		-		-		-		-		11,560,933		(11,560,933)		-		-
Transfer from voluntary reserve		-		-		-		-		(14,000,000)		14,000,000		-		-
Total transactions with owners of the Company, recognized directly in equity		161,720		22,583		(53,709)		42,871,928		(2,439,067)		(29,068,475)		(51,714,524)		(40,219,544)
Balance at December 31, 2016	₩	30,042,175	₩	66,913,633	₩	(32,477,479)	₩	(1,470,589)	₩	639,830,615	₩	896,684,094	₩	105,373,002	₩	1,704,895,451

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

Orion Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

(In thousands of Korean won)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Profit from continuing operations	₩ 232,647,147	₩ 176,543,196
Profit from discontinued operations	16,402,497	564,402
Adjustments for:		
Retirement benefits	13,599,021	12,392,389
Losses due to disaster	16,468,110	-
Depreciation	108,041,531	104,154,616
Depreciation of investment property	237,743	223,854
Amortization	52,995,635	77,894,007
Impairment loss on property, plant and equipment	-	9,160,437
Impairment loss on intangible assets	320,478	2,297,897
Bad debt expenses	(687,001)	3,868,223
Loss on sale of trade receivables	1,461,040	2,658,389
Loss on sale of property, plant and equipment	2,879,853	5,498,168
Loss on sale of intangible assets	72,000	130,983
Loss on sale of investments	19,527	7,991
Impairment loss on available-for-sale financial assets	795,166	1,000,372
Loss on sale of available-for-sale financial assets	7,575	-
Impairment loss on investments in associates	-	774,597
Impairment loss on other receivables	124,646	132,774
Valuation loss on derivatives	150,876	-
Contribution to provisions for litigation	-	1,621,513
Foreign currency translation loss	22,841,602	20,524,597
Interest expense	25,326,229	29,888,969
Other expenses	70,490	603,451
Income tax expense	57,298,443	80,739,669
Share of loss (gain) of associates and joint ventures, net	(1,646,716)	326,940
Gain on sale of property, plant and equipment	(2,115,233)	(2,990,754)
Reversal of bad debt allowance	(839,730)	(2,253,953)
Gain on sale of available-for-sale financial assets	(43,818)	(28,300)
Foreign currency translation gain	(11,361,929)	(3,538,657)
Gain on valuation of derivatives	(1,136,427)	(3,302)
Interest income	(12,164,444)	(12,119,594)
Dividend income	(204)	(497)
Other income	(166,121)	(813,808)
Subtotal	<u>272,548,342</u>	<u>332,150,971</u>
Changes in:		
Trade receivables	(22,479,140)	(8,105,614)
Other receivables	(4,622,056)	(23,768,145)
Inventories	(11,416,463)	31,007,916

Orion Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

(In thousands of Korean won)

	2016	2015
Short-term deposits	₩ -	₩ 85,899,238
Other current assets	(57,221,712)	3,462,274
Other non-current assets	(6,749,202)	7,496,931
Trade payables	(4,985,846)	19,994,957
Other payables	5,507,106	(73,304,912)
Plan assets	(3,466,926)	(5,638,297)
Payment of defined benefit obligations	(10,277,673)	(10,901,530)
Other current liabilities	21,125,869	24,482,786
Other non-current liabilities	2,418,897	(1,780,129)
Subtotal	(92,167,146)	48,845,475
Interest received	7,207,971	11,642,848
Dividend received	204	497
Interest paid	(25,959,895)	(24,842,269)
Income tax paid	(70,052,717)	(62,826,587)
Net cash inflow from operating activities	340,626,403	482,078,533
Cash flows from investing activities		
Proceeds from sale of held-to-maturity financial assets	-	257,565
Proceeds from sale of available-for-sale financial assets	270,516	3,559,733
Proceeds from sale of investment in associates	252,288	-
Proceeds from sale of property, plant and equipment	3,252,537	6,878,713
Proceeds from sale of intangible assets	349,131	401,913
Decrease in rental deposits	1,435,531	5,524,366
Decrease in short-term loans	-	2,789,680
Decrease in short- and long-term deposits	214,002,314	568,897,559
Proceeds from disposal of non-current assets held for sales	-	2,714,575
Other cash inflows from investing activities	228,473	1,608,102
Acquisition of held-to-maturity financial assets	-	(51,045)
Acquisition of available-for-sale financial assets	(408,055)	(24,925)
Acquisition of property, plant and equipment	(237,118,693)	(134,956,818)
Acquisition of intangible assets	(3,503,749)	(5,440,813)
Increase in rental deposits	(249,900)	(5,825,894)
Increase in short-term loans	-	(4,989,361)
Increase in short- and long-term deposits	-	(737,756,285)
Decrease in cash due to merger	(2,099,210)	(3,522,104)
Acquisition of investments in associates and joint ventures	(14,682,624)	-
Other cash outflows from investing activities	(4,706,496)	(2,230,020)
Cash outflows due to liquidation of subsidiaries	(11,419)	-
Acquisition of non-current assets held for sales	(10,720)	-
Net cash outflow from investing activities	(43,000,076)	(302,165,059)

Orion Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Cash flows from financing activities		
Proceeds from exercise of stock options	19,057	193,723
Increase in security deposits	1,209,000	4,805,317
Increase in short-term borrowings	492,558,799	239,198,263
Increase in long-term borrowings	-	101,565,897
Issuance of bond	-	69,825,600
Issuance of ordinary shares of subsidiaries	3,758,772	-
Proceeds from disposal of non-current assets held for sales	7,136,170	-
Decrease in security deposits	(797,768)	(4,537,248)
Redemption of short-term borrowings	(623,375,170)	(353,127,951)
Redemption of current portion of long-term borrowings	(9,337,570)	(76,097,560)
Redemption of current portion of bonds	(80,000,000)	(40,000,000)
Redemption of long-term borrowings	(44,742,078)	(31,941,838)
Redemption of borrowings directly related to non-current assets held for sales	(7,000,000)	-
Stock issue cost due to business combination	(5,410)	-
Acquisition of treasury shares due to business combination	(53,709)	-
Dividends paid	(32,827,642)	(36,324,216)
Acquisition of additional interests in subsidiaries and others	(14,838,724)	(17,293,324)
Other cash outflows from financing activities	(639,112)	(138,191)
Net cash outflow from financing activities	<u>(308,935,385)</u>	<u>(143,871,528)</u>
Effect of exchange rate fluctuations on cash held, and others	<u>(2,418,075)</u>	<u>1,339,673</u>
Net increase(decrease) in cash and cash equivalents	(13,727,133)	37,381,619
Cash and cash equivalents at the beginning of year	<u>253,855,242</u>	<u>216,473,623</u>
Cash and cash equivalents at the end of year	240,128,109	253,855,242
Cash and cash equivalents of disposal group classified as held for sale	<u>(590,706)</u>	<u>(1,084,640)</u>
Cash and cash equivalents at the end of the year on the consolidated statement of financial position	<u>₩ 239,537,403</u>	<u>₩ 252,770,602</u>

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

Orion Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

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 at December 31, 2016, 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 at December 31, 2016, the Company has capital stock of ₩30,042 million, and its major stockholders are Lee Hwa Kyoung (14.57%) and five related individuals (13.90%).

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 at December 31, 2016 and 2015, are as follows:

Name	Location	Immediate controlling party	2016 Percentage of ownership		
			The Company	Subsidiary	Total
Orion Corporation	Korea	The Ultimate Parent Company	-	-	-
Orion Reports Corp.	Korea	Orion Corporation	100.00%	-	100.0%
RION Asset Development Co, Ltd.	Korea	Orion Corporation	100.00%	-	100.0%
SHOWBOX Corp.	Korea	Orion Corporation	57.5%	-	57.5%
Sports Toto Co., Ltd. ¹	Korea	Orion Corporation	-	-	-
Mega Mark Co., Ltd.	Korea	Orion Corporation	100.00%	-	100.0%
PAN Orion Corp. Limited.	Hong Kong	Orion Corporation	95.15%	-	95.15%
Orion International Euro LLC.	Russia	Orion Corporation	100.00%	-	100.0%
Orion Food VINA Co., Ltd.	Vietnam	Orion Corporation	100.00%	-	100.0%
Supreme Star Investment Limited.	Hong Kong	Orion Corporation	62.66%	11.23%	73.89%
PT.Orion Food Indonesia	Indonesia	Orion Corporation	83.33%	16.67%	100.0%
HighLand D&C Co., Ltd.	Korea	Orion Corporation	100.00%	-	100.0%
GEMINI VENTURE INVESTMENT ASSOCIATION NO.8 ²	Korea	SHOWBOX Corp.	-	-	-
Supreme Star Holdings Limited.	Hong Kong	SHOWBOX Corp.	-	100.00%	100.0%
SHOWBOX Inc.	China	SHOWBOX Corp.	-	100.00%	100.0%
MisoIn Co., Ltd.	Korea	Mega Mark Co., Ltd.	-	100.00%	100.0%
Sports Toto On-line Co., Ltd. ³	Korea	Sports Toto Co., Ltd.	-	-	-
Crespo Co., Ltd. ⁴	Korea	Sports Toto Co., Ltd.	98.94%	-	98.94%
Orion Food Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food (Shanghai) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food Guangzhou Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food (Shen Yang) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion (Bei Tun) Agro Processing Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Argo BeiTun Co. Ltd	China	Orion (Bei Tun) Agro Processing Co., Ltd.	-	100.00%	100.0%

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Orion Consulting Co., Ltd.	China	Supreme Star Investment Limited.	-	100.00%	100.0%
Beijing Supreme Star Consulting Co., Ltd. ⁵	China	Orion Consulting Co., Ltd.	-	100.00%	100.0%
Orion Argo Co., Ltd.	China	Orion Food Co., Ltd.	-	100.00%	100.0%
Orion Argo DuoLun Co., Ltd.	China	Orion Food Co., Ltd	-	100.00%	100.0%
Prime Link International Investment Limited. ⁶	Hong Kong	Orion Corporation	-	-	-
Beijing media tech Co., Ltd.	China	Orion Corporation	100.00%	-	100.0%
Beijing mega media Co., Ltd	China	Orion Corporation	100.00%	-	100.0%
STELLA WAY LIMITED	Hong Kong	Orion Food Co., Ltd	-	100.00%	100.0%
LANGFANG IPAK Co., Ltd.	China	STELLA WAY LIMITED	-	100.00%	100.0%
Orion Beverages Corp	Korea	Orion Corporation	100.00%	-	100.0%
JeJu Yongam Soo Corp ⁷	Korea	Orion Corporation	60.00%	-	60.00%

2015
Percentage of ownership

Name	Location	Immediate controlling party	The Company	Subsidiary	Total
Orion Corporation	Korea	The Ultimate Parent Company	-	-	-
Orion Reports Corp.	Korea	Orion Corporation	100.00%	-	100.0%
RION Asset Development Co, Ltd.	Korea	Orion Corporation	100.00%	-	100.0%
SHOWBOX Corp.	Korea	Orion Corporation	57.5%	-	57.5%
Sports Toto Co., Ltd. ¹	Korea	Orion Corporation	77.57%	-	77.57%
Mega Mark Co., Ltd.	Korea	Orion Corporation	100.00%	-	100.0%
PAN Orion Corp. Limited.	Hong Kong	Orion Corporation	95.15%	-	95.15%
Orion International Euro LLC.	Russia	Orion Corporation	100.00%	-	100.0%
Orion Food VINA Co., Ltd.	Vietnam	Orion Corporation	100.00%	-	100.0%
Supreme Star Investment Limited.	Hong Kong	Orion Corporation	62.66%	11.23%	73.89%
PT.Orion Food Indonesia	Indonesia	Orion Corporation	83.33%	16.67%	100.0%
HighLand D&C Co., Ltd.	Korea	Orion Corporation	100.00%	-	100.0%
GEMINI VENTURE INVESTMENT ASSOCIATION NO.8 ²	Korea	SHOWBOX Corp.	-	92.86%	92.86%
Supreme Star Holdings Limited.	Hong Kong	SHOWBOX Corp.	-	100.00%	100.0%
SHOWBOX Inc.	China	SHOWBOX Corp.	-	100.00%	100.0%
Misoin Co., Ltd.	Korea	Mega Mark Co., Ltd.	-	100.00%	100.0%
Sports Toto On-line Co., Ltd. ³	Korea	Sports Toto Co., Ltd.	30.00%	70.00%	100.0%
Crespo Co., Ltd. ⁴	Korea	Sports Toto Co., Ltd.	-	100.00%	100.0%
Orion Food Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food (Shanghai) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food Guangzhou Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food (Shen Yang) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion (Bei Tun) Agro Processing Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%

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Orion Argo BeiTun Co. Ltd	China	Orion (Bei Tun) Agro Processing Co., Ltd.	-	100.00%	100.0%
Orion Consulting Co., Ltd.	China	Supreme Star Investment Limited.	-	100.00%	100.0%
Beijing Supreme Star Consulting Co., Ltd. ⁵	China	Orion Consulting Co., Ltd.	-	100.00%	100.0%
Orion Argo Co., Ltd.	China	Orion Food Co., Ltd.	-	100.00%	100.0%
Orion Argo DuoLun Co., Ltd.	China	Orion Food Co., Ltd	-	100.00%	100.0%
Prime Link International Investment Limited. ⁶	Hong Kong	Orion Corporation	100.00%	-	100.0%
Beijing media tech Co., Ltd.	China	Orion Corporation	100.00%	-	100.0%
Beijing mega media Co., Ltd	China	Orion Corporation	100.00%	-	100.0%
STELLA WAY LIMITED	Hong Kong	Orion Food Co., Ltd	-	100.00%	100.0%
LANGFANG IPAK Co., Ltd.	China	STELLA WAY LIMITED	-	100.00%	100.0%
Orion Beverages Corp	Korea	Orion Corporation	100.00%	-	100.0%
JeJu Yongam Soo Corp ⁷	Korea	Orion Corporation	-	-	-

¹ In 2016, Sports Toto Co., Ltd. merged with Orion Corporation (Note 41).

² In 2016, GEMINI VENTURE INVESTMENT ASSOCIATION NO.8 went through liquidation.

³ In 2016, Sports Toto On-line Co., Ltd. merged with Orion Corporation (Note 41).

⁴ In 2016, the Group sold its 1.06% shares of Crespo Co., Ltd.

⁵ In 2016, Beijing Supreme Star Consulting Co., Ltd., was sold to Orion Consulting Co., Ltd., by Supreme Star Holdings Limited.

⁶ In 2016, Prime Link International Investment Limited. was liquidated.

⁷ In 2016, the Group obtained control of JeJu Yongam Soo Corp (Note 42).

The reporting dates of the consolidated financial statements of the Controlling Company and the subsidiaries are December 31, 2016 and December 31, 2015, respectively.

