

**Orion Holdings Corporation (Formerly,
Orion Corporation) and Subsidiaries**

Consolidated Financial Statements

December 31, 2017 and 2016

Orion Holdings Corporation and Subsidiaries
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December 31, 2017 and 2016

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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 Holdings Corporation

We have audited the accompanying consolidated financial statements of Orion Holdings Corporation (Formerly, Orion Corporation) and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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' Responsibilities

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 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 significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Korean IFRS.

Emphasis of Matters

Without modifying our opinion, users need to draw attention to the notes 1 and 8.

As described in the note 1, according to the approval of the general meeting of shareholders on March 31, 2017, the Company had been divided into Orion Holdings Corporation (Formerly, Orion Corporation), the surviving company which runs a business of the investment segment and Orion Corporation, the newly established company which runs of business of confectionery manufacturing and sales divisions at the date of equity spinoff which is June 1, 2017.

Also, as described in the note 8, the Company has applied Amendments to Korean IFRS 1105 Non-current Assets Held for Sale and Discontinued Operations and Amendments to Korean IFRS 2117 Distributions of Non-cash Assets to Owners due to the equity spin off as at June 1, 2017. Profit or loss from discontinued operations has been classified separately in the consolidated statement of comprehensive income for the year ended December 31, 2017 and the comparative consolidated statement of comprehensive income and cash flow statement have been restated.

Other Matters

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

March 22, 2018

Seoul, Korea

This report is effective as at March 22, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2017 and 2016

<i>(In thousands of Korean won)</i>	Notes	2017	2016
Assets			
Property, plant and equipment	9,26,41	₩ 1,803,666,747	₩ 1,817,464,496
Intangible assets	10,41	641,506,738	28,977,493
Goodwill	11,41	873,384,345	24,338,225
Investments property	12	90,807,308	39,670,509
Investments in associates and joint ventures	13,41,42	41,079,485	33,091,222
Available-for-sale financial assets	14,36	5,955,271	7,768,397
Long-term trade and other receivables	17,36,38,41	1,584,141	986,086
Long-term deposits	18,36,38,41	136,930	102,418,715
Defined benefit assets	27,41	48,741	-
Other non-current assets	15,41	118,382,119	69,145,595
Deferred income tax assets	37,41	27,735,268	4,660,975
Total Non-current assets		<u>3,604,287,093</u>	<u>2,128,521,713</u>
Inventories	16,41	174,236,220	194,383,140
Trade and other receivables	17,36,38,41	143,865,640	191,469,568
Short-term deposits	18,36,38,41	96,502,450	55,676,639
Derivative assets	28	-	1,141,907
Other current assets	15,41	64,592,738	76,684,912
Current income tax assets	37,41	656,357	-
Cash and cash equivalents	18,36,38,41	215,153,916	239,537,403
Total Current assets		<u>695,007,321</u>	<u>758,893,569</u>
Total Non-current asset held for sale	7	<u>3,555,215</u>	<u>21,449,182</u>
Total assets		<u>₩ 4,302,849,629</u>	<u>₩ 2,908,864,464</u>

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2017 and 2016

	Notes	2017	2016
Equity			
Capital stock	19	₩ 31,322,027	₩ 30,042,175
Capital surplus	19	1,251,281,671	66,913,634
Treasury shares	20	(11,625,409)	(32,477,479)
Other capital	21	(2,407,503,791)	(1,470,589)
Reserves	22	636,010,030	639,830,615
Retained earnings		2,348,374,933	896,684,094
Equity attributable to owners of the Parent		1,847,859,461	1,599,522,450
Non-controlling interest	5,41	1,270,045,827	105,373,002
Total equity		3,117,905,288	1,704,895,452
Liabilities			
Long-term debts	26,36,38,41	329,446,063	276,564,601
Long-term trade and other payables	25,36,38,41,42	2,233,284	1,122,658
Defined benefit liabilities	27	-	1,512,043
Deferred tax liabilities	37,41	263,625,337	51,516,337
Other non-current liabilities	29,41	863,857	865,511
Total Non-current liabilities		596,168,541	331,581,150
Current portion of long-term debts	26,36,38,41	165,854,506	376,429,539
Short-term borrowings	26,36,38,41	104,443,834	93,934,025
Trade and other payables	25,36,38,41	255,241,726	285,187,261
Derivative liabilities	28,41	260,928	162,671
Current income tax liabilities	37,41	17,825,180	26,571,329
Other current liabilities	29,41	45,149,626	90,056,874
Total Current liabilities		588,775,800	872,341,699
Total Liabilities related to non-current asset held for sale	7	-	46,164
Total liabilities		1,184,944,341	1,203,969,012
Total equity and liabilities		₩ 4,302,849,629	₩ 2,908,864,464

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

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2017 and 2016

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

	Notes	2017	2016
Continuing operations			
Revenue	31	₩ 112,748,278	₩ 127,964,480
Cost of sales	31,35,42	(85,244,092)	(101,434,883)
Gross profit		<u>27,504,186</u>	<u>26,529,597</u>
Selling expenses	32,35	(113,596)	(2,566,657)
General and administrative expenses	32,35	(22,489,680)	(25,756,902)
Operating profit(loss)		<u>4,900,910</u>	<u>(1,793,962)</u>
Net other expenses	33	(52,159,515)	(2,116,597)
Net finance incomes(costs)	34,36	(419,033)	704,855
Share of profit of associates and joint ventures	13	7,673,847	1,703,951
Loss before income tax		<u>(40,003,791)</u>	<u>(1,501,753)</u>
Income tax expense	37	(566,477)	(2,762,396)
Loss from continuing operations		<u>(40,570,268)</u>	<u>(4,264,149)</u>
Discontinued operations			
Profit from discontinued operations, net of tax	8	1,526,976,732	253,313,793
Profit for the year		<u>1,486,406,464</u>	<u>249,049,644</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	14,36,37	(42,248)	14,960
Reclassification due to disposal of available-for-sale financial assets	14,36,37	-	(80,438)
Exchange differences on translating foreign operations		(45,469,387)	(31,222,284)
Share of other comprehensive income (loss) of associates and joint ventures	13	(7,281,628)	(303,897)
Income tax of other comprehensive income		9,305	16,691
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gain(loss)	27,37	(970,869)	1,845,894
Share of defined benefit plan actuarial gain(loss) of associates		(65,252)	-
Income tax of other comprehensive income		230,708	(381,515)
Other comprehensive income(loss) for the year, net of tax		<u>(53,589,371)</u>	<u>(30,110,589)</u>
Total comprehensive income for the year		<u>₩ 1,432,817,093</u>	<u>₩ 218,939,055</u>

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2017 and 2016

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

	Notes	2017	2016
Profit (loss) attributable to:			
Loss from continuing operations		₩ (47,333,263)	₩ (10,142,539)
Profit from discontinued operations		1,527,646,191	246,809,515
Owners of the Parent		<u>1,480,312,928</u>	<u>236,666,976</u>
Profit from continuing operations		6,762,995	5,878,390
Profit(Loss) from discontinued operations		<u>(669,459)</u>	<u>6,504,278</u>
Non-controlling interests		<u>6,093,536</u>	<u>12,382,668</u>
Profit for the year		<u><u>1,486,406,464</u></u>	<u><u>249,049,644</u></u>
Total comprehensive income attributable to			
Owners of the Parent		1,430,173,706	209,316,654
Non-controlling interests		<u>2,643,387</u>	<u>9,622,401</u>
Total comprehensive income for the year		₩ <u><u>1,432,817,093</u></u>	₩ <u><u>218,939,055</u></u>
Earnings per share: (in Korean won)			
	23		
Basic earnings per share from continuing operations		(1,250)	(193)
Basic earnings per share from discontinued operations		40,342	4,689
Diluted earnings per share from continuing operations		(1,250)	(193)
Diluted earnings per share from discontinued operations		40,341	4,689