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

(In millions of Korean won)

Name	Main business	2016					
		Total assets	Total liabilities	Total equity	Sales	Net income (loss)	Comprehensive income (loss)
Orion Corporation	Manufacturing and selling confectioneries	₩ 1,417,050	₩ 484,373	₩ 932,677	₩ 679,380	₩ 50,954	₩ 52,644
Orion Reports Corp.	Managing the basketball team	865	34	831	-	(47)	(47)
RION Asset Development Co., Ltd.	Real estate	7,969	43,476	(35,507)	-	(2,247)	(2,247)
SHOWBOX Corp.	Movie, broadcasting, and performance	195,169	69,574	125,595	125,932	12,892	12,753
Sports Toto Co., Ltd. ¹	Sports/Entertainment	-	-	-	581	(1,344)	(1,344)
Mega Mark Co., Ltd.	Construction	27,726	689	27,037	-	(1,370)	(1,370)
PAN ORION Corp. Limited	Holding company	308,682	206,328	102,354	-	(4,416)	(4,416)
Orion International Euro LLC	Manufacturing and selling confectioneries	73,841	23,841	50,000	61,226	9,683	9,683
Orion Food VINA Co., Ltd.	Manufacturing and selling confectioneries	175,595	43,522	132,073	204,549	25,211	25,211
Supreme Star Investment Limited	Investment Holding Company	26,121	-	26,121	-	1,715	1,715
PT. Orion Food Indonesia	Selling confectioneries	284	24	260	955	(49)	(49)
HighLand D&C Co., Ltd.	Developing and Selling buildings for residence	6,692	32,989	(26,297)	-	(1,735)	(1,735)
GEMINI VENTURE INVESTMENT ASSOCIATION NO.8 ²	Investing in movie industry	-	-	-	-	(8)	(8)
Supreme Star Holdings Limited	Holding company	3,617	-	3,617	-	(46)	(46)
SHOWBOX Inc.	Planning and developing movie	1,651	1,040	611	-	(190)	(190)
Misoin Co., Ltd.	Developing and Supplying buildings for residence	10,335	63,924	(53,589)	-	(2,828)	(2,828)
Sports Toto Online Co., Ltd. ³	Processing the information and operating computer system	-	-	-	-	308	308

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Crespo Co., Ltd.	Sports/Entertainment	19,604	7,065	12,539	-	(566)	(566)
Orion Food Co., Ltd.	Manufacturing and selling confectionerie	817,562	268,278	549,284	1,346,041	61,804	61,804
Orion Food(Shanghai) Co., Ltd.	Manufacturing confectioneries	261,304	49,544	211,760	219,941	36,564	36,564
Orion Food Guangzhou Co., Ltd.	Manufacturing confectioneries	246,288	120,058	126,230	154,080	25,594	25,594
Orion Food (Shen Yang) Co., Ltd.	Manufacturing confectioneries	201,300	109,576	91,724	94,213	13,384	13,384
Orion(Bei Tun) Agro Processing Co., Ltd.	Processing the agricultural products	28,976	8,975	20,001	6,415	(779)	(779)
Orion Agro BeiTun Co. Ltd	Harvesting and selling the agricultural products	1,274	2,403	(1,129)	1,727	(2,414)	(2,414)
Orion Consulting Co., Ltd.	Consulting	2,334	822	1,512	740	130	130
Beijing Supreme Star Consulting Co., Ltd.	Advising on investments	914	4	910	-	(9)	(9)
Orion Argo Co., Ltd.	Manufacturing food and beverages	15,206	932	14,274	8,601	1,309	1,309
Orion Agro DuoLun Co., Ltd.	Processing the agricultural products	2,442	298	2,144	3,585	1,074	1,074
Prime Link International Investment Limited ⁴	Advising on investments	-	-	-	-	(1)	(1)
Beijing media tech Co., Ltd	Developing programs	-	13	(13)	-	9	9
Beijing mega media Co., Ltd	Consulting for making movie	513	-	513	-	(12)	(12)
STELLA WAY LIMITED	Advising on investment	29,260	128	29,132	-	(944)	(944)
LANGFANG IPAK Co., Ltd.	Manufacturing pulp and paper	24,840	4,585	20,255	27,995	1,906	1,906
Orion Beverages Corp	Manufacturing beverages	208	-	208	-	1	1
JeJu Yongam Soo Corp	Beverage Business	9,903	-	9,903	-	(88)	(88)
Total		₩ 3,917,525	₩ 1,542,495	₩ 2,375,030	₩ 2,935,961	₩ 223,445	₩ 224,996

¹ In 2016 Sports Toto Co., Ltd. was merged into Orion corporation and the amount stated above presents financial information before the merger.

² In 2016, GEMINI VENTURE INVESTMENT ASSOCIATION NO.8 went through liquidation and the amount stated above presents financial information before liquidation.

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³ In 2016 Sports Toto Online Co., Ltd. was merged into Orion corporation and the amount stated above presents financial information before the merger..

⁴ In 2016, Prime Link International Investment Limited went through liquidation and the amount stated above presents financial information before liquidation.

Above summarized financial information is based on the separate financial statements

(In millions of Korean won)

Name	Main business	2015					
		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 LLC	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 Holding Company	24,182	29	24,153	-	1,722	1,722
PT. Orion Food Indonesia	Selling confectioneries	703	409	294	1,751	(859)	(859)
HighLand D&C Co., Ltd.	Developing and Selling buildings for residence	6,694	31,256	(24,562)	-	(8,186)	(8,186)
GEMINI VENTURE INVESTMENT ASSOCIATION NO.8	Investing in movie industry	168	-	168	112	98	98
Supreme Star Holdings Limited	Holding company	3,636	14	3,622	-	(1,117)	(1,117)

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SHOWBOX Inc.	Planning and developing movie	2,329	1,501	828	508	(251)	(251)
Misojin Co., Ltd.	Developing and Supplying buildings for residence	10,339	61,099	(50,760)	-	(14,855)	(14,855)
Sports Toto Online Co., Ltd.	Processing the information and operating computer system	57,517	56	57,461	7,061	2,863	2,863
Crespo Co., Ltd.	Sports/Entertainment	20,106	7,002	13,104	-	(9,377)	(9,377)
Orion Food Co., Ltd.	Manufacturing and selling confectionerie	781,056	272,643	508,413	1,332,922	56,267	56,267
Orion Food(Shanghai) Co., Ltd.	Manufacturing confectioneries	224,496	41,679	182,817	212,736	33,101	33,101
Orion Food Guangzhou Co., Ltd.	Manufacturing confectioneries	249,504	144,459	105,045	139,468	18,277	18,277
Orion Snack Co., Ltd. ²	Manufacturing confectioneries	-	-	-	121,140	20,005	20,005
Orion Food (Shen Yang) Co., Ltd.	Manufacturing confectioneries	178,856	97,129	81,727	88,096	10,653	10,653
Orion(Bei Tun) Agro Processing Co., Ltd.	Processing the agricultural products	28,975	7,326	21,649	745	(445)	(445)
Orion Agro BeiTun Co. Ltd	Harvesting and selling the agricultural products	1,365	42	1,323	1,194	(481)	(481)
Orion Consulting Co., Ltd.	Consulting	1,480	39	1,441	809	142	142
Beijing Supreme Star Consulting Co., Ltd.	Advising on investments	954	4	950	-	6	6
Orion Argo Co., Ltd.	Manufacturing food and beverages	14,517	997	13,520	8,146	722	722
Orion Agro DuoLun Co., Ltd.	Processing the agricultural products	2,541	1,419	1,122	3,815	579	579
Prime Link International Investment Limited	Advising on investments	875	2	873	-	(10)	(10)
Beijing media tech Co., Ltd	Developing programs	4	27	(23)	-	(7)	(7)
Beijing mega media Co., Ltd	Consulting for making movie	558	11	547	-	(6)	(6)
STELLA WAY LIMITED	Advising on investment	31,583	23,589	7,994	-	(563)	(563)
LANGFANG IPAK Co., Ltd.	Manufacturing pulp and paper	25,226	6,092	19,134	10,582	2,791	2,791
Orion Beverages Corp	Manufacturing beverages	207	-	207	-	1	1
Ipak Co., Ltd. ³	Manufacturing pulp and paper	-	-	-	11,672	(3,888)	(3,888)
Total		<u>₩ 4,090,894</u>	<u>₩ 1,717,248</u>	<u>₩ 2,373,646</u>	<u>₩ 3,192,733</u>	<u>₩ 98,300</u>	<u>₩ 97,235</u>

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¹ Orion Food Rus Co., LLC and ORION FOOD NOVO LLC were merged into Orion International Euro LLC and the amount stated above presents financial information before the merger.

² Orion Snack Co., Ltd. merged with Orion Food Co., Ltd and the amount stated above presents financial information before the merger.

³ Ipak Co., Ltd. merged with Orion Corporation and the amount stated above presents financial information before the merger.

Above summarized financial information is based on the separate financial statements

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

<u>Subsidiary</u>	<u>Location</u>	<u>Remark</u>
JeJu Yongam Soo Corp	Korea	The Ultimate Parent Company's acquisition of ownership

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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 16, 2017, which will be submitted for approval to the shareholders' meeting to be held on March 31, 2017.

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.

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

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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 30 : Estimation of provision for warranty
- Note 38 : Deferred tax asset(liability)
- Note 40 : 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 or 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
(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:

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- Note 36 : Financial Instruments by categories and Financial Risk Management

3. Changes in accounting policies

(a) *New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2016. The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

- *Disclosure Initiative* – Amendments to Korean IFRS 1001 *Presentation of Financial Statements*

Korean IFRS 1001 *Presentation of Financial Statements* clarifies that materiality applies to the exclusion or inclusion or aggregation of the disclosures in the notes. And also, clarifies that the share of OCI arising from equity-accounted should be presented in total for items which will and will not be reclassified to profit or loss. Additional amendments are made in relation to a particular order of the notes and other.

- *Agriculture: Bearer Plants* – Amendments to Korean IFRS 1016 *Property, Plant and Equipment*, and Korean IFRS 1041 *Agriculture*

Korean IFRS 1041 *Agriculture* now distinguishes between bearer plants and other biological asset. Bearer plants must be accounted for as Korean IFRS 1016 *Property, Plant and Equipment*.

- *Clarification of Acceptable methods of Depreciation and Amortization* – Amendments to Korean IFRS 1016 *Property, Plant and Equipment*, and Korean IFRS 1038 *Intangible assets*

Amendments to Korean IFRS 1016 *Property, Plant and Equipment* clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment. Korean IFRS 1038 *Intangible assets* now includes a rebuttable presumption that the amortization of intangible assets based on revenue is inappropriate. This presumption can be overcome if either; the intangible asset is expressed as a measure of revenue, or it can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

- *Investment entities: Applying the Consolidation Exception* – Amendments to 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*

- Amendments made to Korean IFRS 1110 *Consolidated Financial Statements* clarify that the exception from preparing consolidated financial statement is also available to intermediate parent entities which are subsidiaries of investment entities. If an investment entity has a subsidiary that is an investment entity and whose activities are providing services that related to the investment entity's investment activities, the investment entity measures the subsidiary at fair value through profit or loss.
- Amendments made to Korean IFRS 1028 *Investments in Associates and Joint Ventures* clarify that entities which are not investment entities but have an interest in an associate which is an investment entity have a policy choice when applying the equity method of accounting.
- Amendments made to Korean IFRS 1112 *Disclosures of Interests in Other Entities* clarify that an investment

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entity which does not prepare consolidated financial statements should present disclosures relating to investment entities required by Korean IFRS 1112.

- *Accounting for Acquisitions of Interests in Joint Operations – Amendments to Korean IFRS 1111 Joint Arrangements*

Amendments to Korean IFRS 1111 *Joint Arrangements* clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. An investor requires to apply the principles of business combination accounting when the investor acquires an interest in a joint operation that constitutes a business.

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

Annual Improvements to Korean IFRS 2012-2014 *Cycle* consist of the following amendments. The application does not have a material impact on the consolidated financial statements.

- Korean IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operation* – clarifies when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not have to be accounted for as such.
- Korean IFRS 1107 *Financial Instruments: Disclosures* – clarifies the specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement', and also clarifies that the additional disclosures relating to the amendments in 2012 '*Offsetting of Financial Assets and Financial Liabilities*' only need to be included in interim reports if required by Korean IFRS 1034 *Interim Financial Reporting*.
- Korean IFRS 1019 *Employee Benefits* clarifies that when determining the discount rate for post-employment benefit obligations, it is the currency in which the liabilities are denominated that is important, and not the country where they arise.
- Korean IFRS 1034 *Interim Financial Reporting* clarifies what is meant by the reference in the standard to '*information disclosed elsewhere in the interim financial report*'; and also amended requirements for a cross-reference from the interim financial statements to the location of that information.

- *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 accounting information disclosure requirement for construction contracts. The accounting estimates and potential risk information of the construction contracts should be disclosed in detail by either individual construction or operating segment.

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

Certain new accounting standards and interpretations that have been published that are not mandatory for December 31, 2016 reporting periods and have not been early adopted by the Group are set out below.

- *Amendments to Korean IFRS 1007 Statement of Cash Flows*

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Amendments to Korean IFRS 1007 *Statement of Cash flows* requires to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. The Group will apply this amendment for annual reporting periods beginning on or after January 1, 2017 with early application permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1012 *Income Tax*

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice. The Group will apply the amendments for annual periods beginning on or after January 1, 2017 with early application permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarifies accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. And also, clarifies that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The Group will apply the amendments for annual periods beginning on or after January 1, 2018 with early application permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 are effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Group will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Group's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

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With the implementation of Korean IFRS 1109, the Group neither prepared for internal management process nor began to adjust accounting system for financial instruments reporting. Also, the Group did not analyze the financial effects of applying the standard. However, the following areas are likely to be affected in general.

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Group's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

<i>Business model for the contractual cash flows characteristics</i>	Solely represent payments of principal and interest	All other
<i>Hold the financial asset for the collection of the contractual cash flows</i>	Measured at amortized cost ¹	
<i>Hold the financial asset for the collection of the contractual cash flows and trading</i>	Recognized at fair value through other comprehensive income ¹	Recognized at fair value through profit or loss ²
<i>Hold for trading</i>	Recognized at fair value through profit or loss	

¹ A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

² Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result profit or loss from fair value movements may decrease

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At the end of the reporting date, the details of financial assets and liabilities of the Group that can be affected by the new standard and interpretation regarding the classification and measurement for financial instruments are as follows:

<i>(In thousands of Korean won)</i>	Book Value	Fair value
Financial assets		
Loans and receivables	₩ 590,088,412	₩ 590,088,412
Available-for-sale financial assets	2,066	2,066
Available-for-sale financial assets (Unlisted)	7,766,331	-
Financial assets at fair value through profit or loss	1,141,907	1,141,907
	<u>₩ 598,998,716</u>	<u>591,232,385</u>
Financial liabilities		
Financial liabilities at fair value through profit or loss	₩ 162,671	₩ 162,671
Financial liabilities measured at amortized cost	1,033,238,083	1,033,459,099
	<u>₩ 1,033,400,754</u>	<u>₩ 1,033,621,770</u>

(c) Impairment: Financial Assets and Contract Assets

Korean IFRS 1109 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model under Korean IFRS 1039 that impaired assets if there is an objective evidence and applies to:

- Financial assets measured at amortized cost
- Debt investments measured at fair value through other comprehensive income, and
- Certain loan commitments and financial guaranteed contracts.
- Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Group will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

Stage¹	Loss allowance
1	No significant increase in credit risk after initial recognition ²
2	Significant increase in credit risk after initial recognition
3	Credit-impaired
	12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)
	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)

¹ A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115 *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Group can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

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² If the financial instrument has low credit risk at the end of the reporting period, the Group may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

As at December 31, 2016, the Group owns debt investment carries at amortized cost of ₩ 590,088,412 thousand and the Group recognized loss allowance of ₩ 26,970,999 thousand for these assets.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group will apply Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018, and earlier application is permitted. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers*. The Group must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will apply the standard retrospectively to prior reporting period presented in accordance with Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* and apply simplified transition method with no restatement for completed contracts and other as at January 1, 2017.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

As at December 31, 2016, the Group neither prepared for internal management process nor began to adjust accounting system in relation to implementation of Korean IFRS 1115. Also, the Group did not analyze the financial effects of applying the standard.

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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

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

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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 and joint ventures. 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 in other capital.

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.

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(b) Financial assets carried at cost

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:

Asset	Useful lives (years)
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.

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(a) Research and development

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 30 ~ 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

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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 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

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recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(b) Other financial liabilities

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.

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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.

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.

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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.

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.

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(d) 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.

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

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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.

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.

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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	
		2016	2015
SHOWBOX Corp.	Korea	42.50%	42.50%
Sports Toto Co., Ltd. ¹	Korea	-	22.43%

¹ In 2016, Sports Toto Co., Ltd. merged with Orion Corporation.

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.	₩ 5,681,834	₩ 53,944,137	₩ 1,320,100
Sports Toto Co., Ltd. ¹	(267,778)	-	-

¹ The amount is net loss of Sports Toto Co., Ltd occurred until the date of merger .

Financial position and financial performance:

(In thousands of Korean won)

Subsidiary	SHOWBOX Corp.	Sports Toto Co., Ltd.
Current assets	₩ 153,285,745	₩ -
Non-current assets	43,904,942	-
Current liabilities	70,342,620	-
Non-current liabilities	624,976	-
Revenue	125,931,981	580,673
Profit(loss)	13,371,305	(1,343,878)
Comprehensive income(expense)	13,249,550	(1,343,878)

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Cash flow:

(In thousands of Korean won)

Subsidiary		SHOWBOX Corp.		Sports Toto Co., Ltd.
Cash flows from operating activities	₩	(5,955,781)	₩	1,695,550
Cash flows from investing activities		54,472,045		12,456,200
Cash flows from financing activities		(3,120,000)		(14,922,834)
Effect of exchange rate fluctuations on cash held		(18,216)		-
Net increase (decrease) in cash and cash equivalents		45,378,048		(771,084)

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

6. Operating Segments

The Group has four 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
Entertainment	Film investments and distribution
Construction	Construction and sale of real estate
Others	Sports club operation, Sports Complex Development Project, Sports Lottery and related business Information services, Investment and Trading business

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, 2016 and 2015, are as follows:

(In thousands of Korean won)

	2016					Consolidated Total
	Confectioneries	Entertainment	Construction	Others	Elimination	
Total segment sales	₩ 2,807,470,192	₩ 125,931,981	₩ -	₩ 2,557,822	₩ (549,690,713)	₩ 2,386,269,282
Less: Inter segment sales	<u>(549,038,981)</u>	<u>(71,059)</u>	<u>-</u>	<u>(476,773)</u>	<u>549,586,813</u>	<u>-</u>
External sales	<u>2,258,431,211</u>	<u>125,860,922</u>	<u>-</u>	<u>2,081,049</u>	<u>(103,900)</u>	<u>2,386,269,282</u>
Depreciation	110,276,711	50,666,868	8,738	300,918	(499,269)	160,753,966
Profit(loss) for the year	310,172,316	15,247,509	(1,523,429)	(1,510,307)	3,860,472	326,246,561

(In thousands of Korean won)

	2015					Consolidated Total
	Confectioneries	Entertainment	Construction	Others	Elimination	
Total segment sales	₩ 2,899,803,437	₩ 142,003,138	₩ -	₩ 150,841,902	₩ (810,271,176)	₩ 2,382,377,301
Less: Inter segment sales	<u>(661,233,810)</u>	<u>(88,998)</u>	<u>-</u>	<u>(12,308,955)</u>	<u>673,631,763</u>	<u>-</u>
External sales	<u>2,238,569,627</u>	<u>141,914,140</u>	<u>-</u>	<u>138,532,947</u>	<u>(136,639,413)</u>	<u>2,382,377,301</u>
Depreciation	106,269,502	75,318,639	11,152	601,770	(677,340)	181,523,723
Profit(loss) for the year	314,029,097	14,003,395	(29,999,557)	14,246,586	(12,959,273)	299,320,248

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Segment assets and liabilities as at December 31, 2016 and 2015, as follows:

*(In thousands
of Korean won)*

	2016					
	<u>Confectioneries</u>	<u>Entertainment</u>	<u>Construction</u>	<u>Others</u>	<u>Elimination</u>	<u>Consolidated</u>
Total assets	₩ 3,614,014,155	₩ 223,311,545	₩ 52,721,916	₩ 24,231,361	₩ (1,005,414,513)	₩ 2,908,864,464
Total liabilities	1,322,863,544	70,967,596	141,077,945	7,939,439	(338,879,511)	1,203,969,013
Investments in associates and joint ventures	14,552,917	18,538,305	-	-	-	33,091,222
Increase of non current assets	168,700,210	2,403,663	(8,737)	(75,611,760)	3,445,996	98,937,592

*(In thousands
of Korean won)*

	2015					
	<u>Confectioneries</u>	<u>Entertainment</u>	<u>Construction</u>	<u>Others</u>	<u>Elimination</u>	<u>Consolidated</u>
Total assets	₩ 3,489,743,491	₩ 239,960,070	₩ 54,115,451	₩ 301,707,168	₩ (1,086,687,388)	₩ 2,998,838,792
Total liabilities	1,459,907,083	99,702,144	134,290,906	22,634,903	(243,872,182)	1,472,662,854
Investments in associates and joint ventures	-	17,318,067	-	-	-	17,318,067
Increase of non current assets	41,167,084	(1,174,890)	(27,809)	(13,966,812)	15,217,968	44,120,069

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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, 2016 and 2015, is as follows:

(In thousands of Korean won)

		2016						
		<u>Domestic</u>	<u>China</u>	<u>Others</u>	<u>Total</u>			
Regional sales	₩	781,929,648	₩	1,346,671,127	₩	257,668,507	₩	2,386,269,282

(In thousands of Korean won)

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

Information on regional non-current assets for the years ended December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

		<u>2016</u>		<u>2015</u>	
Domestic	₩	852,565,947	₩	811,458,872	
China		1,013,416,854		967,612,595	
Other		146,704,738		133,826,738	
Total	₩	<u>2,012,687,539</u>	₩	<u>1,912,898,205</u>	

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, 2016 and 2015, are as follows:

(In thousands of Korean won)

		<u>2016</u>		<u>2015</u>	
Finished goods	₩	2,245,862,839	₩	2,229,857,612	
Merchandise		6,307,682		2,157,811	
Others		134,098,761		150,361,878	
Total	₩	<u>2,386,269,282</u>	₩	<u>2,382,377,301</u>	

There is no main customer who contributes more than 10% of the Group's revenues for the years ended December 31, 2016 and 2015.

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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 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.

Results of discontinued operations:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Results of discontinued operation		
Revenue	₩ -	₩ 136,639,413
Expenses	<u>(3,372,978)</u>	<u>(123,245,890)</u>
Results from operating activities	(3,372,978)	13,393,523
Non-operating income (expense)	2,290,859	(7,342,548)
Income tax	<u>17,484,616</u>	<u>(5,486,573)</u>
Results from operating activities, net of tax	<u>16,402,497</u>	<u>564,402</u>
Profit from discontinued operations	₩ <u>16,402,497</u>	₩ <u>564,402</u>

Cash flow used in discontinued operations:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Cash flow used in discontinued operations		
Net cash from operating activities	₩ 2,276,805	₩ 1,555,769
Net cash from investing activities	11,295,080	(13,097,436)
Net cash from financing activities	<u>(14,922,834)</u>	<u>(4,707,915)</u>
Net cash from discontinued operation	(1,350,949)	(16,249,582)
Cash and cash equivalents at the beginning of year	<u>1,941,655</u>	<u>18,191,237</u>
Cash and cash equivalents at the end of year	₩ <u>590,706</u>	₩ <u>1,941,655</u>

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

In 2014, as the Group decided to dispose of Crespo Co., Ltd., which was in the sector of Sports and Leisure the Group classified its assets and liabilities into assets and liabilities held for sale

Non-current assets and Liabilities held for sale as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Current assets	₩ 739,773	₩ 891,264
Non-current assets	<u>17,177,689</u>	<u>17,527,689</u>
Book amount on assets classified as held for sale	₩ <u>17,917,462</u>	₩ <u>18,418,953</u>
Current liabilities	₩ <u>46,164</u>	₩ <u>7,001,706</u>
Book amount on liabilities classified as held for sale	₩ <u>46,164</u>	₩ <u>7,001,706</u>

The Group decided to sell some parts of land and buildings of the sector of Sports and Leisure, at the end of The reporting date, the corresponding assets were classified as non-current asset held for sale.

Non-current assets held for sale as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Land	₩ 2,389,925	₩ 2,382,850
Building	<u>1,141,795</u>	<u>1,138,150</u>
Book amount on assets classified as held for sale	₩ <u>3,531,720</u>	₩ <u>3,521,000</u>

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9. Property, Plant and Equipment

Changes in property, plant and equipment for the year ended December 31, 2016, 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, 2016	₩ 326,970,570	₩ 695,289,353	₩ 17,282,304	₩ 1,197,030,234	₩ 160,445,074	₩ 12,333,084	₩ 2,409,350,619
Additions	3,569,723	4,986,632	179,885	25,355,665	8,897,150	185,446,174	228,435,229
Casualty losses	-	(4,876,877)	(1,535,574)	(23,595,442)	(960,459)	-	(30,968,352)
Disposals	(388,596)	(514,639)	(21,792)	(5,373,718)	(9,685,982)	(260,869)	(16,245,596)
Acquisition from business combination	6,927,433	-	-	-	-	-	6,927,433
Others ¹	<u>(17,137,558)</u>	<u>(11,247,378)</u>	<u>1,839,162</u>	<u>102,403,873</u>	<u>1,290,625</u>	<u>(135,977,709)</u>	<u>(58,828,985)</u>
Balance at December 31, 2016	₩ <u>319,941,572</u>	₩ <u>683,637,091</u>	₩ <u>17,743,985</u>	₩ <u>1,295,820,612</u>	₩ <u>159,986,408</u>	₩ <u>61,540,680</u>	₩ <u>2,538,670,348</u>
Accumulated depreciation and impairment							
Balance at January 1, 2016	₩ -	₩ (100,761,099)	₩ (11,340,845)	₩ (456,256,472)	₩ (83,524,146)	₩ -	₩ (651,882,562)
Depreciation	-	(15,599,764)	(729,151)	(75,887,537)	(15,617,881)	-	(107,834,333)
Depreciation of Discontinued operations	-	(145,252)	-	-	(61,946)	-	(207,198)
Casualty losses	-	1,698,104	890,100	12,049,092	673,668	-	15,310,964
Disposals	-	160,879	21,792	3,102,217	8,928,313	-	12,213,201
Others ¹	-	1,894,576	147,338	8,174,722	977,440	-	11,194,076
Balance at December 31, 2016	₩ <u>-</u>	₩ <u>(112,752,556)</u>	₩ <u>(11,010,766)</u>	₩ <u>(508,817,978)</u>	₩ <u>(88,624,552)</u>	₩ <u>-</u>	₩ <u>(721,205,852)</u>
Book amount							
Balance at January 1, 2016	₩ 326,970,570	₩ 594,528,254	₩ 5,941,459	₩ 740,773,762	₩ 76,920,928	₩ 12,333,084	₩ 1,757,468,057
Balance at December 31, 2016	₩ <u>319,941,572</u>	₩ <u>570,884,535</u>	₩ <u>6,733,219</u>	₩ <u>787,002,634</u>	₩ <u>71,361,856</u>	₩ <u>61,540,680</u>	₩ <u>1,817,464,496</u>

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, 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	<u>(213,608)</u>	<u>58,038,285</u>	<u>(580,191)</u>	<u>51,483,331</u>	<u>4,864,137</u>	<u>(108,782,313)</u>	<u>4,809,641</u>
Balance at December 31, 2015	₩ <u>326,970,570</u>	₩ <u>695,289,353</u>	₩ <u>17,282,304</u>	₩ <u>1,197,030,234</u>	₩ <u>160,445,074</u>	₩ <u>12,333,084</u>	₩ <u>2,409,350,619</u>
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	<u>-</u>	<u>(534,188)</u>	<u>170,666</u>	<u>1,216,394</u>	<u>(1,707,072)</u>	<u>-</u>	<u>(854,200)</u>
Balance at December 31, 2015	₩ <u>-</u>	₩ <u>(100,761,099)</u>	₩ <u>(11,340,845)</u>	₩ <u>(456,256,472)</u>	₩ <u>(83,524,146)</u>	₩ <u>-</u>	₩ <u>(651,882,562)</u>
Book amount							
Balance at January 1, 2015	₩ <u>326,020,152</u>	₩ <u>543,596,417</u>	₩ <u>7,246,539</u>	₩ <u>741,103,211</u>	₩ <u>74,740,704</u>	₩ <u>34,349,567</u>	₩ <u>1,727,056,590</u>
Balance at December 31, 2015	₩ <u>326,970,570</u>	₩ <u>594,528,254</u>	₩ <u>5,941,459</u>	₩ <u>740,773,762</u>	₩ <u>76,920,928</u>	₩ <u>12,333,084</u>	₩ <u>1,757,468,057</u>

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

Orion Corporation and Subsidiaries
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Borrowing costs of ₩9,975 thousand (2015: ₩330,320 thousand) in relation to the completion of construction, were capitalized as part of the cost of qualifying assets for the year ended December 31, 2016. The capitalization rates were 2.93% (2015: 3.29%) for the year ended December 31, 2016.

As at December 31, 2016, the Group has fire and other insurance coverage from Hyundai Marine & Fire Insurance Co., Ltd and others of up to ₩1,854,503 million (2015: ₩1,059,976 million) on the Group's inventories, property, plant and equipment against fire and others.