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

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2017 and 2016

<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	₩	66,891,051	₩	(32,423,770)	₩	(15,463,729)	₩	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)		-		-		(2,640,963)		(31,222,284)
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		9,622,401		218,939,055
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		-		(9,616)		-		-		-		19,057
Increase(Decrease) of non-controlling interests		-		-		-		(268,747)		-		-		394,174		125,427
Other equity transactions (Business Combination)		-		-		-		-		-		-		5,029,350		5,029,350
Other equity transactions (Mergers and acquisitions)		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)		42,871,929		(2,439,067)		(29,068,475)		(51,714,523)		(40,219,542)
Balance at December 31, 2016	₩	30,042,175	₩	66,913,634	₩	(32,477,479)	₩	(1,470,589)	₩	639,830,615	₩	896,684,094	₩	105,373,002	₩	1,704,895,452

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2017 and 2016

<i>(In thousands of Korean won)</i>	Capital stock		Capital surplus		Treasury shares		Other capital		Reserve		Retained earnings		Non-controlling interests		Total equity	
Balance at January 1, 2017	₩	30,042,175	₩	66,913,634	₩	(32,477,479)	₩	(1,470,589)	₩	639,830,615	₩	896,684,094	₩	105,373,002	₩	1,704,895,452
Comprehensive income:																
Profit for the year		-		-		-		-		-		1,480,312,928		6,093,536		1,486,406,464
Other comprehensive income:																
Change in fair value of available-for-sale financial assets		-		-		-		(19,094)		-		-		(13,849)		(32,943)
Exchange differences on translating foreign operations		-		-		-		(42,201,278)		-		-		(3,268,109)		(45,469,387)
Share of other comprehensive income of associates and joint ventures		-		-		-		(7,177,355)		-		-		(104,273)		(7,281,628)
Remeasurements of net defined benefit liability		-		-		-		-		-		(676,243)		(63,918)		(740,161)
Share of defined benefit plan actuarial gain(loss) of associates		-		-		-		-		-		(65,252)		-		(65,252)
Total comprehensive income for the year		-		-		-		(49,397,727)		-		1,479,571,433		2,643,387		1,432,817,093
Total transactions with owners of the Company, recognized directly in equity																
Dividends		-		-		-		-		-		(31,701,179)		(1,320,101)		(33,021,280)
Cancellation of stock options		-		-		-		(41,264)		-		-		-		(41,264)
Increase(Decrease) of non-controlling interests		-		-		-		21,354		-		-		(31,894)		(10,540)
Purchase of treasury shares		-		-		(1,100,998)		-		-		-		-		(1,100,998)
Transfer to statutory reserve		-		-		-		-		179,415		(179,415)		-		-
Transfer from voluntary reserve		-		-		-		-		(4,000,000)		4,000,000		-		-
Changes due to spin-off		(19,766,751)		(44,026,943)		21,953,068		(2,363,506,444)		-		-		(35,631,665)		(2,440,978,735)
Investment in kind		21,046,603		1,228,394,980		-		-		-		-		-		1,249,441,583
Other equity transactions (Business Combination)		-		-		-		6,890,879		-		-		1,199,013,098		1,205,903,977
Total transactions with owners of the Company, recognized directly in equity		1,279,852		1,184,368,037		20,852,070		(2,356,635,475)		(3,820,585)		(27,880,594)		1,162,029,438		(19,807,257)

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2017 and 2016

Balance at December 31, 2017

₩ 31,322,027 ₩ 1,251,281,671 ₩ (11,625,409) ₩ (2,407,503,791) ₩ 636,010,030 ₩ 2,348,374,933 ₩ 1,270,045,827 ₩ 3,117,905,288

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

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

(In thousands of Korean won)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Loss from continuing operations	₩ (40,570,268)	₩ (4,264,149)
Profit from discontinued operations	1,526,976,732	253,313,793
Adjustments for:		
Retirement benefits	6,354,968	13,599,021
Losses due to disaster	-	16,468,110
Depreciation	27,709,868	108,041,531
Depreciation of investment property	760,505	237,743
Amortization	58,476,591	52,995,635
Impairment loss on intangible assets	-	320,478
Bad debt expenses(Reversal of bad debt allowance)	(84,698)	(687,001)
Loss on sale of trade receivables	-	1,461,040
Loss on sale of property, plant and equipment	883,526	2,879,853
Loss on sale of intangible assets	90,072	72,000
Loss on sale of investments	-	19,527
Impairment loss on available-for-sale financial assets	225,532	795,166
Loss on sale of available-for-sale financial assets	21,803	7,575
Loss on sale of investments in associates	52,792,665	-
Impairment loss on other receivables	13,150	124,646
Valuation loss on derivatives	923,895	150,876
Foreign currency translation loss	4,971,678	22,841,602
Interest expense	8,464,755	25,326,229
Other expenses	642,655	70,490
Income tax expense	8,634,482	57,298,443
Share of gain of associates and joint ventures	(7,587,496)	(1,646,716)
Gain on sale of property, plant and equipment	(705,286)	(2,115,233)
Reversal of impairment loss on intangible assets	(15,303)	-
Reversal of bad debt allowance	(66,603)	(839,730)
Gain on sale of available-for-sale financial assets	(24,466)	(43,818)
Foreign currency translation gain	(5,955,066)	(11,361,929)
Gain on valuation of derivatives	-	(1,136,427)
Interest income	(4,056,609)	(12,164,444)
Dividend income	(174,667)	(204)
Gains on disposal of assets held for sale	(1,658,434)	-
Gains on sale of discontinued operations	(1,489,856,322)	-
Other income	(60,266)	(166,120)
Subtotal	<u>(1,339,279,071)</u>	<u>272,548,343</u>
Changes in:		
Trade receivables	35,079,154	(22,479,140)
Other receivables	(4,975,195)	(4,622,056)
Inventories	52,506,249	(11,416,463)

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

<i>(In thousands of Korean won)</i>	2017	2016
Other current assets	₩ (54,052,639)	₩ (57,221,712)
Other non-current assets	906,879	(6,749,202)
Trade payables	(30,541,484)	(4,985,846)
Other payables	(57,530,537)	5,507,106
Plan assets	2,678,097	(3,466,926)
Payment of defined benefit obligations	(5,198,439)	(10,277,673)
Other current liabilities	(54,244,297)	21,125,869
Other non-current liabilities	205,501	2,418,897
Subtotal	(115,166,711)	(92,167,146)
Interest received	5,203,364	7,207,972
Dividend received	174,667	204
Interest paid	(9,774,123)	(25,959,895)
Income tax paid	(36,348,615)	(70,052,717)
Net cash inflow(outflow) from operating activities	(8,784,025)	340,626,405
 Cash flows from investing activities		
Proceeds from sale of available-for-sale financial assets	2,757,760	270,516
Proceeds from sale of investment in associates	2,085,000	252,288
Proceeds from sale of property, plant and equipment	2,715,568	3,252,537
Proceeds from sale of intangible assets	379,186	349,131
Proceeds from sale of investment property	504,013	-
Decrease in rental deposits	293,203	1,435,531
Decrease in short-term loans	7,000,000	-
Proceeds from disposal of non-current assets held for sales	4,863,830	-
Increase in cash due to business combination	101,606,293	-
Other cash inflows from investing activities	242,920	228,473
Acquisition of available-for-sale financial assets	(1,200,000)	(408,055)
Acquisition of property, plant and equipment	(58,121,785)	(237,118,693)
Acquisition of intangible assets	(3,648,853)	(3,503,749)
Acquisition of investment property	(680)	-
Increase in rental deposits	(107,230)	(249,900)
Increase in short- and long-term deposits	710,299	214,002,314
Decrease in cash due to business combination	-	(2,099,210)
Acquisition of investments in joint ventures	(1,003,253)	(14,682,624)
Other cash outflows from investing activities	-	(4,706,496)
Cash outflows due to liquidation of subsidiaries	-	(11,419)
Acquisition of non-current assets held for sales	(23,495)	(10,720)
Net cash inflow(outflow) from investing activities	59,052,776	(43,000,076)

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

<i>(In thousands of Korean won)</i>	2017	2016
Cash flows from financing activities		
Proceeds from exercise of stock options	-	19,057
Increase in security deposits	590,000	1,209,000
Increase in short-term borrowings	433,271,895	492,558,799
Increase in long-term borrowings	109,709,160	-
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	(577,955)	(797,768)
Redemption of short-term borrowings	(385,193,838)	(623,375,170)
Redemption of current portion of long-term borrowings	(108,681,330)	(89,337,570)
Redemption of long-term borrowings	-	(44,742,078)
Redemption of borrowings directly related to non-current assets held for sales	-	(7,000,000)
Stock issue cost due to business combination	(558,418)	(5,410)
Acquisition of treasury shares due to business combination	-	(53,709)
Dividends paid	(33,021,280)	(32,827,642)
Acquisition of treasury shares	(1,100,998)	-
Acquisition of Non- controlling interest	-	(14,838,724)
Other cash outflows from financing activities	(4,969)	(639,112)
Net cash inflow(outflow) from financing activities	14,432,267	(308,935,385)
Effect of exchange rate fluctuations on cash held, and others	(6,380,454)	(2,418,077)
Net increase(decrease) in cash and cash equivalents	58,320,564	(13,727,133)
Cash and cash equivalents at the beginning of year	240,128,109	253,855,242
Decrease in cash equivalents due to equity spin off	(83,294,757)	-
Cash and cash equivalents at the end of year	215,153,916	240,128,109
Cash and cash equivalents of disposal group classified as held for sale	-	(590,706)
Cash and cash equivalents at the end of the year on the consolidated statement of financial position	₩ 215,153,916	₩ 239,537,403

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

Orion Holdings Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

1. General Information

Description of the Controlling Company

Orion Holdings Corporation, formerly 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, 2017, the Company engages in the business of manufacturing and selling confectioneries with its headquarters in Baekbum-ro, Yongsan-gu, Seoul, Korea. The Company has increased its capital stock several times since incorporation and as at December 31, 2017, the Company has capital stock of ₩31,322 million, and its major stockholders are Lee Hwa Kyoung (32.63%) and five related individuals (31.17%).

In the meantime, the Company decided to equity spin off of the Investment business division and the confectionery manufacturing and selling division at the Board of Directors on November 22, 2016 and this resolution was approved by Shareholders’ meeting on March 31, 2017. The Company established the Orion Corporation as a result of equity spin off as at June 1, 2017 and the Company, the surviving firm from the equity spin off changed its name to Orion Holdings Corporation.

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 and joint ventures.

The Company and its consolidated subsidiaries as at December 31, 2017 and 2016, are as follows:

Name	Location	Immediate controlling party	2017 Percentage of ownership		
			The Company	Subsidiary	Total
Orion Holdings Corporation	Korea	The Ultimate Parent Company	-	-	-
Orion Corporation ¹	Korea	Orion Holdings Corporation	37.37%	-	37.37%
Orion Reports Corp. ²	Korea	Orion Holdings Corporation	-	-	-
RION Asset Development Co, Ltd.	Korea	Orion Holdings Corporation	100.00%	-	100.0%
SHOWBOX Corp.	Korea	Orion Holdings Corporation	57.5%	-	57.5%
Mega Mark Co., Ltd.	Korea	Orion Holdings Corporation	100.00%	-	100.0%
PAN Orion Corp. Limited. ¹	Hong Kong	Orion Corporation	-	95.15%	95.15%
Orion International Euro LLC. ¹	Russia	Orion Corporation	-	100.00%	100.0%
Orion Food VINA Co., Ltd. ¹	Vietnam	Orion Corporation	-	100.00%	100.0%
Supreme Star Investment Limited.	Hong Kong	Orion Holdings Corporation	62.66%	11.23%	73.89%
PT.Orion Food Indonesia ¹	Indonesia	Orion Corporation	-	100.0%	100.0%
HighLand D&C Co., Ltd.	Korea	Orion Holdings Corporation	100.00%	-	100.0%
Supreme Star Holdings Limited. ³	Hong Kong	SHOWBOX Corp.	-	-	-
SHOWBOX Inc.	China	SHOWBOX Corp.	-	100.00%	100.0%
Misojin Co., Ltd.	Korea	Mega Mark Co., Ltd.	-	100.00%	100.0%
Crespo Co., Ltd. ⁴	Korea	Orion Holdings Corporation	-	-	-
Orion Food Co., Ltd. ¹	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%

Orion Holdings Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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Orion Food (Shanghai) Co., Ltd. ¹	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food Guangzhou Co., Ltd. ¹	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food (Shen Yang) Co., Ltd. ¹	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion (Bei Tun) Agro Processing Co., Ltd. ¹	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Argo BeiTun Co. Ltd ¹	China	Orion (Bei Tun) Agro Processing Co., Ltd. Supreme Star Investment Limited.	-	100.00%	100.0%
Orion Consulting Co., Ltd.	China	Orion Consulting Co., Ltd.	-	100.00%	100.0%
Beijing Supreme Star Consulting Co., Ltd.	China	Orion Consulting Co., Ltd.	-	100.00%	100.0%
Orion Argo Co., Ltd. ¹	China	Orion Food Co., Ltd.	-	100.00%	100.0%
Orion Argo DuoLun Co., Ltd. ¹	China	Orion Food Co., Ltd.	-	100.00%	100.0%
Beijing media tech Co., Ltd.	China	Orion Holdings Corporation	100.00%	-	100.0%
Beijing mega media Co., Ltd	China	Orion Holdings Corporation	100.00%	-	100.0%
STELLA WAY LIMITED ¹	Hong Kong	Orion Food Co., Ltd	-	100.00%	100.0%
LANGFANG IPAK Co., Ltd. ^{1,8}	China	Orion Food Co., Ltd	-	100.00%	100.0%
Orion Beverages Corp ⁵	Korea	Orion Holdings Corporation	-	-	-
JeJu Yongam Soo Corp ⁶	Korea	Orion Holdings Corporation	57.00%	-	57.00%
Orion Investment Development Corp. ⁷	Korea	Orion Holdings Corporation	100.00%	-	100.0%

Name	Location	Immediate controlling party	2016 Percentage of ownership		
			The Company	Subsidiary	Total
Orion Holdings Corporation	Korea	The Ultimate Parent Company	-	-	-
Orion Corporation ¹	Korea	Orion Holdings Corporation	-	-	-
Orion Reports Corp. ²	Korea	Orion Holdings Corporation	100.00%	-	100.0%
RION Asset Development Co, Ltd.	Korea	Orion Holdings Corporation	100.00%	-	100.0%
SHOWBOX Corp.	Korea	Orion Holdings Corporation	57.5%	-	57.5%
Mega Mark Co., Ltd.	Korea	Orion Holdings Corporation	100.00%	-	100.0%
PAN Orion Corp. Limited. ¹	Hong Kong	Orion Corporation	95.15%	-	95.15%
Orion International Euro LLC. ¹	Russia	Orion Corporation	100.00%	-	100.0%
Orion Food VINA Co., Ltd. ¹	Vietnam	Orion Corporation	100.00%	-	100.0%
Supreme Star Investment Limited.	Hong Kong	Orion Holdings Corporation	62.66%	11.23%	73.89%
PT.Orion Food Indonesia ¹	Indonesia	Orion Corporation	83.33%	16.67%	100.0%
HighLand D&C Co., Ltd.	Korea	Orion Holdings Corporation	100.00%	-	100.0%
Supreme Star Holdings Limited. ³	Hong Kong	SHOWBOX Corp.	-	100.00%	100.0%
SHOWBOX Inc.	China	SHOWBOX Corp.	-	100.00%	100.0%