In addition, as at December 31, 2016, the Group maintains insurance policies covering loss and liability arising from cash robbery, products, gas accidents, directors' and officers' liability and automobile accidents.

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10. Intangible Assets

Changes in intangible assets for the year ended December 31, 2016, 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, 2016	₩ 16,422,623	₩ 397,035,401	₩ 17,359,042	₩ 14,781,855	₩ 445,598,921
Additions	2,378,296	-	214,652	797,107	3,390,055
Disposals	-	-	(455,658)	-	(455,658)
Others	(29,889)	50,234,260	303,012	(232,886)	50,274,497
Balance at December 31, 2016	₩ 18,771,030	₩ 447,269,661	₩ 17,421,048	₩ 15,346,076	₩ 498,807,815
Accumulated amortization and impairment					
Balance at January 1, 2016	₩ (10,370,027)	₩ (397,010,757)	₩ (3,163,559)	₩ (6,137,690)	₩ (416,682,033)
Amortization	(1,462,148)	(50,257,353)	-	(1,200,131)	(52,919,632)
Amortization (Discontinued operations)	-	-	-	(76,003)	(76,003)
Impairment (Discontinued operations)	-	-	(68,589)	(251,889)	(320,478)
Others	27,367	-	-	140,457	167,824
Balance at December 31, 2016	₩ (11,804,808)	₩ (447,268,110)	₩ (3,232,148)	₩ (7,525,256)	₩ (469,830,322)
Book amount					
Balance at January 1, 2016	₩ 6,052,596	₩ 24,644	₩ 14,195,483	₩ 8,644,165	₩ 28,916,888
Balance at December 31, 2016	₩ 6,966,222	₩ 1,551	₩ 14,188,900	₩ 7,820,820	₩ 28,977,493

Others mainly include transfers from prepayments and fluctuation due to foreign currency translation of foreign operations. Also during 2016, the Group recognized the impairment loss of the rights to use facility and others whose recoverable amounts were less than the book amounts.

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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	₩ 16,422,623	₩ 397,035,401	₩ 17,359,042	₩ 14,781,855	₩ 445,598,921
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	₩ (10,370,027)	₩ (397,010,757)	₩ (3,163,559)	₩ (6,137,690)	₩ (416,682,033)
Book amount					
Balance at January 1, 2015	₩ 6,427,393	₩ 510,427	₩ 11,308,204	₩ 9,125,330	₩ 27,371,354
Balance at December 31, 2015	₩ 6,052,596	₩ 24,644	₩ 14,195,483	₩ 8,644,165	₩ 28,916,888

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 amounts.

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11. Goodwill

Changes in goodwill for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Cost		
Balance at beginning of year	₩ 43,177,619	₩ 31,454,469
Acquisition from business combination	<u>279,975</u>	<u>11,723,150</u>
Balance at end of year	₩ <u>43,457,594</u>	₩ <u>43,177,619</u>
Accumulated impairment		
Balance at beginning of year	₩ <u>(19,119,369)</u>	₩ <u>(19,119,369)</u>
Balance at end of year	₩ <u>(19,119,369)</u>	₩ <u>(19,119,369)</u>
Book amount		
Balance at beginning of year	₩ <u>24,058,250</u>	₩ <u>12,335,100</u>
Balance at end of year	₩ <u>24,338,225</u>	₩ <u>24,058,250</u>

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Impairment tests for goodwill

(In thousands of Korean won)

CGUs		2016		description
		Balance	Acquisitor	
Orion Corp. ¹	₩	12,335,100	Orion Corp.	Transferred when Orion Snack International Corp. was merged into Orion Corp.
STELLA WAY LIMITED(including LANGFANG IPACK Co., Ltd)		11,723,150	Orion Corp.	Acquired in a business combination with STELLA WAY LIMITED(including LANGFANG IPACK Co., Ltd)
JeJu Yongam Soo Corp.		279,975	Orion Corp.	Acquired in a business combination with JeJu Yongam Soo Corp.
Crespo Co., Ltd ²		-	Sports Toto Co., Ltd	Acquired in a business combination with Crespo Co., Ltd

¹ The Group allocated related goodwill in cash generating unit of Domestic Snack Manufacturing and Selling when the Group recognized goodwill for the first time. However, in 2016 Domestic Snack Manufacturing and Selling was no longer considered to be the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, the Group reallocated the related goodwill to the Company, considering it as cash generating unit. The reallocation of goodwill does not have any significant impact on the impairment tests which had been done in prior period.

² The Group classified the corresponding goodwill into the non-current asset held for sale in 2014 and recognized all the book amount as impairment loss.

The Group assess goodwill for impairment at the end of each reporting period. As a result of performing the annual impairment test, the Group concluded that the book amount of cash generating units did not exceed the recoverable amount.

The recoverable amount of the CGU is based on its value in use. The value in use is determined by discounting the future pre-tax cash flows which were based on the estimated financial budget for the next five years and the financial budget is confirmed by the management .The expected growth rate of sale for the next five years and the permanent growth rate for the years after the next five years do not exceed the long-term average growth rate of the industry that the cash generating unit belongs to. The assumption of constant growth rate is used in order to calculate the expected future cash flow. At the end of the reporting period, the key assumptions used for calculating the cash generating units which significant goodwill was allocated to, are as follows.

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	Gross Profit Margin ³	Growth rate of sale ⁴	Permanant growth rate ⁵	Pre-tax rate ⁶
Orion Corp.	54.19%	3.51%	0.00%	9.85%
Stella way limited(Langfang IPAK Co., Ltd included)	63.72%	7.00%	2.50%	12.73%

³ This is the average gross profit margin for the next five years.

⁴ This is the expected growth rate of sale for calculating the expected cash flows for the next five years and it is calculated based on the past growth.

⁵ The permanant growth rate is consistent with the figures in the industry report.

⁶ This is the pre-tax rate applied to the expected future cash flows.

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, 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost			
Balance at January 1, 2016	₩ 12,110,569	₩ 11,840,711	₩ 23,951,280
Reclassification from property, plant and equipment	<u>17,363,500</u>	<u>694,477</u>	<u>18,057,977</u>
Balance at December 31, 2016	₩ <u>29,474,069</u>	₩ <u>12,535,188</u>	₩ <u>42,009,257</u>
Accumulated depreciation			
Balance at January 1, 2016	₩ -	₩ (2,013,038)	₩ (2,013,038)
Depreciation	-	(237,743)	(237,743)
Reclassification from property, plant and equipment	-	<u>(87,967)</u>	<u>(87,967)</u>
Balance at December 31, 2016	₩ -	₩ <u>(2,338,748)</u>	₩ <u>(2,338,748)</u>
Book amount			
Balance at January 1, 2016	₩ <u>12,110,569</u>	₩ <u>9,827,673</u>	₩ <u>21,938,242</u>
Balance at December 31, 2016	₩ <u>29,474,069</u>	₩ <u>10,196,440</u>	₩ <u>39,670,509</u>

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	₩ <u>12,110,569</u>	₩ <u>11,840,711</u>	₩ <u>23,951,280</u>
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	-	<u>(223,853)</u>	<u>(223,853)</u>
Balance at December 31, 2015	₩ -	₩ <u>(2,013,038)</u>	₩ <u>(2,013,038)</u>
Book amount			
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>

The amounts recognized in profit or loss from investment property for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Rental income	₩ 1,340,970	₩ 987,667
Direct operating expense	<u>(237,743)</u>	<u>(223,854)</u>
	₩ <u>1,103,227</u>	₩ <u>763,813</u>

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The fair values of investment property as at December 31, 2016, are as follows:

<i>(In thousands of Korean won)</i>		<u>Fair value</u>
Land	₩	32,634,991
Buildings		19,656,279
	₩	<u>52,291,270</u>

As at December 31, 2016, investment property (buildings) of the Group is secured by leasehold rights for ₩ 600 million.

13. Investments in Associate and Joint ventures

Investments in associates and joint ventures as at December 31, 2016 and 2015, are summarized as follows:

<i>(In thousands of Korean won)</i>		<u>2016</u>		<u>2015</u>	
<u>Name</u>		<u>Percentage of ownership</u>	<u>Book value</u>	<u>Percentage of ownership</u>	<u>Book value</u>
Associate	Beijing Zhongguan MEGABOX Cinema Co., Ltd.	49.0%	6,820,814	49.0%	5,476,583
Associate	Michigan Global Contents Investment Fund	20.0%	489,042	20.0%	685,182
Associate	Michigan Global Contents Investment Fund #3	43.3%	4,175,781	43.3%	5,045,686
Associate	Michigan Global Contents Investment Fund #4	23.0%	1,910,670	23.0%	1,906,093
Associate	Gemini Contents Investment Partnership #1	33.3%	33,350	33.3%	33,568
Associate	CJ Global Contents Venture Capital #11 ¹	-	-	25.0%	52,741
Associate	SMCI Korea Film Fund #5	25.9%	5,108,648	25.9%	4,118,214
Associate	Daehan distributor Corp. ²	35.3%	-	35.3%	-
Joint venture	Delfi-Orion Pte Ltd. ³	50.0%	-	-	-
Joint venture	K-food. Co., Ltd. ⁴	49.0%	14,552,917	-	-
			₩ <u>33,091,222</u>		₩ <u>17,318,067</u>

¹ CJ Global Contents Venture Capital #11 was liquidated during this year.

² As at December 31, 2016, a lawsuit of the non-existence of stockholder's position has been proceeded(Note 42).

³ During 2016, Delfi-Orion Pte Ltd. was established as a joint venture with Delfi Limited from Indonesia.

⁴ During 2016, agricultural corporation, K-food. Co., Ltd. was established as a joint venture with Nonghyup. The Group holds 49% shares of K-food. Co., Ltd. however, the Group classified K-food. Co., Ltd. as a joint venture since it satisfied the classification of joint venture pursuant to the contract which specifies the unanimous consent of the parties that collectively control the arrangement and others.

The Group concluded to classify them as joint ventures since all the joint arrangements which the Group has the joint control of are structured through a separate vehicle and the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

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The reporting date of the financial statements of associates and joint ventures which are used in order to prepare the consolidated financial statements is December 31, 2016.

Changes in investments in associates and joint ventures for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

Name	Balance at beginning of year	2016				Balance at end of year
		Acquisition	Disposal	Share of profit (loss) of associates and joint ventures	Other ¹	
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	₩ 5,476,583	₩ -	₩ -	₩ 1,575,657	₩ (231,425)	₩ 6,820,815
Michigan Global Contents Investment Fund	685,182	-	(200,000)	3,860	-	489,042
Michigan Global Contents Investment Fund #3	5,045,686	-	-	(869,906)	-	4,175,780
Michigan Global Contents Investment Fund #4	1,906,093	-	-	4,577	-	1,910,670
Gemini Contents Investment Partnership #1	33,568	-	-	(218)	-	33,350
CJ Global Contents Venture Capital #11	52,741	-	(52,288)	(453)	-	-
SMCI Korea Film Fund #5	4,118,214	-	-	990,434	-	5,108,648
Daehan distributor Corp.	-	-	-	-	-	-
Delfi-Orion Pte Ltd.	-	1	-	(1)	-	-
K-food. Co., Ltd	-	14,682,623	-	(57,234)	(72,472)	14,552,917
	<u>₩ 17,318,067</u>	<u>₩ 14,682,624</u>	<u>₩ (252,288)</u>	<u>₩ 1,646,716</u>	<u>₩ (303,897)</u>	<u>₩ 33,091,222</u>

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

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(In thousands of
Korean won)

Name	2015						Balance at end of year
	Balance at beginning of year	Impairment	Increase due to merger	Disposal	Share of profit (loss) of associates	Other ¹	
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.	-	-	-	-	-	-	-
	<u>₩19,907,316</u>	<u>₩ (774,597)</u>	<u>₩ (546,862)</u>	<u>₩ (1,113,017)</u>	<u>₩ (326,940)</u>	<u>₩ 172,167</u>	<u>₩ 17,318,067</u>

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

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There is no individually significant associate or joint venture on the consolidated financial statement as at December 31, 2016 and 2015, and summary of financial information of associates and joint ventures is as follows:

(In thousands of Korean won)

Name	2016					
	Assets	Liabilities	Equity	Revenue	Profit(loss) for the year	Total comprehensive income (loss)
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	₩ 18,400,240	₩ 4,480,212	₩ 13,920,028	₩ 20,157,410	₩ 3,215,624	₩ 3,215,624
Michigan Global Contents Investment Fund	2,496,340	51,129	2,445,211	24,720	19,301	19,301
Michigan Global Contents Investment Fund #3	10,006,244	202,538	9,803,706	1,577,194	(1,257,577)	(1,257,577)
Michigan Global Contents Investment Fund #4	7,574,826	161,495	7,413,331	441,494	(802,918)	(802,918)
Gemini Contents Investment Partnership #1	100,460	409	100,051	31,740	(651)	(651)
SMCI Korea Film Fund #5	17,498,058	159,174	17,338,884	6,043,251	3,838,884	3,838,884
Daehan distributor Corp.	9,858,955	22,278,921	(12,419,966)	-	(603,718)	(603,718)
Delfi-Orion Pte Ltd.	2	32,163	(32,161)	-	(30,885)	(30,885)
K-food. Co., Ltd	29,702,867	3,036	29,699,831	-	(116,804)	(116,804)

(In thousands of Korean won)

Name	2015					
	Assets	Liabilities	Equity	Revenue	Profit(loss) for the year	Total comprehensive income (loss)
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	₩ 16,932,344	₩ 5,755,644	₩ 11,176,700	₩ 23,835,140	₩ 3,604,846	₩ 3,604,846
Michigan Global Contents Investment Fund	3,637,137	211,226	3,425,911	94,052	(153,931)	(153,931)
Michigan Global Contents Investment Fund #3	12,204,468	190,637	12,013,831	595,245	(2,707,401)	(2,707,401)
Michigan Global Contents Investment Fund #4	8,770,319	111,511	8,658,808	152,714	(4,342,366)	(4,342,366)
Gemini Contents Investment Partnership #1	101,111	409	100,702	53,804	27,316	27,316
CJ Global contents Venture Capital #11	164,269	-	164,269	120,725	(1,550,108)	(1,550,108)
SMCI Korea Film Fund #5	13,769,044	-	13,769,044	595,326	276,210	276,210
Daehan distributor Corp.	10,590,393	22,406,641	(11,816,248)	-	(774,838)	(774,838)

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The details of investments in associates and joint ventures as at December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

Name	2016			
	Net assets	Percentage of ownership(%)	Group's share of net assets	Book amount
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	₩ 13,920,028	49.00	₩ 6,820,814	₩ 6,820,814
Michigan Global Contents Investment Fund	2,445,211	20.00	489,042	489,042
Michigan Global Contents Investment Fund #3	9,803,706	43.30	4,245,005	4,175,781
Michigan Global Contents Investment Fund #4	7,413,331	23.00	1,705,066	1,910,670
Gemini Contents Investment Partnership #1	100,051	33.33	33,350	33,350
SMCI Korea Film Fund #5	17,338,884	25.90	4,490,771	5,108,648
Daehan distributor Corp.	(12,419,966)	35.30	(4,384,248)	-
Delfi-Orion Pte Ltd.	(32,161)	50.00	(16,081)	-
K-food. Co., Ltd	29,699,831	49.00	14,552,917	14,552,917