Orion Holdings Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2017 and 2016

Misoin Co., Ltd.	Korea	Mega Mark Co., Ltd.	-	100.00%	100.0%
Crespo Co., Ltd. ⁴	Korea	Orion Holdings Corporation	98.94%	-	98.94%
Orion Food Co., Ltd. ¹	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food (Shanghai) Co., Ltd. ¹	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food Guangzhou Co., Ltd. ¹	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food (Shen Yang) Co., Ltd. ¹	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion (Bei Tun) Agro Processing Co., Ltd. ¹	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Argo BeiTun Co. Ltd ¹	China	Orion (Bei Tun) Agro Processing Co., Ltd. Supreme Star Investment Limited.	-	100.00%	100.0%
Orion Consulting Co., Ltd.	China	Orion Consulting Co., Ltd.	-	100.00%	100.0%
Beijing Supreme Star Consulting Co., Ltd.	China	Orion Consulting Co., Ltd.	-	100.00%	100.0%
Orion Argo Co., Ltd. ¹	China	Orion Food Co., Ltd.	-	100.00%	100.0%
Orion Argo DuoLun Co., Ltd. ¹	China	Orion Food Co., Ltd.	-	100.00%	100.0%
Beijing media tech Co., Ltd.	China	Orion Holdings Corporation	100.00%	-	100.0%
Beijing mega media Co., Ltd	China	Orion Holdings Corporation	100.00%	-	100.0%
STELLA WAY LIMITED ¹	Hong Kong	Orion Food Co., Ltd	-	100.00%	100.0%
LANGFANG IPAK Co., Ltd. ^{1,8}	China	Orion Food Co., Ltd	-	100.00%	100.0%
Orion Beverages Corp ⁵	Korea	Orion Holdings Corporation	100.00%	-	100.0%
JeJu Yongam Soo Corp ⁶	Korea	Orion Holdings Corporation	60.00%	-	60.0%
Orion Investment Development Corp. ⁷	Korea	Orion Holdings Corporation	-	-	-

¹In 2017, through the equity spin-off, investment in kind and business combination, Orion corporation was incorporated as a subsidiary of Orion Holdings corporation. As at June 1, 2017, the Company acquired the shares of Orion Corporation, the newly established firm, equivalent to the equity spinoff ratio for the treasury stock held by the Company at the date of spinoff. On November 15, 2017, the Company received the shares of Orion Corporation from the shareholders of Orion Corporation and issued and allocated the new shares of Orion Holdings Corporation in return. The Company's ownership of Orion Corporation is less than 50%, but it is classified as a subsidiary based on the judgement that the Company has control over Orion Corporation considering the presence of contracts on exercising of the voting rights with major shareholders and others.

² In 2017 Orion Reports Corp. went through liquidation.

³ In 2017, Supreme Star Holdings Limited. went through liquidation.

⁴ In 2017, the Group sold its shares of Crespo Co., Ltd.

⁵ In 2017, Orion Beverages Corp. went through liquidation.

⁶ In 2017, the Group donated a portion of its investment in JeJu Yongam Soo Corp. to third parties.

⁷ In 2017, the Group established Orion Investment Development Corp.

⁸ In 2017, LANGFANG IPAK Co., Ltd was sold to Orion Food Co., Ltd by STELLA WAY LIMITED

The reporting dates of the consolidated financial statements of the Controlling Company and the subsidiaries are December 31, 2017 and December 31, 2016, respectively.

Orion Holdings Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2017 and 2016

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

(In millions of Korean won)

Name	Main business	2017					
		Total assets	Total liabilities	Total equity	Sales	Net income (loss)	Comprehensive income (loss)
Orion Holdings Corporation ¹	Investment	₩ 1,907,982	₩ 5,004	₩ 1,902,978	₩ 13,597	₩ 2,228,911	₩ 2,228,258
Orion Corporation ²	Manufacturing and selling confectioneries	1,138,455	486,341	652,114	-	-	-
Orion Reports Corp. ³	Managing the basketball team	-	-	-	-	7	7
RION Asset Development Co., Ltd.	Real estate	7,770	45,518	(37,748)	-	(2,241)	(2,241)
SHOWBOX Corp.	Movie, broadcasting, and performance	201,375	63,362	138,013	102,707	15,721	15,538
Mega Mark Co., Ltd.	Construction	27,562	623	26,939	-	(99)	(99)
PAN ORION Corp. Limited ²	Holding company	290,600	189,219	101,381	-	(4,677)	(4,677)
Orion International Euro LLC ²	Manufacturing and selling confectioneries	72,475	15,644	56,831	30,449	6,192	6,192
Orion Food VINA Co., Ltd. ²	Manufacturing and selling confectioneries	183,136	35,594	147,542	93,718	17,579	17,579
Supreme Star Investment Limited	Investment Holding Company	24,690	-	24,690	-	1,222	1,222
PT. Orion Food Indonesia ²	Selling confectioneries	135	17	118	-	(68)	(68)
HighLand D&C Co., Ltd.	Developing and Selling buildings for residence	6,501	34,308	(27,807)	-	(1,510)	(1,510)
Supreme Star Holdings Limited ⁴	Holding company	-	-	-	-	(14)	(14)
SHOWBOX Inc.	Planning and developing movie	1,226	983	243	-	(343)	(343)
MisoIn Co., Ltd.	Developing and Supplying buildings for residence	10,281	66,707	(56,426)	-	(2,837)	(2,837)
Crespo Co., Ltd. ⁵	Sports/Entertainment	-	-	-	-	-	-
Orion Food Co., Ltd. ²	Manufacturing and selling confectionerie	662,291	162,989	499,302	309,121	(22,179)	(22,179)
Orion Food(Shanghai) Co., Ltd. ²	Manufacturing confectioneries	243,359	26,536	216,823	43,708	4,116	4,116

Orion Holdings Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2017 and 2016

Orion Food Guangzhou Co., Ltd. ²	Manufacturing confectioneries	229,485	97,164	132,321	30,615	2,966	2,966
Orion Food (Shen Yang) Co., Ltd. ²	Manufacturing confectioneries	175,166	83,249	91,917	18,070	594	594
Orion(Bei Tun) Agro Processing Co., Ltd. ²	Processing the agricultural products	25,740	8,449	17,291	803	(590)	(590)
Orion Agro BeiTun Co. Ltd ²	Harvesting and selling the agricultural products	1,294	3,845	(2,551)	-	(161)	(161)
Orion Consulting Co., Ltd.	Consulting	1,723	35	1,688	711	266	266
Beijing Supreme Star Consulting Co., Ltd.	Advising on investments	843	4	839	-	(21)	(21)
Orion Argo Co., Ltd. ²	Manufacturing food and beverages	15,245	573	14,672	322	(75)	(75)
Orion Agro DuoLun Co., Ltd. ²	Processing the agricultural products	2,361	88	2,273	-	(84)	(84)
Beijing media tech Co., Ltd	Developing programs	473	-	473	-	(12)	(12)
Beijing mega media Co., Ltd	Consulting for making movie	-	18	(18)	-	(6)	(6)
STELLA WAY LIMITED ²	Advising on investment	25,574	-	25,574	-	(1)	(1)
LANGFANG IPAK Co., Ltd. ²	Manufacturing pulp and paper	20,374	1,950	18,424	5,157	(401)	(401)
Orion Beverages Corp ⁶	Manufacturing beverages	-	-	-	-	(2)	(2)
JeJu Yongam Soo Corp	Beverage Business	9,016	86	8,930	-	(972)	(972)
Orion Investment Development Corp.		100	-	100	-	-	-
Total		₩ 5,285,232	₩ 1,328,306	₩ 3,956,926	₩ 648,978	₩ 2,241,281	₩ 2,240,445

¹ Revenue of the Company's financial information presents the amounts included in continuing operations, net profit or loss and total comprehensive income present the amount included in continuing and discontinued operations.

² In 2017, Orion Corporation and its subsidiaries were incorporated as subsidiaries of the Company due to the Company's equity spin-off, investment in kind and business combinations. Among the above financial information, financial performance which occurred before the incorporation, is classified as discontinued operations.

³ In 2017, Orion Reports Corp went through liquidation and the amount stated above presents financial information before liquidation.

Orion Holdings Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2017 and 2016

⁴ In 2017, Supreme Star Holdings Limited went through liquidation and the amount stated above presents financial information before liquidation.

⁵ In 2017, Crespo has been sold and the amount stated above presents financial information before the sale.

⁶ In 2017, Orion Beverages Corp 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	2016					
		Total assets	Total liabilities	Total equity	Sales	Net income (loss)	Comprehensive income (loss)
Orion Holdings Corporation ¹	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. ²	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 ³	Holding company	308,682	206,328	102,354	-	(4,416)	(4,416)
Orion International Euro LLC ³	Manufacturing and selling confectioneries	73,841	23,841	50,000	61,226	9,683	9,683
Orion Food VINA Co., Ltd. ³	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 ³	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	Investing in movie industry	-	-	-	-	(8)	(8)

Orion Holdings Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2017 and 2016

INVESTMENT ASSOCIATION NO.8 ⁴								
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. ⁵	Processing the information and operating computer system	-	-	-	-	308	308	
Crespo Co., Ltd.	Sports/Entertainment	19,604	7,065	12,539	-	(566)	(566)	
Orion Food Co., Ltd. ³	Manufacturing and selling confectionerie	817,562	268,278	549,284	1,346,041	61,804	61,804	
Orion Food(Shanghai) Co., Ltd. ³	Manufacturing confectioneries	261,304	49,544	211,760	219,941	36,564	36,564	
Orion Food Guangzhou Co., Ltd. ³	Manufacturing confectioneries	246,288	120,058	126,230	154,080	25,594	25,594	
Orion Food (Shen Yang) Co., Ltd. ³	Manufacturing confectioneries	201,300	109,576	91,724	94,213	13,384	13,384	
Orion(Bei Tun) Agro Processing Co., Ltd. ³	Processing the agricultural products	28,976	8,975	20,001	6,415	(779)	(779)	
Orion Agro BeiTun Co. Ltd ³	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. ³	Manufacturing food and beverages	15,206	932	14,274	8,601	1,309	1,309	
Orion Agro DuoLun Co., Ltd. ³	Processing the agricultural products	2,442	298	2,144	3,585	1,074	1,074	
Prime Link International Investment Limited ⁶	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 ³	Advising on investment	29,260	128	29,132	-	(944)	(944)	
LANGFANG IPAK Co., Ltd. ³	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)	

Orion Holdings Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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Total	₩	3,917,525	₩	1,542,495	₩	2,375,030	₩	2,935,961	₩	223,445	₩	224,996
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¹ The Company's financial information included in continuing and discontinued operations

² In 2016, Sports Toto Co., Ltd. was merged into Orion holdings corporation and the amount stated above presents financial information before the merger.

³ The above financial information was classified as profit or loss from discontinued operations.

⁴ In 2016, GEMINI VENTURE INVESTMENT ASSOCIATION NO.8 went through liquidation and the amount stated above presents financial information before liquidation.

⁵ In 2016 Sports Toto Online Co., Ltd. was merged into Orion holdings corporation and the amount stated above presents financial information before the merger..

⁶ 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.

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

Subsidiary	Location	Remark
Orion Corporation	Korea	The Ultimate Parent Company's equity spinoff
Orion Investment Development Corp.	Korea	The Ultimate Parent Company's acquisition of ownership

Orion Holdings Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

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 13, 2018, which will be submitted for approval to the shareholders' meeting to be held on March 30, 2018.

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(assets) 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 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.

Orion Holdings Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

(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 13 : Investments in associates and joint ventures
- Note 17 : Trade and other receivables
- Note 27 : Measurement of defined benefit obligations for employees
- Note 29 : Estimation of provision for warranty
- Note 37 : Deferred tax asset(liability)
- Note 39 : Financial commitments and contingencies

Income tax on the Group's taxable income is calculated by applying the tax and taxation authorities decisions of various countries, so there is uncertainty in estimating the final tax effect. (Note 37)

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. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

(b) Measurement of fair values

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

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

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

Orion Holdings Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

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

- 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, 2017. The adoption of these amendments did not have any material impact on the financial statements.

- Amendments to Korean IFRS 1007 Statement of Cash Flows

Amendments to Korean IFRS 1007 Statement of Cash flows require 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 (Note 43).

- 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.

- Amendments to Korean IFRS 1112 Disclosures of Interests in Other Entities

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

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

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2017 and have not been early adopted by the Group are set out below.

- Amendments to Korean IFRS 1028 Investments in Associates and Joint Ventures

When an investment in an associate or a joint venture is held by, or it held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendments clarify that an entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the financial statements because the Group is not a venture capital organization.

- Amendment to Korean IFRS 1040 Transfers of Investment Property

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Paragraph 57 of Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. The amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendment to have a significant impact on the 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.

- Enactment of Interpretation 2122 Foreign Currency Transaction and Advance Consideration

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. These enactments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the enactments to have a significant impact on the financial statements.

- Enactment of Korean IFRS 1116 Leases

Korean IFRS 1116 Leases issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 Leases, Interpretation 2104 determining whether an Arrangement contains a Lease, Interpretation 2015 Operating Leases-Incentives, and Interpretation 2027 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

At inception of a contract, the entity shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the entity shall assess whether the contract is, or contains, a lease in accordance with the standard. However, the entity will not need to reassess all contracts with applying the practical expedient because the entity elected to apply the practical expedient only to contracts entered before the date of initial application.

For a contract that is, or contains, a lease, the entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value assets (e.g. underlying assets below \$ 5,000). In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

A lessee shall apply this standard to its leases either:

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- retrospectively to each prior reporting period presented applying Korean IFRS 1008 Accounting Policies, Changes in Accounting Estimates and Errors (Full retrospective application); or
- retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Group has not yet elected the application method.

A lessor shall apply this standard to its leases as follow:

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116; however, it is difficult to provide reasonable estimates of financial effects until the analyses is complete.

The Group expects the effect on the financial statements applying the new standard will not be significant as accounting for the Group, as a lessor, will not significantly change.

- 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.

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1109. The assessment was performed based on available information as at December 31, 2017, and the adoption of these amendments did not have any material impact on the consolidated financial statements. The Group plans to perform more detailed analyses on the financial effects based on additional information in the future; therefore, the results of the assessment may change due to additional information that the Group may obtain after the assessment.

(a) Classification and Measurement of Financial Assets

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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. As at December 31, 2017, the Group owns loans and receivables of ₩ 457,243million.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

(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. As at December 31, 2017, total financial liabilities is ₩ 854,917 million of which ₩-261 million are designated at fair value through profit or loss.

(c) Impairment: Financial Assets and Contract Assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL)

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rather than only incurred credit losses as is the case under Korean IFRS 1039. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and certain financial guarantee 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

Stage ¹		Loss allowance
1	No significant increase in credit risk after initial recognition ²	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)
2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3	Credit-impaired	

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.

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, 2017, the Group owns loans and receivables carried at amortized cost of ₩ 457,243million and the Group recognized loss allowance of ₩ 27,000 million for these assets.

- Korean IFRS 1115 Revenue from Contracts with Customers

Korean IFRS 1115 Revenue from Contracts with Customers issued on November 6, 2015 will be effective for annual reporting periods beginning on or after January 1, 2018 with early adoption 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.

Korean IFRS 1018 and other current revenue standard identify revenue as income that arises in the course of

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ordinary activities of an entity and provides guidance on a variety of different types of revenue, such as, sale of goods, rendering of services, interest, dividends, royalties and construction contracts. However, 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 customers 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.

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1115. The assessment was performed based on available information as at December 31, 2017, and the results of the assessment are explained as below. The results of the assessment as at December 31, 2017 may change due to additional information that the Group may obtain after the assessment.