(In thousands of Korean won)

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

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The amount of unrecognized share of losses of associate and joint venture due to the discontinued recognition of its share of losses of associates as at December 31, 2016 and 2015, are as follows

<i>(In thousands of Korean won)</i>	Name	2016		2015	
		Unrecognized share of losses	Unrecognized share of cumulative losses	Unrecognized share of losses	Unrecognized share of cumulative losses
	Daehan distributor Corp.	₩ (213,112)	(4,384,248)	₩ (273,518)	(4,171,136)
	Delfi-Orion Pte Ltd	(16,081)	(16,081)	-	-

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, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
	Available-for-sale Financial Assets	Available-for-sale Financial Assets	Held-to-maturity Financial Assets	Held-to-maturity Financial Assets
Balance at beginning of year	₩ 8,900,259	₩ 10,967,736	₩ 2,613,430	
Acquisitions	408,055	24,925	51,045	
Disposals	(234,273)	(3,509,833)	(257,565)	
Net changes in fair value before tax	14,960	110,893	-	
Reclassification before tax	(80,438)	-	-	
Impairment	(795,166)	(1,000,372)	-	
Other changes	(445,000)	2,306,910	(2,406,910)	
Balance at end of year	₩ 7,768,397	₩ 8,900,259	₩ -	
- Current	₩ -	₩ 20,558	₩ -	
- Non-current	7,768,397	8,879,701	-	
	₩ 7,768,397	₩ 8,900,259	₩ -	

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 at December 31, 2016 and 2015, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Available-for-sale financial assets:		
Listed		
- Crown Confectionery Co., Ltd.	₩ 281	₩ 542
- Lotte Confectionery Co., Ltd.	1,785	2,279
- Tong Yang Networks Co., Ltd.	-	216,097
	<u>2,066</u>	<u>218,918</u>
Unlisted		
- Ilshin leisure	1,000	1,000
- Daegu Football Club	3,000	3,000
- Everyday Retail Co., Ltd	81	81
- Chung Gu Co., Ltd	195	195
- Korea Food Industry Association	20,000	20,000
- The Korea Economics Daily Co., Ltd	28,400	28,400
- New Core Co., Ltd	1,077	1,077
- E Land Leisurvice Co., Ltd	80	80
- Tong Yang leisure	802,340	802,340
- KM Culture	50,000	50,000
- Boston Film Contents	17,509	17,509
- Geon Contents Investment Limited#3	1,500,000	1,500,000
- Leading Asia Culture Investment Limited	992,493	1,700,000
- ACTI Culture & Contents Fund Limited Partnership	168,000	168,000
- TV Chosun & Daesung Win-Win	2,000,000	2,000,000
- CJ Global Contents Venture Capital #12	505,625	593,283
- Vision Hills co.	-	445,000
- KT-CKP New Media Venture Capital	1,200,000	1,200,000
- Hi Asset Management Co., Ltd	345,715	-
- Others	130,816	130,817
	<u>7,766,331</u>	<u>8,660,782</u>
Debt instruments		
- Government and Public bond	-	20,559
Total available-for-sale financial assets	<u>₩ 7,768,397</u>	<u>₩ 8,900,259</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 which fair value cannot be reliably measured were measured at cost.

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15. Other Assets

Other assets as at December 31, 2016 and 2015, are summarized as follows:

(In thousands of Korean won)

	2016		2015	
	Current	Non-current	Current	Non-current
Prepayments	₩ 57,995,419	₩ 8,669,010	₩ 57,780,944	₩ 7,463,432
Prepaid expenses	10,793,359	49,717,993	5,041,334	45,828,419
Others	7,896,134	10,758,592	6,788,261	9,781,692
	₩ 76,684,912	₩ 69,145,595	₩ 69,610,539	₩ 63,073,543

16. Inventories

Inventories as at December 31, 2016 and 2015, are summarized as follows:

(In thousands of Korean won)

	2016	2015
Merchandise and finished goods	₩ 85,529,021	₩ 79,807,359
Work-in-progress	6,384,719	6,189,650
Raw materials	62,912,020	62,842,963
Supplies	1,426,942	1,439,425
Raw materials-in-transit	11,769,122	11,779,424
Sites for construction	23,549,235	23,549,235
Others	2,812,081	2,515,983
	₩ 194,383,140	₩ 188,124,039

The amount of inventories recognized as an expense and included as part of cost of sales during 2016 is ₩ 752,758 million(2015: ₩ 828,548 million).

During this year, a fire took place at the manufacturing plant in Icheon and the inventories were lost .The amount of ₩ 810,721 thousand was recognized as losses due to disaster.

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17. Trade and Other Receivables

Trade and other receivables as at December 31, 2016 and 2015, are summarized as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 200,367,015	₩ -	₩ 182,892,938	₩ -
Less: allowance for bad debts	(24,913,059)	-	(25,952,966)	-
Other receivables	4,162,247	-	8,529,184	-
Less: allowance for bad debts	(1,435,615)	-	(2,959,363)	-
Accrued income	9,098,571	6,934	5,423,584	6,934
Guarantee deposits	3,824,676	979,152	2,744,321	2,725,061
Loans	925,032	-	1,166,182	-
Less: allowance for bad debts	(622,325)	-	(786,713)	-
Others	63,026	-	288,864	-
	<u>₩ 191,469,568</u>	<u>₩ 986,086</u>	<u>₩ 171,346,031</u>	<u>₩ 2,731,995</u>

The aging analysis of the trade receivables, other receivables and loans as at December 31, 2016 and 2015, is as follows:

<i>(In thousands of Korean won)</i>	2016	2015
Receivables not past due	₩ 147,123,171	₩ 147,348,654
Past due but not impaired ¹		
Up to 3 months	₩ 24,970,930	₩ 15,163,853
3 to 6 months	6,316,077	330,931
Over 6 months	73,117	45,824
Sub total	₩ 31,360,124	₩ 15,540,608
Impaired		
Up to 6 months	₩ 1,026,359	₩ 3,336,933
Over 6 months	25,944,640	26,362,109
Sub total	26,970,999	29,699,042
Impairment loss	₩ (26,970,999)	₩ (29,699,042)
Grand Total	₩ 178,483,295	₩ 162,889,262

¹ 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, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>		<u>2016</u>		<u>2015</u>
Balance at beginning of year	₩	29,699,042	₩	33,677,936
Write - off		(777,056)		(5,959,889)
Reversal of bad debt allowance		(1,092,849)		(1,216,234)
Impairment		117,082		3,194,251
Impairment(discontinued operations)		(838,687)		-
Changes due to business combination		(164,388)		13,870
Fluctuations due to foreign currency translation		27,855		(10,892)
Balance at end of year	₩	<u>26,970,999</u>	₩	<u>29,699,042</u>

The trade and other receivables which are measured at amortized cost using the effective interest rate method as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>			<u>2015</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%	₩ 3,849,679	₩ 1,025,101	1.65%~4.98%	₩ 2,744,321	₩ 2,843,120
Less discount		<u>(25,003)</u>	<u>(45,949)</u>		<u>-</u>	<u>(118,059)</u>
		<u>₩ 3,824,676</u>	<u>₩ 979,152</u>		<u>₩ 2,744,321</u>	<u>₩ 2,725,061</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.

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18. Cash and Cash Equivalents, and Restricted Deposits

Cash and cash equivalents as at December 31, 2016 and 2015, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Cash on hand	₩ 628,585	₩ 1,487,576
Demand deposits	<u>238,908,818</u>	<u>251,283,026</u>
	₩ <u>239,537,403</u> ₩	<u>252,770,602</u>

Deposits which are restricted in use as at December 31, 2016 and 2015, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Long-term deposits	₩ 102,365,191 ₩	₩ 84,439,548
Short-term deposits	<u>24,304,017</u>	<u>47,617</u>
Total	₩ <u>126,669,208</u> ₩	<u>84,487,165</u>

19. Capital stock and capital surplus

Details of capital stock as at December 31, 2016 and 2015, are as follows:

<i>(In Korean won, except number of shares)</i>	<u>2016</u>	<u>2015</u>
Number of common shares:		
- Authorized	48,000,000	48,000,000
- Issued	6,008,435	5,976,091
- Share capital	₩ 30,042,175,000 ₩	₩ 29,880,455,000
Par value per share	₩ 5,000 ₩	₩ 5,000

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Changes in the capital stock and capital surplus for the years ended December 31, 2016 and 2015, are as follows:

*(In thousand of won,
except number of shares)*

	2016			2015		
	Number of Common shares	Capital stock	Capital surplus	Number of Common shares	Share capital	Share premium
Beginning of year	5,976,091 ₩	29,880,455 ₩	66,891,050	5,974,969 ₩	29,874,845 ₩	66,616,534
Issuance of ordinary shares upon exercise of stock options	136	680	27,993	1,122	5,610	274,516
Acquisition of Sports Toto Co.,Ltd	32,208	161,040	(5,410)	-	-	-
End of year	<u>6,008,435 ₩</u>	<u>30,042,175 ₩</u>	<u>66,913,633</u>	<u>5,976,091 ₩</u>	<u>29,880,455 ₩</u>	<u>66,891,050</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 at December 31, 2016, 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 at December 31, 2016, 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 at December 31, 2016, no convertible bonds or bonds with stock warrants have been issued.

20. Treasury Shares

Treasury shares that the Company has as at December 31, 2016, consist 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, the 15,601 shares with the acquisition cost of ₩ 15,835,015 thousand acquired as a result of the merger with Ipak Co., Ltd, and the 71 shares with the acquisition cost of ₩ 53,708 thousand, which were odd-lot shares acquired at the market price resulted from allocating the new shares from a merger with Sports Toto 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 at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Changes from equity transactions	₩ 39,581,634	₩ (3,299,911)
Changes in fair value of available-for sale financial assets	(135,852)	(81,856)
Stock options	69,548	79,164
Exchange differences on translating foreign operations	(40,906,679)	(12,325,358)
Share of other comprehensive income of associates	(37,857)	205,615
Others	(41,383)	(41,382)
	<u>₩ (1,470,589)</u>	<u>₩ (15,463,728)</u>

22. Reserves

Details of reserves as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Legal reserve	₩ 80,130,615	₩ 68,569,682
Voluntary reserve	559,700,000	573,700,000
	<u>₩ 639,830,615</u>	<u>₩ 642,269,682</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, 2016 and 2015, is as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Unappropriated retained earnings	₩ 2,241,499	₩ 5,571,767
Net income	50,953,889	15,353,749
Remeasurements of the defined benefit liability	1,615,193	(1,176,475)
I. Retained earnings available for appropriation	₩ 54,810,581	₩ 19,749,041
Voluntary reserve	-	10,000,000
Research and human development reserves	4,000,000	4,000,000
II. Transfer from voluntary reserves and others	4,000,000	14,000,000
III. Total (I + II)	58,810,581	33,749,041
IV. Appropriation of retained earnings		
Dividend		
(Cash dividend (%): ordinary share for current year: ₩ 6,000 (120%), prior year: ₩ 6,000 (120%))	31,701,180	31,507,542
V. Unappropriated retained earnings to be carried over to subsequent year	₩ 27,109,401	₩ 2,241,499

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>2016</u>		<u>2015</u>
Profit for the year from continuing operations attributable to owners of the Group	₩ 219,932,379,285	₩	162,197,220,881
Weighted-average number of ordinary shares	<u>5,263,406</u>		<u>5,250,646</u>
Basic earnings per share from continuing operations	₩ 41,785	₩	30,891

Weighted average number of ordinary shares

	<u>2016</u>		<u>2015</u>
The number of ordinary shares issued at January 1, 2016	5,976,091		5,974,969
Effect of exercise of stock options	28		511
Treasury Shares	(724,857)		(724,834)
New stock issuance	<u>12,144</u>		<u>-</u>
Weighted average number of ordinary shares	<u>5,263,406</u>		<u>5,250,646</u>

Diluted earnings per share from continuing operations

(In Korean won, except share information)

	<u>2016</u>		<u>2015</u>
Profit for the year from continuing operations attributable to owners of the Group	₩ 219,932,379,285	₩	162,197,220,881
Adjusted Profit for the year attributable to owners of the Group	219,932,379,285		162,197,220,881
Diluted weighted average number of ordinary shares	<u>5,264,128</u>		<u>5,251,947</u>
Diluted earnings per share from continuing operations	₩ 41,779	₩	30,883

Diluted weighted average number of ordinary shares

(In Korean won, except share information)

	<u>2016</u>		<u>2015</u>
Basic weighted average number of ordinary shares	5,263,406		5,250,646
Effect of stock options	<u>722</u>		<u>1,301</u>
Diluted weighted average number of ordinary shares	<u>5,264,128</u>		<u>5,251,947</u>

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

(In Korean won)

	<u>2016</u>		<u>2015</u>
Basic and diluted earnings per share	₩ 3,179	₩	23

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25. Share-based Payments

The terms and conditions of grants as at December 31, 2016, are as follows:

(In Korean won, except number of shares)

Arrangement	Equity or cash settled		
Date of grant	2007.3.23	2008.3.12	2009.2.27
The first grant quantity	5,825	3,505	4,797
Exercise quantity	(5,416)	(2,886)	(3,584)
Cancel quantity	-	(619)	(813)
Exercise price	235,500	187,500	149,800
Date of maturity	2017.3.23	2018.3.12	2019.2.27
Vesting conditions	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	2007.3.23	2008.3.12	2009.2.27
Fair value at grant date	102,777	63,616	71,772
Current price at grant date	231,000	162,000	150,000
Exercise price	235,500	187,500	149,800
Expected volatility	40.0%	39.5%	47.8%
Option life (expected weighted average life)	6 years	6 years	6 years
Expected dividend	0.4%	0.8%	1.1%
Risk-free interest rate	4.9%	5.4%	5.2%

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26. Trade and Other Payables

Trade and other payables as at December 31, 2016 and 2015, are summarized as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
	Current	Non-current	Current	Non-current
Trade payables	₩ 109,874,995	₩ -	₩ 122,168,302	₩ -
Other payables	106,176,475	-	100,202,471	-
Withholdings	38,019,334	-	56,302,011	-
Accrued expenses	29,331,242	-	16,916,448	-
Deposits received	1,759,115	1,122,658	1,344,059	1,199,995
Others	26,100	-	105,371	-
	<u>₩ 285,187,261</u>	<u>₩ 1,122,658</u>	<u>₩ 297,038,662</u>	<u>₩ 1,199,995</u>

Details of trade and other payables that are measured at amortized cost as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	Effective interest rate	2016		2015		
		current	Non-current	current	Non-current	
Deposits received	1.21%~3.17%	₩ 1,759,115	₩ 1,180,000	1.71%~3.52%	₩ 1,344,059	₩ 1,265,965
Less discount		-	(57,342)	-	-	(65,970)
		<u>₩ 1,759,115</u>	<u>₩ 1,122,658</u>	<u>₩ 1,344,059</u>	<u>₩ 1,199,995</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 at December 31, 2016 and 2015, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Non-current		
Debentures	₩ 120,000,000	₩ 330,000,000
Less discount	(219,453)	(606,424)
Long-term debts	<u>156,784,054</u>	<u>323,797,203</u>
	<u>276,564,601</u>	<u>653,190,779</u>
Current		
Current portion of debentures	210,000,000	80,000,000
Less discount	(123,601)	(34,401)
Current portion of long-term debts	166,553,140	96,613,157
Short-term borrowings	<u>93,934,025</u>	<u>177,187,106</u>
	<u>470,363,564</u>	<u>353,765,862</u>
	₩ <u>746,928,165</u>	₩ <u>1,006,956,641</u>

Terms and conditions of debentures as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>Maturity</u>	<u>Interest rate</u>	<u>2016</u>	<u>2015</u>
95th	2016-06-09	-	₩ -	₩ 80,000,000
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>	<u>70,000,000</u>
			330,000,000	410,000,000
Less current portion of debentures			<u>(210,000,000)</u>	<u>(80,000,000)</u>
			₩ <u>120,000,000</u>	₩ <u>330,000,000</u>

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Terms and conditions of long-term debts as at December 31, 2016 and 2015 are as follows:

<i>(In thousands of Korean won)</i>	<u>Maturity</u>	<u>Interest rate</u>	<u>Currency</u>	<u>2016</u>	<u>2015</u>
The export- Import Bank of Korea	2017	2.66%, LIBOR(3M)+2.00%	USD ₩	34,855,234 ₩	34,000,165
	2016	-	CNY	-	16,249,500
Hana Bank	2016	-	USD	-	35,172,584
	2018	LIBOR(3M)+1.90%	USD	24,259,621	23,531,397
	2016	-	CNY	-	13,582,586
	2016	-	USD	-	18,065,663
Korea Development Bank	2017	LIBOR(3M)+2.15%~LIBOR(3M)+2.80% 1.9%~2.43%,	USD	41,514,515	41,774,599
	2018	LIBOR(3M)+1.68%~LIBOR(3M)1.70%	USD	65,741,239	69,768,073
DBS Bank	2018	LIBOR(3M)+1.86%	USD	18,194,716	17,648,548
Industrial Bank of Korea	2016	-	USD	-	11,724,195
	2017	LIBOR(3M)+1.06% 1.8%~2.40%,	USD	16,981,735	16,471,978
	2018	LIBOR(3M)+0.85%	USD	48,408,478	47,021,291
Woori Bank	2017	LIBOR(3M)+1.60% 2.3%,	USD	30,324,526	29,414,247
HSBC Siheung	2017	LIBOR(3M)+1.2%~LiBOR(3M)1.55%	USD	42,817,130	45,685,533
Environmental Management Center	2020	-	KRW	240,000	300,000
				323,337,194	420,410,359
Less current portion				(166,553,140)	(96,613,156)
			₩	<u>156,784,054</u>	<u>₩ 323,797,203</u>

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Short-term borrowings as at December 31, 2016 and 2015 are as follows:

<i>(In thousands of Korean won)</i>	<u>Interest rate</u>	<u>Currency</u>	<u>2016</u>	<u>2015</u>
	-	USD ₩	-	₩ 428,926
Kookmin Bank	0.40%~0.70%	CHF	924,981	-
	0.38%~0.40%	EUR	637,704	-
Hyundai Card	1.44%	KRW	2,217,901	-
Shinhan Bank	LIBOR(3M)+1.09%~LIBOR(3M)+1.95%	USD	12,247,512	10,932,859
	-	USD	77,084	-
The Export- Import Bank of Korea	-	USD	-	5,862,097
	-	USD	-	11,724,195
Korea Development Bank	-	CNY	-	2,708,250
	LIBOR(3M)+1.15%	USD	5,709,047	16,413,873
Hana Bank	-	USD	-	51,301,845
Industrial Bank of Korea	-	USD	-	7,747,089
Woori Bank	-	USD	-	11,678,137
	-	CNY	-	11,073,796
HSBC	LIBOR(3M)+0.65%	USD	36,057,139	-
Sumitomo Mitsui Banking Corporation	LIBOR(3M)+1.00%	USD	6,062,657	5,816,039
Meritz Securities Co., Ltd.	-	KRW	-	41,500,000
Woori Investment Bank	1.58%	KRW	30,000,000	-
			<u>₩ 93,934,025</u>	<u>₩ 177,187,106</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 at December 31, 2016:

(In thousands of Korean won)

Asset	Lender	Type of borrowings	Borrowing amount	Book amount	Collateralized amount
Land and buildings	Siheung Environmental Management Center	Short & Long-term borrowing	240,000	9,021,319	780,000
Machinery	Shinhan Bank	-	-	6,589,063 (VND124,087,823,615)	6,589,063 (VND124,087,823,615)
			<u>₩ 240,000</u>	<u>₩ 15,610,382</u>	<u>₩ 7,369,063</u>

Book amount and fair value of borrowings as at December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	2016		2015	
	Book amount	Fair value¹	Book amount	Fair value¹
Short-term borrowings	₩ 470,363,564	₩ 470,363,564	₩ 353,765,862	₩ 353,765,862
Long-term borrowings	276,564,601	276,785,617	653,190,779	653,842,093
	<u>₩ 746,928,165</u>	<u>₩ 747,149,181</u>	<u>₩ 1,006,956,641</u>	<u>₩ 1,007,607,955</u>

¹ The fair values of short-term borrowings equal to their book amounts 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 2.49% for long-term borrowings (2015: 2.60%).

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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, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Contributions to defined contribution plans	₩ 910,855	₩ 1,047,179
Expenses related to post-employment defined benefit plans	<u>13,276,317</u>	<u>12,392,389</u>
	<u>₩ 14,187,172</u>	<u>₩ 13,439,568</u>

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Changes in net defined benefit liability for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of
Korean won)

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2016	2015	2016	2015	2016	2015
Balance at January 1	₩ 69,243,109	₩ 64,534,960	₩ (65,444,609)	₩ (58,492,032)	₩ 3,798,500	₩ 6,042,928
Included in profit or loss:						
Current service costs	13,352,756	12,253,040	-	-	13,352,756	12,253,040
Interest costs (income)	1,397,877	1,692,893	(1,474,316)	(1,553,544)	(76,439)	139,349
	<u>14,750,633</u>	<u>13,945,933</u>	<u>(1,474,316)</u>	<u>(1,553,544)</u>	<u>13,276,317</u>	<u>12,392,389</u>
Included in other comprehensive income:						
Remeasurements loss (gain)						
- Actuarial loss (gain) arising from:						
Experience adjustment	(1,263,318)	(1,519,160)	-	-	(1,263,318)	(1,519,160)
Demographic assumptions	(903,537)	(1,621,597)	-	-	(903,537)	(1,621,597)
Financial assumptions	74,049	4,521,231	-	-	74,049	4,521,231
- Return on plan assets excluding interest income	-	-	246,912	242,251	246,912	242,251
	<u>(2,092,806)</u>	<u>1,380,474</u>	<u>246,912</u>	<u>242,251</u>	<u>(1,845,894)</u>	<u>1,622,725</u>
Other:						
Contributions paid by the employer	-	-	(13,638,156)	(15,911,132)	(13,638,156)	(15,911,132)
Benefits paid	(10,277,673)	(10,901,530)	10,171,230	10,272,835	(106,443)	(628,695)
Other	27,719	283,272	-	(2,987)	27,719	280,285
	<u>(10,249,954)</u>	<u>(10,618,258)</u>	<u>(3,466,926)</u>	<u>(5,641,284)</u>	<u>(13,716,880)</u>	<u>(16,259,542)</u>
Balance at December 31	₩ <u>71,650,982</u>	₩ <u>69,243,109</u>	₩ <u>(70,138,939)</u>	₩ <u>(65,444,609)</u>	₩ <u>1,512,043</u>	₩ <u>3,798,500</u>

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The components of plan assets as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>		<u>2015</u>	
Equity securities	₩	1,983,271	₩	9,335,212
Debt securities		37,984,518		33,001,602
Others		30,171,150		23,107,795
	₩	<u>70,138,939</u>	₩	<u>65,444,609</u>

The principal actuarial assumptions as at December 31, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	2.33%~2.68%	2.37%~2.61%
Future salary growth	4.22%~5.95%	4.00%~5.00%

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>2016</u>	
	<u>1% increase</u>	<u>1% decrease</u>
Discount rate	₩ (3,447,974)	₩ 3,872,234
Future salary growth	3,781,522	(3,437,930)

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 5.76~9.48 years as at December 31, 2016.

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

<i>(In thousands of Korean won)</i>	<u>2016</u>					<u>Total</u>
	<u>Within 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Beyond 5 years</u>		
Benefit payments	₩ 8,860,731	₩ 17,749,357	₩ 26,864,845	₩ 106,168,642	₩	159,643,575

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29. Derivative Instruments

At the end of the reporting period, the details of derivative contracts the Group has for the purpose of trading are follows

The details of interest rate swap contract which maturity date has not been arrived are follows:

<i>(In thousands of Korean won)</i>	<u>Contract date</u>	<u>Expiration date</u>	<u>Contracted price</u>	<u>Interest received</u>	<u>Interest paid</u>	<u>Counterparty</u>	<u>Derivative asset (liability)</u>
Hold for trading	July 22, 2016	July 21, 2017	USD 30,000,000	LIBOR(3M)+ 0.65%	1.60%	HSBC ₩	12,908

The details of forward contracts which maturity dates have not been arrived are follows:

<i>(In thousands of Korean won)</i>	<u>Contract date</u>	<u>Expiration date</u>	<u>Contract amount to sell</u>	<u>Contract amount to buy</u>	<u>Contracted exchange rate</u>	<u>Counterparty</u>	<u>Derivative asset (liability)</u>
Hold for trading	July 25, 2016	July 21, 2017	CNY 203,226,000	USD 30,000,000	6.77	HSBC ₩	1,128,998
Hold for trading	Aug 18, 2016	July 5, 2017	RUB 103,437,450	USD 1,500,000	68.96	BOR	(162,671)

Gains or losses on valuation of derivatives for the years ended December 31, 2016 are as follow:

<i>(In thousands of Korean won)</i>	<u>Type</u>	<u>Gains (losses)</u>	<u>Recognized in</u>
Hold for trading	Interest rate swap	(9,201)	Profit or loss
Hold for trading	Foreign exchange forward transaction	994,751	Profit or loss

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30. Other Liabilities

Other liabilities as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
	Current	Non-current	Current	Non-current
Advances received	₩ 84,159,145	₩ -	₩ 56,839,371	₩ -
Unearned revenue	2,124,339	56,190	4,868	65,077
Provision for warranty	3,105,955	-	3,383,759	-
Others	667,435	809,321	503,758	808,381
	<u>₩ 90,056,874</u>	<u>₩ 865,511</u>	<u>₩ 60,731,756</u>	<u>₩ 873,458</u>

31. Sales and Cost of Sales

Sales and cost of sales for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Sales				
Confectionary	₩	2,258,431,211	₩	2,238,569,627
Entertainment		125,860,922		142,723,469
Construction		-		-
Others		1,977,149		1,084,205
	₩	<u>2,386,269,282</u>	₩	<u>2,382,377,301</u>
Cost of sales				
Confectionary	₩	1,134,788,366	₩	1,116,332,112
Entertainment		100,578,690		117,638,033
Construction		9,539		29,156,152
Others		219,918		4,528,087
	₩	<u>1,235,596,513</u>	₩	<u>1,267,654,384</u>

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32. Selling Expenses and General and Administrative Expenses

Details of selling expenses for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Salaries	₩ 175,388,247	₩ 198,727,497
Retirement and termination benefits	5,994,483	5,358,146
Employee welfare	16,211,441	16,271,839
Travel expenses	10,518,498	13,523,623
Taxes and dues	18,365,754	15,235,328
Rental expenses	21,912,189	21,457,711
Depreciation	7,799,582	7,679,314
Amortization	1,516,863	1,326,605
Advertising expenses	98,111,367	100,875,691
Ordinary development expense	1,326,014	1,335,222
Freight and custody	103,800,636	100,070,805
Commissions	79,308,149	52,339,495
Promotion	122,650,127	113,501,440
Bad debt expenses	(687,001)	3,868,223
Others	34,325,693	30,162,803
	<u>₩ 696,542,042</u>	<u>₩ 681,733,742</u>

Details of general and administrative expenses for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Salaries	₩ 58,914,782	₩ 63,777,530
Retirement and termination benefits	7,730,650	6,055,144
Employee welfare	8,342,279	8,404,460
Travel expenses	2,027,071	2,680,692
Taxes and dues	7,132,503	8,722,621
Rental expenses	4,057,113	4,254,213
Depreciation	10,159,073	8,975,855
Amortization	1,089,683	1,245,053
Commissions	14,864,879	15,445,533
Others	13,566,133	14,107,827
	<u>₩ 127,884,166</u>	<u>₩ 133,668,928</u>

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33. Other Income and Other Expenses

Details of other income and other expenses for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Other income		
Foreign currency transaction gain	₩ 568,241	₩ 6,334,782
Foreign currency translation gain	3,092,561	1,893,273
Gain on sale of property, plant and equipment	2,107,053	2,968,546
Reversal of bad debt allowance	1,043	2,035,668
Insurance Income ¹	22,000,000	-
Others	8,246,918	10,154,623
	<u>36,015,816</u>	<u>23,386,892</u>
Other expenses		
Foreign currency transaction loss	633,501	7,133,188
Foreign currency translation loss	9,978,130	5,350,134
Loss on sale of property, plant and equipment	2,879,853	5,460,834
Impairment loss on property, plant and equipment	-	331,662
Loss on sale of intangible assets	72,000	63,710
Impairment loss on intangible assets	-	1,747,297
Impairment loss on other receivables	124,646	-
Losses due to disaster ²	16,468,109	-
Loss on disposition of trade receivables	1,461,040	2,658,389
Others	5,948,653	7,853,022
	<u>37,565,932</u>	<u>30,598,236</u>
Net other expenses	₩ <u>(1,550,116)</u>	₩ <u>(7,211,344)</u>

¹ The amount stated above is the part of claims against the fire at the manufacturing plant in Icheon from the insurance company.

² Losses due to disaster is the book amount of inventory and the property, plant and equipment destroyed by fire.