According to Korean IFRS 1115, the Company shall account for consideration payable to a customer as a reduction of the transaction price and therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity. The Group has recognized the part of payment to the customer as expenses in accordance with Korean IFRS 1118. As the Group applies Korean IFRS 1115, the Group would account for consideration payable to a customer as a reduction of the transaction price if the payment to the customer is not in exchange for a distinct good or service. The Group does not expect to have a significant impact on the consolidated financial statements due to the implementation of Korean IFRS 1115.

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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	
		2017	2016
Orion Corp. ¹	Korea	62.63%	-
SHOWBOX Corp.	Korea	42.50%	42.50%

¹ Orion Corp. and its subsidiaries have been incorporated into the Group as subsidiaries due to equity spinoff, investments in kind and business combinations.

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
Orion Corp.	₩ -	₩ 1,199,013,098	₩ -
SHOWBOX Corp.	6,733,754	59,341,302	1,320,100

Financial position and financial performance:

(In thousands of Korean won)

Subsidiary	Orion Corp.¹	SHOWBOX Corp.
Current assets	₩ 457,455,364	₩ 160,083,611
Non-current assets	2,500,427,595	43,183,651
Current liabilities	522,974,515	63,933,247
Non-current liabilities	564,997,691	411,629
Revenue	-	102,706,678
Profit(loss)	-	15,845,913
Comprehensive income(expense)	-	15,819,294

¹ The financial position of Orion Corp. reflects the accounting treatment regarding the business combination described in Note 41 and non-current assets do not include goodwill arising from the business combination.

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Cash flow:

(In thousands of Korean won)

<u>Subsidiary</u>	<u>SHOWBOX Corp.</u>
Cash flows from operating activities	₩ 2,544,201
Cash flows from investing activities	(37,185,622)
Cash flows from financing activities	(3,120,000)
Effect of exchange rate fluctuations on cash held	(688,443)
Net increase (decrease) in cash and cash equivalents	(38,449,864)

Summarized financial information of Orion Corp. and SHOW BOX Corp. is based on each 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:

<u>Operating segments</u>	<u>Principal operations</u>
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 segment of Confectioneries was distributed to owners on June 1, 2017 in accordance with equity spin-off as described in Note 8. As a result, the company has applied Amendments to Korean IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations* and Amendments to Korean IFRS 2117 *Distributions of Non-cash Assets to Owners*. Profit or loss from discontinued operations has been classified separately in the consolidated statement of comprehensive income for the year ended December 31, 2017 and the comparative consolidated statement of comprehensive income and consolidated cash flow statement have been restated. The comparative financial information has been re-stated accordingly.

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Segment results for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)

	2017					
	<u>Confectioneries¹</u>	<u>Entertainment</u>	<u>Construction</u>	<u>Others</u>	<u>Elimination</u>	<u>Consolidated Total</u>
Total segment sales	₩ 818,435,081	₩ 102,862,741	₩ -	₩ 14,307,455	₩ (822,856,999)	₩ 112,748,278
Less: Inter segment sales	(105,491,915)	-	-	(4,421,918)	109,913,833	-
External sales	712,943,166	102,862,741	-	9,885,537	(712,943,166)	112,748,278
Depreciation	27,523,582	58,203,399	1,660	1,190,496	(27,495,754)	59,423,383
Profit(loss) for the year	52,000,654	10,266,952	(104,508)	(1,589,305)	(55,672,883)	4,900,910

¹ The Group classified the sales of Confectioneries segment as discontinued operations. (Notes 8).

(In thousands of Korean won)

	2016					
	<u>Confectioneries</u>	<u>Entertainment</u>	<u>Construction</u>	<u>Others</u>	<u>Elimination</u>	<u>Consolidated Total</u>
Total segment sales	₩ 2,259,667,983	₩ 125,931,981	₩ -	₩ 12,700,273	₩ (2,270,335,758)	₩ 127,964,479
Less: Inter segment sales	-	-	-	(10,667,775)	10,667,775	-
External sales	2,259,667,983	125,931,981	-	2,032,498	(2,259,667,983)	127,964,479
Depreciation	109,324,180	50,666,868	8,738	1,324,278	(109,656,534)	51,667,530
Profit(loss) for the year	329,165,960	15,247,509	(1,523,429)	(8,165,871)	(336,518,131)	(1,793,962)

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Segment assets and liabilities as at December 31, 2017 and 2016, as follows:

*(In thousands
of Korean won)*

2017

	<u>Confectioneries</u>		<u>Entertainment</u>		<u>Construction</u>		<u>Others</u>		<u>Elimination</u>		<u>Consolidated</u>	
Total assets	₩	2,257,809,384	₩	203,267,261	₩	52,113,479	₩	1,944,791,630	₩	(155,132,125)	₩	4,302,849,629
Total liabilities		912,904,942		64,344,876		147,156,333		5,112,316		55,425,874		1,184,944,341
Investments in associates and joint ventures		23,925,417		9,807,964		-		-		7,346,104		41,079,485
Increase of non current assets		(178,707,881)		(6,497,595)		(1,660)		1,735,850,054		(843,501,095)		707,141,823

*(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	₩	(1,005,414,511)	₩	2,908,864,465
Total liabilities		1,322,863,544		70,967,596		141,077,945		7,939,439		(338,879,512)		1,203,969,012
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

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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, 2017 and 2016, is as follows:

(In thousands of Korean won)

		2017			
		Domestic	China	Others	Total
Continuing operation	₩	112,037,363	₩ 710,915	₩ -	₩ 112,748,278
Discontinued operation		282,652,541	308,994,820	121,295,805	712,943,166

(In thousands of Korean won)

		2016			
		Domestic	China	Others	Total
Continuing operation	₩	127,224,102	₩ 740,377	₩ -	₩ 127,964,479
Discontinued operation		655,328,349	1,346,671,127	257,668,507	2,259,667,983

Information on regional non-current assets for the years ended December 31, 2017 and 2016, is as follows:

(In thousands of Korean won)

		2017	2016
Domestic	₩	1,040,632,575	₩ 839,950,872
China		1,403,367,882	1,001,693,704
Other		251,490,680	146,704,738
Total	₩	2,695,491,137	₩ 1,988,349,314

Financial assets, Goodwill 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, 2017 and 2016, are as follows:

		2017	
		Continuing operation	Discontinued operation
Finished goods	₩	-	₩ 701,939,157
Merchandise		-	3,376,562
Others		112,748,278	7,627,447
Total	₩	112,748,278	₩ 712,943,166

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<i>(In thousands of Korean won)</i>	2016	
	Continuing operation	Discontinued operation
Finished goods	₩ -	₩ 2,238,975,421
Merchandise	-	6,338,773
Others	127,964,479	14,353,789
Total	₩ 127,964,479	₩ 2,259,667,983

There is no main customer who contributes more than 10% of the Group's revenues for the years ended December 31, 2017 and 2016.

7. 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 Others the Group classified its assets and liabilities into assets and liabilities held for sale.

In 2017, the Group sold the shares of Crespo Co., Ltd.

<i>(In thousands of Korean won)</i>	2017	2016
Current assets	₩ -	₩ 739,773
Non-current assets	-	17,177,689
Book amount on assets classified as held for sale	₩ -	₩ 17,917,462
Current liabilities	₩ -	₩ 46,164
Book amount on liabilities classified as held for sale	₩ -	₩ 46,164

The Group decided to sell some parts of land and buildings of the sector of Others, 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, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	2017	2016
Land	₩ 2,393,909	₩ 2,389,925
Building	1,161,306	1,141,795
Book amount on assets classified as held for sale	₩ 3,555,215	₩ 3,531,720

8. Equity Spinoff and Discontinued Operations

- Spinoff

According to the approval of the Board of Directors on November 22, 2016, the Company had decided to divide the investment segment and confectionery manufacturing and sales divisions, which has been approved at the general meeting of shareholders on March 31, 2017. The progress of equity spinoff is as follows.