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34. Finance income and expense

Details of finance income and expense for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Finance income		
Interest income	₩ 10,572,476	₩ 9,003,000
Dividend income	204	497
Foreign currency transaction gain	622,804	7,980,033
Foreign currency translation gain	8,269,367	1,645,385
Gain on derivatives valuation	1,136,427	3,302
Gain on disposal of available-for-sale financial assets	43,818	28,300
	<u>20,645,096</u>	<u>18,660,517</u>
Finance cost		
Interest expense	25,151,526	29,630,572
Foreign currency transaction loss	589,436	12,840,783
Foreign currency translation loss	12,863,472	15,174,462
Loss on derivatives valuation	150,877	-
Loss on disposal of available-for-sale financial assets	7,575	-
Impairment loss on available-for-sale financial assets	795,166	1,000,372
	<u>39,558,052</u>	<u>58,646,189</u>
Net finance cost	₩ <u>(18,912,956)</u>	₩ <u>(39,985,672)</u>

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35. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	2016		
	Cost of sales	Selling, general and administrative expense	Total
Raw materials and consumables used	₩ 405,237,583	₩ -	₩ 405,237,583
Changes in inventories of finished goods and merchandise	347,520,548	-	347,520,548
Employee benefits expense	95,021,449	248,028,162	343,049,611
Depreciation and amortization	140,188,766	20,565,200	160,753,966
Service fees	21,893,461	94,372,662	116,266,123
Advertising expenses	-	98,011,367	98,011,367
Freight and custody	1,047,398	103,800,636	104,848,034
Others	<u>224,687,308</u>	<u>259,648,181</u>	<u>484,335,489</u>
	<u>₩ 1,235,596,513</u>	<u>₩ 824,426,208</u>	<u>₩ 2,060,022,721</u>

(In thousands of Korean won)

	2015		
	Cost of sales	Selling, general and administrative expense	Total
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	<u>165,570,526</u>	<u>253,631,450</u>	<u>419,201,976</u>
	<u>₩ 1,267,654,384</u>	<u>₩ 815,402,670</u>	<u>₩ 2,083,057,054</u>

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The book amount and the fair value of financial instruments as at December 31, 2016 and 2015, are summarized as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
	Book Value	Fair value	Book Value	Fair value
Financial assets				
Loans and receivables	₩ 590,088,412	₩ 590,088,412	₩ 791,400,857	₩ 791,400,857
Available-for-sale financial assets	2,066	2,066	218,918	218,918
Available-for-sale financial assets (Unlisted)	7,766,331	-	8,660,782	-
Available-for-sale financial assets (Debt securities)	-	-	20,559	-
Financial assets at fair value through profit or loss	1,141,907	1,141,907	-	-
	<u>₩ 598,998,716</u>	<u>₩ 591,232,385</u>	<u>₩ 800,301,116</u>	<u>₩ 791,619,775</u>
Financial liabilities				
Financial liabilities at fair value through profit or loss	₩ 162,671	₩ 162,671	₩ -	₩ -
Financial liabilities measured at amortized cost	1,033,238,083	1,033,459,099	1,305,195,298	1,305,846,612
	<u>₩ 1,033,400,754</u>	<u>₩ 1,033,621,770</u>	<u>₩ 1,305,195,298</u>	<u>₩ 1,305,846,612</u>

The Group estimates the book amounts 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 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 at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	Level I	Level II	Level III	Total
December 31, 2016				
Available-for-sale financial assets	₩ 2,066	₩ -	₩ -	₩ 2,066
Financial assets at fair value through profit or loss	-	1,141,907	-	1,141,907
Financial liabilities at fair value through profit or loss	-	162,671	-	162,671
December 31, 2015				
Available-for-sale financial assets	₩ 218,918	₩ -	₩ -	₩ 218,918

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37. Construction Contracts

Changes in amounts of construction contracts for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Balance at beginning of year	₩ 123,357	₩ 297,225
Contracts change	<u>(123,357)</u>	<u>(173,868)</u>
	-	123,357
Balance at end of year	<u>₩ -</u>	<u>₩ 123,357</u>

Details of construction contracts for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	Construction site	Ordering organization	<u>Gross contract amount</u>	
			<u>2016</u>	<u>2015</u>
	Markhills	EV&A Corporation, Yuyeon D&C	₩ -	₩ 2,600,000

38. Income Taxes

Income tax expense (benefit) for the years ended December 31, 2016 and 2015 consists of:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Current income tax expense	₩ 83,468,562	₩ 57,399,510
Adjustment for prior periods	9,766,257	12,246,282
Origination and reversal of temporary differences	<u>(10,710,219)</u>	<u>5,200,195</u>
Total income tax effect	82,524,600	74,845,987
Income tax recognized in other comprehensive income	<u>(7,741,542)</u>	<u>407,109</u>
Total income tax expense	<u>₩ 74,783,058</u>	<u>₩ 75,253,096</u>

Origination and reversal of temporary differences for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Deferred tax liabilities net, beginning	₩ 65,239,446	₩ 60,039,251
Effect of merger	(7,673,865)	-
Origination and reversal of temporary differences	<u>(10,710,219)</u>	<u>5,200,195</u>
Deferred tax liabilities net, ending balance	<u>₩ 46,855,362</u>	<u>₩ 65,239,446</u>

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Income taxes recognized directly in other comprehensive income for the years ended December 31, 2016 and 2015 are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Current		
Remeasurements of the defined benefit liability	₩ (381,515)	₩ 385,351
Deferred		
Gains/losses on valuation of available-for-sale securities	16,691	(25,977)
Shares of other comprehensive income of associate companies	-	(32,356)
Cumulative effect of foreign currency translation	-	80,091
Income tax expense (income) recognized directly in other comprehensive income	<u>₩ (364,824)</u>	<u>₩ 407,109</u>

Reconciliation between profit before income tax and income tax expense for the years ended December 31, 2016 and 2015, follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Profit before income tax	₩ 307,430,206	₩ 251,796,291
Income tax using the Group's statutory tax rate	₩ 72,568,657	₩ 60,478,014
Non-deductible expense	701,154	1,158,748
Tax credits	(3,532,258)	(998,914)
Adjustments for prior periods	9,766,257	12,246,282
Tax effects of temporary differences for which no deferred tax assets (liabilities) are recognized	1,835,466	(1,362,699)
Effect on merger	(7,673,865)	-
Others	1,117,647	3,731,665
Income tax expense	<u>₩ 74,783,058</u>	<u>₩ 75,253,096</u>
Effective tax rate	24.33%	29.89%

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.

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Changes in deferred tax assets and liabilities for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016				
	Beginning balance	Changes resulting from merger	Profit or loss	Other comprehensive income	Ending balance
Bad debt expense	₩ 1,124,318	₩ -	₩ (396,307)	₩ -	₩ 728,011
Provision for warranty	798,567	-	(46,926)	-	751,641
Research and human development reserves	(1,888,000)	-	920,000	-	(968,000)
Accumulated depreciation	(44,993,842)	-	(6,381,296)	-	(51,375,138)
Defined benefit liability	208,577	-	470,781	(381,515)	297,843
Land	(16,497,734)	-	(1,844,896)	-	(18,342,630)
Investments in subsidiaries	12,707,666	7,673,865	559,677	-	20,941,208
Others	(16,698,998)	-	17,794,010	16,691	1,111,703
	<u>₩ (65,239,446)</u>	<u>₩ 7,673,865</u>	<u>₩ 11,075,043</u>	<u>₩ (364,824)</u>	<u>₩ (46,855,362)</u>

<i>(In thousands of Korean won)</i>	2015			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Bad debt expense	₩ 1,710,194	₩ (585,876)	₩ -	₩ 1,124,318
Provision for warranty	918,931	(120,364)	-	798,567
Research and human development reserves	(2,820,000)	932,000	-	(1,888,000)
Accumulated depreciation	(36,243,762)	(8,750,080)	-	(44,993,842)
Defined benefit liability	46,318	(223,092)	385,351	208,577
Land	(16,475,225)	(22,509)	-	(16,497,734)
Investments in subsidiaries	7,034,687	5,672,979	-	12,707,666
Others	(14,210,395)	(2,510,361)	21,758	(16,698,998)
	<u>₩ (60,039,252)</u>	<u>₩ (5,607,303)</u>	<u>₩ 407,109</u>	<u>₩ (65,239,446)</u>

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The amount of deductible temporary differences for which deferred tax assets are not recognized as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>		<u>2015</u>	
Investments in subsidiaries	₩	179,073,153	₩	113,568,529
Other		17,837,782		26,897,495
Tax loss carryforwards		29,611,538		20,820,383

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 at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>		<u>2015</u>	
Investments in subsidiaries	₩	(37,576,205)	₩	(37,576,205)
Land		-		(6,781,039)
Other		-		(1,628,166)

As at December 31, 2016 and 2015, 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.

The aggregate amounts of tax assets and liabilities as at December 31, 2016 and 2015 before offsetting are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>		<u>2015</u>	
Income taxes payable	₩	29,455,286	₩	29,315,810
Prepaid income taxes		(2,883,957)		(5,583,220)
Income taxes payable, net	₩	<u>26,571,329</u>	₩	<u>23,732,590</u>

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39. 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.

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.

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The carrying amount of financial assets is maximum exposure to credit risk. The maximum exposure to credit risk as at December 31, 2016 and 2015 is as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Short-term and long-term deposits	158,095,355	364,552,229
Trade and other receivables	192,455,654	174,078,026
Cash equivalents ¹	238,908,818	251,283,027
	<u>₩ 589,459,827</u>	<u>₩ 789,913,282</u>

¹ The rest of Cash and cash equivalents on the consolidated statements of financial position is cash hold by the Group

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 at December 31, 2016, 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>
Debentures and borrowings	₩ 746,928,165	₩ 770,835,767	₩ 192,030,549	₩ 293,120,310	₩ 162,481,858	₩ 123,203,050
Trades and other payables	286,309,919	286,367,261	284,563,261	624,000	250,000	930,000
Financial liabilities at fair value through profit or loss	162,671	162,671	-	162,671	-	-
	<u>₩ 1,033,400,755</u>	<u>₩ 1,057,365,699</u>	<u>₩ 476,593,810</u>	<u>₩ 293,906,981</u>	<u>₩ 162,731,858</u>	<u>₩ 124,133,050</u>

The maturity analysis of financial liabilities as at 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>
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>

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:

<i>(In thousands of Korean won)</i>	<u>USD</u>	<u>JPY</u>	<u>EUR</u>	<u>CHF</u>	<u>CNY</u>	<u>AUD</u>	<u>GBP</u>
December 31, 2016							
Cash and cash equivalents	₩ 42,284,242	₩ 372,322	₩ -	₩ -	₩ -	₩ 13,075	₩ 1,022
Trade receivables and other receivables	4,792,026	2,450,656	403,287	-	17,580	-	-
Trade payables and other payables	(5,976,768)	(261,295)	(1,712,679)	-	-	-	-
Borrowings	(383,250,633)	-	(637,704)	(924,981)	-	-	-
	<u>₩ (342,151,133)</u>	<u>₩ 2,561,683</u>	<u>₩ (1,947,096)</u>	<u>₩ (924,981)</u>	<u>₩ 17,580</u>	<u>₩ 13,075</u>	<u>₩ 1,022</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>	<u>₩ -</u>	<u>₩ -</u>

The exchange rates as at December 31, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
USD	1,208.50	1,172.00
JPY	10.37	9.72
EUR	1,267.60	1,280.53
CHF	1181.33	1185.39
CNY	173.26	180.55
AUD	872.05	853.10
GBP	1,480.17	1,735.91

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As at December 31, 2016 and 2015, 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)	2016				2015			
	10% strengthening		10% weakening		10% strengthening		10% weakening	
USD	₩	(34,215,113)	₩	34,215,113	₩	(44,260,787)	₩	44,260,787
JPY		256,168		(256,168)		62,681		(62,681)
EUR		(194,710)		194,710		-		-
CHF		(92,498)		92,498		-		-
CNY		1,758		(1,758)		(1,378,205)		1,378,205
AUD		1,308		(1,308)		-		-
GBP		102		(102)		-		-
	₩	(34,242,985)	₩	34,242,985	₩	(45,576,311)	₩	45,576,311

Interest rate risk

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

(In thousands of Korean won)	2016		2015	
Short-term borrowings	₩	218,928,815	₩	121,476,135
Long-term debts		156,604,054		369,342,212
	₩	375,532,869	₩	490,818,347

As at December 31, 2016 and 2015, the effects of a 100bp fluctuation of the interest rates on profit (loss) except long-term debts hedged at floating risk were as follows:

(In thousands of Korean won)	2016				2015			
	10% increase		10% decrease		10% increase		10% decrease	
Net finance cost	₩	(3,755,329)	₩	3,755,329	₩	(4,908,183)	₩	4,908,183

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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 at December 31, 2016 and 2015, the Group's net debt-to-equity ratio as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Net debt:		
Debts and borrowings	₩ 746,928,165	₩ 1,006,956,641
Less: Cash and cash equivalents	<u>(239,537,403)</u>	<u>(252,770,602)</u>
	507,390,762	754,186,039
Equity	1,704,895,451	1,526,175,939
Net debt-to-equity ratio	29.76%	49.42%

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40. Financial Commitments and Contingencies

Financial commitments to financial institutions as at December 31, 2016 are as follows:

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

Lender	Type of commitment	Amount	
	Usance	USD	10,000,000
Kookmin Bank	Group purchase card	KRW	20,000,000
	General loan	KRW	3,000,000
	Bank overdraft	KRW	5,000,000
	Group purchase card	KRW	40,000,000
Shinhan Bank	Commercial paper discount	KRW	30,000,000
	Usance	USD	15,900,000
	Foreign trade contract	USD	20,000
	General loan	KRW	8,000,000
Meritz Investment Bank	Usance	USD	3,000,000
	Commercial paper discount	KRW	30,000,000
Hyundai Card	Group purchase card	KRW	12,000,000
Woori Bank	General loan	USD	5,000,000
	General loan	CNY	80,000,000
Industrial Bank of Korea	General loan	USD	10,000,000
	General loan	USD	20,000,000
Industrial and Commercial bank of China	General loan	CNY	550,000,000
Bank of China	Usance	CNY	60,000,000
	General loan	CNY	80,000,000
DBS Bank	General loan	USD	20,000,000
	General loan	CNY	200,000,000
Korea Development Bank	General loan	USD	45,750,000
The Export- Import Bank of Korea	General loan	USD	29,000,000
HSBC	General loan	USD	38,000,000
	General loan	CNY	50,000,000
Hana Bank	Usance	CNY	80,000,000
Sumitomo Mitsui Banking Corporation	General loan	USD	15,000,000

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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)

<u>Counterparty</u>	<u>Guarantor</u>	<u>Amount</u>
Seoul Young Baesa	Hana Bank	₩ 400,000
Taegyeong Picture	Woori Bank	200,000
Dongbo Cinema	Standard Chartered Bank	200,000
RG Enter works Co., Ltd.	Dano Ltd.	300,000
Click kankokku Co., Ltd.	Seoul Guarantee Insurance	12,000
Ja Ok Kim	Seoul Guarantee Insurance	6,000
Taechang MP Films Co., Ltd.	Seoul Guarantee Insurance	6,500
Apolron Entertainment Co., Ltd.	Seoul Guarantee Insurance	33,000
PK Entertainment Co., Ltd	Seoul Guarantee Insurance	10,000
Total		₩ 1,167,500

As at December 31, 2016, guarantees of ₩19,050 million are provided to the Group by Seoul Guarantee Insurance Company and Construction Guarantee Cooperative for the performance of contracts.

As at December 31, 2016, the Group provides guarantees to the customers with the maximum amount of ₩12,000 million in relation to the Corporate Purchase Card of Hyundai Card.

As at December 31, 2016, guarantees of ₩21,040,061 thousand are provided to the Group by Seoul Guarantee Insurance Company for the recovery of contracts.

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Details of lawsuit pendings as at December 31, 2016 are summarized as follows.

(In thousands
of Korean won)

Company	Plaintiff	Defendant	Contents	Amounts	Progress
Orion Corp.	Bong Suk Kang and 50 others	Orion Corp.	Claim for wages	₩ 510,000	First trial in progress
	Mi Sook Park and 2 others	Orion Corp.	Compensation for damages	272,249	Settlement of reconciliation
	Hee Young Choi	Orion Corp.	Request for unfair return / Affirmation of the non-existence of liabilities	179,000	First trial in progress
	Borin construction Corp.	Orion Corp and 7 others	Affirmation of the non-existence of stockholder's position	100,000	First trial in progress
	Orion Corp.	Pepper Savings Bank	Lawsuit for dividends objection	26,000	First trial in progress
	Orion Corp.	Dong Ho Kim and 11 others	Application for decision of the purchase price of shares	-	First trial in progress
	Orion Corp.	Hee Young Choi	Compensation for damages	102,864	First trial in progress
	Orion Corp.	Kyung Min Cho	Compensation for damages	7,567,194	First trial in progress
	Orion Corp.	Kyung Min Cho	Compensation for damages	10,000,000	First trial in progress
	Orion Corp. and 92 others	Kyung Min Cho	Compensation for damages	1,572,159	Third trial in progress
SHOWBOX Corp.	Orion Corp.	Dong Hee Park	Request for unfair return	300,000	First trial in progress
	Jong Rim Choi	SHOWBOX Corp. and 2 others	Compensation for damages	1,000,000	Won in the second trial

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41. Merger

41.1 Merger of Sports Toto and Sports Toto Online

The company merged with Sports Toto Co., Ltd on August 15, 2016, with the approval of Board of Directors on April 19, 2016 and merged with Sports Toto Online Co., Ltd. on October 24, 2016, with the approval of Board of Directors on August 22, 2016.

The merger of the Company and Sports Toto Co., Ltd was a business combination of entities under a common control, the Company issued 0.0130042 ordinary shares of Orion corporation (face value of ₩5,000) as an exchange of 1 ordinary share of Sports Toto Co., Ltd (face value of ₩5,000) to the stockholders listed in the stockholders' list of Sports Toto Co., Ltd on the date of merger and the Company issued the 32,208 ordinary shares in total. The Company did not issue ordinary shares for Sports Toto Online Co., Ltd. s common stock as the Company has 100% ownership.

Details of the surviving company and merged companies are summarized as follows:

	Surviving Company	Merged Company	Merged Company
Name of company	Orion Co., Ltd.	Sports Toto Co., Ltd	Sports Toto Online Co., Ltd
Location	Baekbeomro 90-da gil 13, Yongsan-gu, Seoul, Korea	Dosan-daero 310 ,Gangnamgu, Seoul, Korea	Dosan-daero 310 ,Gangnamgu, Seoul, Korea
CEO	Kyung Jae Lee	Sun-young Jung	Sun-young Jung
Type of corporate	Listed corporation	Unlisted corporation	Unlisted corporation
Main business	Manufacturing and selling baked goods and snacks	Amusement, cultural and sports industry	Information and communication service development and internet service industry
Relationship	Parent Company	Subsidiary of the Controlling Company	Subsidiary of the Controlling Company

General terms

Sports Toto Co., Ltd and Sports Toto Online Co., Ltd were unlisted corporations and 77.57% and 100% of shares respectively were 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.

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The summarized statements of financial positions for the merged companies are as follows:

<i>(In thousands of Korean won)</i>	<u>Sports Toto Co., Ltd</u>	<u>Sports Toto Online Co., Ltd</u>
Current assets	₩ 103,638,260	₩ 56,729,884
Non-current assets	114,287,358	1,136,332
Non-current assets held for sale	14,361,599	-
Total assets	<u>232,287,217</u>	<u>57,866,216</u>
Current liabilities	13,738,504	55,888
Non-current liabilities	4,540,384	-
Total liabilities	<u>18,278,888</u>	<u>55,888</u>
Capitals	214,008,329	57,810,328

The accounting treatment for the mergers

The assets acquired and liabilities assumed from the merger with Sports Toto Co., Ltd and Sports Toto Online 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.

41.2 Merger of Ipak

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 ordinary shares 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

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The accounting treatment for the mergers

The assets acquired and liabilities assumed from the merger with Ipak Co., Ltd. were recognized as the book amount 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 statement of financial position of Ipak Co., Ltd at the date of merger

<i>(In thousands of Korean won)</i>	Amount
Current assets	₩ 8,525,881
Non-current assets	41,534,312
Total assets	50,060,193
Current liabilities	5,356,312
Non-current liabilities	245,000
Total liabilities	5,601,312
Capitals	44,458,881

41.3 Merger of Orion Snack Co., Ltd and Orion Food Co., Ltd under a common control

Orion Food Co., Ltd merged with Orion Snack Co., Ltd on September 1, 2015, with the approval of Board of Directors on May 5, 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:

	Surviving Company	Merged Company
Name of company	Orion Food Co., Ltd.	Orion Snack Co., Ltd.
Location	No.11 Quanxing Rd. Langfang Economic & Technical Development Zone, Hebei China 065001	No.8 Baihe Road Langfang Economic & Technical Development Zone, Hebei China 065001
CEO	Segeol Jang	Heungjae Kim
Type of corporate	Limited company in China	Limited company in China
Main business	Manufacturing and selling baked goods and snacks	Manufacturing and selling baked goods and snacks
Relationship	Subsidiary of the Controlling Company	Subsidiary of the Controlling Company

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The accounting treatment for the mergers

The assets acquired and liabilities assumed from the merger with Orion Snack Co., Ltd. were recognized as the book amount 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	₩	16,014,563
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 amount of identifiable net assets	₩	<u>153,983,513</u>

41.4 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	170028, Tverskaya oblast, Tver, Nab.River of Lazure,b.15	630088 ST. SEVERNY PROEZO 35(KIROVOSKY RAYON)
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

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The accounting treatment for the mergers

The assets acquired and liabilities assumed from the merger with Orion Food Rus Co., LLC and ORION FOOD NOVO LLC. were recognized as the book amount 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
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 amount of identifiable net assets	₩ <u>13,032,026</u>

42. Business Combination

On November 4, 2016, the Group obtained the control by acquiring 60% shares of JeJu Yongam Soo corp hoping to enhance its competitiveness in the beverage business. The Group expects to increase its market share on that segment as a result of the acquisition. Goodwill of ₩279,975 thousand was recognized as a result of the synergy effect of sales which is generated by business combination.

The following table summarizes the consideration paid for JeJu Yongam Soo corp., the book amounts of assets acquired, liabilities assumed and non-controlling interest in acquiree:

(In thousands of Korean won)

	<u>Amount</u>
Consideration transferred	
Cash and cash equivalents	₩ 2,124,000
Consideration transferred total	<u>2,124,000</u>
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	24,790
Other current assets	349
Property plant and equipment	6,927,433
Other non-current liabilities	(319,196)
Long-term borrowings	(3,560,000)
Total fair value of identifiable net assets	<u>3,073,376</u>
Non-controlling interest	(1,229,351)
Goodwill	<u>279,975</u>
Total	₩ <u>2,124,000</u>

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

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In 2015, 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>

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43. Related Party Transactions

Related parties as at December 31, 2016, 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
	Gemini Contents Investment Partnership #1
	Daehan distributor Corp.
Joint ventures	Beijing Zhongguan Megabox Cinema Co., Ltd.
	S.M.Contents Investment Fund No.5
	Delfi-Orion Pte Ltd
	K-food. Co., Ltd

Significant transactions which occurred in the normal course of business with related parties for the years ended December 31, 2016 and 2015, are summarized as follows:

(In thousands of Korean won)

<u>Relationship</u>	<u>Related party</u>	<u>Transaction</u>	<u>2016</u>	<u>2015</u>
		Payment of investment deposits	₩ 1,344	₩ 4,913
	Michigan Global Contents Investment Fund	Settlement of film revenue(cost) ¹	3,013	17,351
		Reduction of capital	200,000	-
		Receipt of investment deposits	1,200,000	3,100,000
	Michigan Global Contents Investment Fund #3	Payment of investment deposits	2,824,212	2,920,324
		Settlement of film revenue(cost) ¹	333,860	883,480
		Receipt of investment deposits	800,000	900,000
	Michigan Global Contents Investment Fund #4	Payment of investment deposits	541,761	603,812
Associates		Settlement of film revenue(cost) ¹	1,102,302	77,093
	CJ Global Contents Venture Capital #11 ²	Payment of investment deposits	19,874	16,725
		Settlement of film revenue(cost) ¹	-	19,874
		Liquidation	52,288	-
	Gemini Contents Investment Partnership #1	Payment of investment deposits	-	23,145
		Settlement of film revenue(cost) ¹	-	-
		Receipt of investment deposits	6,100,000	7,000,000
	S.M.Contents Investment Fund No.5	Payment of investment deposits	10,516,213	4,853,617
		Settlement of film revenue(cost) ¹	2,531,589	2,559,291
Other	LANGFANG IPAK Co., Ltd. ³	Purchase	-	17,872,540
	STELLA WAY LIMITED	Acquisition of equity	-	12,414,817

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

² CJ Global Contents Venture Capital #11 was put in liquidation during this year and the amount stated above is the result of transactions before CJ Global Contents Venture Capital #11 was put in liquidation.

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.

Accounts payable balances with related parties as at December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

Relation-ship	Related party	2016		2015	
		Trade payables ¹	Other payables	Trade payables ¹	Other payables
Associates	Michigan Global Contents Investment Fund	₩ 2,485	165,368	₩ 15,479	₩ 166,712
	Michigan Global Contents Investment Fund #3	94,067	60,177	844,975	1,684,389
	Michigan Global Contents Investment Fund #4	1,067,817	807,798	359,765	549,560
	CJ Global Contents Venture Capital #11	-	-	-	19,874
	Gemini Contents Investment Partnership #1	-	165,276	-	165,276
	S.M.Contents Investment Fund No.5	3,228,530	4,130,170	2,833,547	8,546,383
		₩ 4,392,899	5,328,789	₩ 4,053,766	₩ 11,132,194

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

Details of fund transactions with related parties for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

Relation-ship	Related party	Contents of Trade	2016	2015
Joint venture	Delfi-Orion Pte Ltd	Corporation establishment	(1)	-
Joint venture	K-food. Co., Ltd	Corporation establishment	(14,682,623)	-

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Details of key management personnel compensation for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Short-term employee benefits	₩ 2,455,404	₩ 2,174,873
Post-employment benefits	<u>701,601</u>	<u>557,871</u>
	<u>₩ 3,157,005</u>	<u>₩ 2,732,744</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.

44. Supplemental Cash Flows Information

The principal non-cash transactions for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Reclassification from construction in progress to property, plant and equipment	₩ 136,987,505	₩ 103,064,755
Reclassification from prepayments to publication rights	50,234,260	74,700,501
Reclassification from property, plant and equipment to investment property	17,970,010	-
Other payables regarding the acquisition of property, plant and equipment	(8,797,159)	(6,055,727)
Reclassification from long-term borrows to short-term borrowings	376,553,140	130,480,986
Transferred from construction in progress to the Korea Sports Promotion Ordinance	-	6,885,740
Reclassification from long-term rental deposits to short-term rental deposits	2,452,508	-
Write-off of trade receivables	777,056	-
Reclassification from long-term prepayments to short-term prepayments	788,769	-
Reclassification from available-for-sale financial assets to intangible assets	445,000	-

The Group reported cash inflows and outflows arising from the financial deposits on a net basis, which turnover is quick, amounts are large and maturities are short.

45. Unusual items

According to their nature, size or incidence, unusual items are collectively presented in the relevant categories on the statement of profit or loss. The information on the nature and amount of unusual items provides a useful information for forecasting company's operating results.

Details of unusual items reflected on the statement of profit or loss are as follows.

<i>(In thousands of Korean won)</i>	<u>2016</u>	<u>2015</u>
Losses due to disaster	₩ 16,468,109	₩ -
Insurance income	22,000,000	-

Due to the fire at the manufacturing plant in Icheon in 2016, the inventory amount of ₩ 810,721 thousand and the property, plant and equipment amount of ₩ 15,657,388 thousand were destroyed by fire. The Group received the part of claims (₩ 22,000,000 thousand) from the insurance company.

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46. Events After the Reporting Period

The company is scheduled to equity spinoff on June 1, 2017, according to the approval of Board of Directors on November 22, 2016.

Details of Company's equity spinoff are as follows:

	<u>Name</u>	<u>Business Segment</u>	<u>Role</u>
Surviving firm	Orion Holdings corporation ¹	Investment	Holding company
Newly established firm	Orion corporation ¹	Food	Operating company

¹ The name of surviving firm from the equity spinoff can be changed according to shareholders' meeting for acquiring the consent on the equity spinoff plan after taking some steps such as approval of the Board of Directors. Also, the name of newly established firm from the equity spinoff can be changed after the shareholders' meeting for acquiring the consent on the equity spinoff plan or the inaugural assembly for the newly established firm.

The detailed schedule for the equity spinoff are as follow:

	<u>Date</u>
Shareholders' meeting for acquiring the consent on the equity spinoff plan	Mar 31, 2017
The date of spinoff	June 1, 2017
Inaugural assembly for the newly established firm.	June 1, 2017
The date of Spinoff Registration	June 5, 2017

Above schedule for the equity spinoff is not definite and can be changed according to discussions with related parties and certain circumstances.

The Group disposed of interest on Crespo Co., Ltd., on January 2017. which had been classified as non-current asset held for sale.

The Company issued bond on March 2nd 2017 in order to use it as working capital.

(In thousands of Korean won)

<u>The number of times</u>	<u>The maturity date</u>	<u>Interest rate (%)</u>	<u>Amount</u>
101th	2022-03-02	2.304%	60,000,000

The Company has a plan to liquidate one of its subsidiaries, Supreme Star Holdings Limited in the first half year of 2017. Above plan will be ultimately confirmed by the approval of shareholders' meeting of Supreme Star Holdings Limited.