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Type of divestiture	Equity Spinoff
object of divestiture	Orion holdings Corporation (Surviving firm) Orion Corporation (Newly established firm)
Approval of the general meeting of shareholders	March 31, 2017
Completion	June 1, 2017

The segment of Confectioneries was distributed to owners on June 1, 2017 in accordance with equity spin-off. As a result, the company has applied Amendments to Korean IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations* and Amendments to Korean IFRS 2117 *Distributions of Non-cash Assets to Owners*. Profit or loss from discontinued operations has been classified separately in the consolidated statement of comprehensive income for the year ended December 31, 2017 and the comparative consolidated statement of comprehensive income and cash flow statement have been restated.

-Other Segment

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. Crespo Co., Ltd., was sold in 2017.

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. In 2016, Sports Toto Co., Ltd and Sports Toto On-line Co., Ltd. merged with the Company.

Related financial information

Financial information of the Confectionery manufacturing and Sales division (Confectioneries Segment) and some part of Other segment which are classified as discontinued operations is as follow.

Consolidated statements of comprehensive income

Profit or loss from discontinued operations and cash flows originated from activities of discontinued operations are as follows.

(In thousands of Korean won)	2017		
	Confectioneries	Others	Total
Results of discontinued operation			
Sales	₩ 712,943,166	₩ -	₩ 712,943,166
Cost of sales	(381,834,408)	-	(381,834,408)
Gross profit	331,108,758	-	331,108,758
Selling expenses	(242,287,840)	-	(242,287,840)
Administrative expenses	(36,820,265)	(2,077)	(36,822,342)
Operating income	52,000,653	(2,077)	51,998,576
Other operating expenses – net	(3,281,471)	48,016	(3,233,455)
Finance costs – net	(3,490,355)	-	(3,490,355)
Equity profit or loss on investments	(86,350)	-	(86,350)
Gain on disposal of discontinued operations	1,489,856,322	-	1,489,856,322

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Income before income tax expenses	1,534,998,799	45,939	1,535,044,738
Income tax expenses	(8,068,006)	-	(8,068,006)
Profit from discontinued operations	<u>₩ 1,526,930,793</u>	<u>₩ 45,939</u>	<u>₩ 1,526,976,732</u>

<i>(In thousands of Korean won)</i>	2016		
	<u>Confectioneries</u>	<u>Others</u>	<u>Total</u>
Results of discontinued operation			
Sales	₩ 2,259,667,983	₩ -	₩ 2,259,667,983
Cost of sales	(1,134,796,636)	-	(1,134,796,636)
Gross profit	1,124,871,347	-	1,124,871,347
Selling expenses	(693,975,385)	-	(693,975,385)
Administrative expenses	(101,730,002)	(3,372,978)	(105,102,980)
Operating income	329,165,960	(3,372,978)	325,792,982
Other operating expenses – net	(558,752)	873,594	314,842
Finance costs – net	(19,618,014)	1,417,265	(18,200,749)
Equity profit or loss on investments	(57,235)	-	(57,235)
Gain on disposal of discontinued operations	-	-	-
Income before income tax expenses	308,931,959	(1,082,119)	307,849,840
Income tax expenses	(72,020,662)	17,484,616	(54,536,046)
Profit from discontinued operations	<u>₩ 236,911,297</u>	<u>₩ 16,402,497</u>	<u>₩ 253,313,794</u>

No gains or losses are recognized as a result of measuring the disposal groups included in the discontinued operation at fair value less costs to sell according to the amendments to Korean IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations*.

Cash flow used in discontinued operations:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Cash flow used in discontinued operations		
Net cash from operating activities	₩ (19,275,821)	₩ 193,010,951
Net cash from investing activities	(22,439,855)	(150,603,939)
Net cash from financing activities	69,981,161	(106,215,871)
The effects of changes in foreign exchange rates in cash and cash equivalents presented in foreign currencies	(3,490,812)	(1,324,855)

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Eliminated assets and liabilities from the book of the Group for the year ended December 31, 2017 due to the divestiture of the Confectioneries segment are as follows. The Confectioneries segment is re-included in the Group as of December 31, 2017 due to the business combination as described in Note 41.

<i>(In thousands of Korean won)</i>	2017
Non-current assets	₩ 1,839,323,985
Current assets	420,974,945
Total assets	2,260,298,930
Non-current liabilities	396,368,883
Current liabilities	583,826,068
Total liabilities	980,194,951
Net Assets	1,280,103,979

Measurement of Dividends payable:

In the case of free distribution of non-cash assets where the owners holding the same type of equity instrument are treated equally, the Company recognizes dividends payable at the fair value of the non-cash assets (including business) to be transferred at the point of time that the Company declares a distribution and is required to distribute the related non-cash assets (including business). The dividends payable recognized by the Group on June 1, 2017, when the distribution was completed is ₩ 2,817,431 million. Dividends payable are adjusted in other capital of the Group.

In order to measure the dividends payable, the Group estimated the fair value of the business to be split using estimates and evaluation models based on the expert judgement of the independent external evaluation institution. When determining the fair value, the Group estimated the projected financial statements for the next 5 years and applied the present value method based on past performances, future plans and forecasts of market conditions. This estimate is classified as level 3. The main input variables used in the measurement are as follows..

- Discount rate applied to evaluation: 7.74% ~ 13.73%
- Permanent growth rate applied to cash flows after 5 years: 1.00% ~ 2.00%

Dividends payable are re-measured as other capital at the each settlement and the completion of journal entry after initial recognition. The difference (₩ 1,489,856 million) between the non-cash assets to be distributed at the time of distribution and the recognized dividends payable is recognized as gain on disposal of discontinued operations.

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9. Property, Plant and Equipment

Changes in property, plant and equipment for the year ended December 31, 2017, 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>
Acquisition Cost							
Balance at January 1, 2017	₩ 319,941,572	₩ 683,637,091	₩ 17,743,985	₩ 1,295,820,612	₩ 159,986,408	₩ 61,540,680	₩ 2,538,670,348
Additions	375,859	741,243	22,400	3,954,516	2,086,361	49,850,685	57,031,064
Disposals	(134,190)	(531,233)	-	(5,742,259)	(3,756,708)	(75,024)	(10,239,414)
Others ¹	(3,214)	(3,086,005)	515,867	(7,239,193)	(2,074,248)	(54,175,492)	(66,062,285)
Decrease due to equity spinoff	(206,500,778)	(663,459,853)	(17,992,111)	(1,286,793,676)	(150,270,877)	(56,784,310)	(2,381,801,605)
Reclassification to investments property	(48,557,348)	(4,402,502)	-	-	-	-	(52,959,850)
Acquisition from business combination	318,831,878	562,373,134	6,703,381	718,551,639	59,841,587	66,402,423	1,732,704,042
Balance at December 31, 2017	₩ 383,953,779	₩ 575,271,875	₩ 6,993,522	₩ 718,551,639	₩ 65,812,523	₩ 66,758,962	₩ 1,817,342,300
Accumulated depreciation and impairment							
Balance at January 1, 2017	₩ -	₩ (112,752,556)	₩ (11,010,766)	₩ (508,817,978)	₩ (88,624,552)	₩ -	₩ (721,205,852)
Depreciation	-	(391,136)	(16,452)	-	(449,633)	-	(857,221)
Depreciation (Discontinued operations)	-	(3,602,027)	(199,821)	(19,531,233)	(3,519,567)	-	(26,852,648)
Disposals	-	242,975	-	3,444,006	3,536,907	-	7,223,888
Others ¹	-	846,918	11,476	8,699,161	1,442,189	-	10,999,744
Decrease due to equity spinoff	-	104,425,370	11,199,110	516,206,044	84,209,035	-	716,039,559

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Reclassification to investments property			<u>976,977</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>976,977</u>
Balance at December 31, 2017	₩	<u>-</u>	₩ <u>(10,253,479)</u>	₩ <u>(16,453)</u>	₩ <u>-</u>	₩ <u>(3,405,621)</u>	₩ <u>-</u>	₩ <u>(13,675,553)</u>
Book amount								
Balance at January 1, 2017	₩	<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>
Balance at December 31, 2017	₩	<u>383,953,779</u>	₩ <u>565,018,396</u>	₩ <u>6,977,069</u>	₩ <u>718,551,639</u>	₩ <u>62,406,902</u>	₩ <u>66,758,962</u>	₩ <u>1,803,666,747</u>

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

Orion Holdings Corporation and Subsidiaries
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Changes in property, plant and equipment for the year ended December 31, 2016, are as follows:

(In thousands of
Korean won)

	<u>Land</u>	<u>Buildings</u>	<u>Structures</u>	<u>Machinery</u>	<u>Others</u>	<u>Construction in-progress</u>	<u>Total</u>
Acquisition 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	(17,137,558)	(11,247,378)	1,839,162	102,403,873	1,290,625	(135,977,709)	(58,828,985)
Balance at December 31, 2016	₩ 319,941,572	₩ 683,637,091	₩ 17,743,985	₩ 1,295,820,612	₩ 159,986,408	₩ 61,540,680	₩ 2,538,670,348
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	-	(766,446)	-	-	(373,601)	-	(1,140,047)
Depreciation (Discontinued operations)	-	(14,978,570)	(729,151)	(75,887,537)	(15,306,226)	-	(106,901,484)
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	₩ -	₩ (112,752,556)	₩ (11,010,766)	₩ (508,817,978)	₩ (88,624,552)	₩ -	₩ (721,205,852)
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	₩ 319,941,572	₩ 570,884,535	₩ 6,733,219	₩ 787,002,634	₩ 71,361,856	₩ 61,540,680	₩ 1,817,464,496

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

As at December 31, 2017, the Group has entered into purchase agreements with respect to buildings and machinery, and the amount expected to be incurred in the future is ~~₩~~ 80,497 million.

Borrowing costs of ~~₩~~34,583 thousand (2016: ~~₩~~9,975 thousand) in relation to the completion of construction, were capitalized as part of the cost of qualifying assets for the year ended December 31, 2017. The capitalization rates were 2.80%~2.99% (2016: 2.93%) for the year ended December 31, 2017.

As at December 31, 2017, the Group has fire and other insurance coverage from Hyundai Marine & Fire Insurance Co., Ltd and others of up to ~~₩~~1,893,057 million (2016: ~~₩~~1,854,503 million) on the Group's inventories, property, plant and equipment against fire and others.

In addition, as at December 31, 2017, the Group maintains insurance policies covering loss and liability arising from products, gas accidents, directors' and officers' liability and automobile accidents.

Orion Holdings Corporation and Subsidiaries
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10. Intangible Assets

Changes in intangible assets for the year ended December 31, 2017, are as follows:

<i>(In thousands of Korean won)</i>	Industrial property rights		Publication rights		Rights to use facility		Other intangible assets		Brand value		Customer relationships value		Total	
Acquisition Cost														
Balance at January 1, 2017	₩	18,771,030	₩	447,269,661	₩	17,421,048	₩	15,346,076	₩	-	₩	-	₩	498,807,815
Additions		1,029,684		-		2,227,960		391,209		-		-		3,648,853
Disposals		-		-		(787,854)		-		-		-		(787,854)
Decrease due to equity spinoff		(19,189,821)		-		(19,058,758)		(12,219,109)		-		-		(50,467,688)
Others		(45,054)		57,723,093		660,604		(1,752,114)		-		-		56,586,529
Acquisition from business combination		7,220,887		-		14,718,269		7,686,091		225,979,112		384,700,000		640,304,359
Balance at December 31, 2017	₩	7,786,726	₩	504,992,754	₩	15,181,269	₩	9,452,153	₩	225,979,112	₩	384,700,000	₩	1,148,092,014
Accumulated amortization and impairment														
Balance at January 1, 2017	₩	(11,804,808)	₩	(447,268,110)	₩	(3,232,148)	₩	(7,525,256)	₩	-	₩	-	₩	(469,830,322)
Amortization		(19,693)		(57,706,915)		-		(79,049)		-		-		(57,805,657)
Amortization (Discontinued operations)		(364,255)		-		-		(306,678)		-		-		(670,933)
Disposals		-		-		333,899		-		-		-		333,899
Decrease due to equity spinoff		11,694,332		-		3,621,727		5,134,390		-		-		20,450,449
Others		45,053		-		(741,478)		1,633,713		-		-		937,288
Balance at December 31, 2017	₩	(449,371)	₩	(504,975,025)	₩	(18,000)	₩	(1,142,880)	₩	-	₩	-	₩	(506,585,276)

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Book amount

Balance at January 1, 2017	₩ 6,966,222	₩ 1,551	₩ 14,188,900	₩ 7,820,820	₩ -	₩ -	₩ 28,977,493
Balance at December 31, 2017	₩ 7,337,355	₩ 17,729	₩ 15,163,269	₩ 8,309,273	₩ 225,979,112	₩ 384,700,000	₩ 641,506,738

Others mainly include transfers from prepayments and fluctuation due to foreign currency translation of foreign operations during 2017.

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
Acquisition 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	(18,663)	(50,257,353)	-	(13,724)	(50,289,740)
Amortization (Discontinued operations)	(1,443,485)	-	-	(1,262,410)	(2,705,895)
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

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Balance at December 31, 2016	₩ <u>6,966,222</u>	₩ <u>1,551</u>	₩ <u>14,188,900</u>	₩ <u>7,820,820</u>	₩ <u>28,977,493</u>
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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.

As at December 31, 2017, the Group has entered into purchase agreements with respect to the acquisition of other intangible assets. The amount expected to be incurred in the future is ₩ 417 million.

Orion Holdings Corporation and Subsidiaries
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11. Goodwill

Changes in goodwill for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Book amount		
Balance at beginning of year	₩ 24,338,225	₩ 24,058,250
Decrease due to equity spinoff	(24,058,250)	-
Acquisition from business combination	<u>873,104,370</u>	<u>279,975</u>
Balance at end of year	₩ <u>873,384,345</u>	₩ <u>24,338,225</u>

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Impairment tests for goodwill

Goodwill is allocated to each cash-generating unit as follows, which is the unit where the management of the Group manages the goodwill.

(In thousands of Korean won)

CGUs	2017			description
	Balance	Acquisitor		
The Group of Orion Corp.	₩ 873,104,370	Orion Holdings Corp.		Acquisition of Orion Corp. from the business combination (Note 41)
JeJu Yongam Soo Corp.	279,975	Orion Holdings Corp.		Acquisition of JeJu Yongam Soo Corp. from business combination (Note 41)

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.

	Gross Profit Margin ¹	Growth rate of sale ²	Permanant growth rate ³	Pre-tax rate ⁴
The Group of Orion Corp.	36.99%~51.81%	4.47%~13.12%	1.00%~2.00%	8.34%~13.51%

¹ This is the average gross profit margin for the next five years.

² 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.

³ The permanant growth rate is consistent with the figures in the industry report.

⁴ 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, 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Acquisition Cost			
Balance at January 1, 2017	₩ 29,474,069	₩ 12,535,188	₩ 42,009,257
Reclassification from property, plant and equipment	48,557,348	4,402,502	52,959,850
Others	(466,165)	(37,848)	(504,013)
Balance at December 31, 2017	₩ <u>77,565,252</u>	₩ <u>16,899,842</u>	₩ <u>94,465,094</u>
Accumulated depreciation			
Balance at January 1, 2017	₩ -	₩ (2,338,748)	₩ (2,338,748)
Depreciation	-	(760,505)	(760,505)
Reclassification from property, plant and equipment	-	(976,977)	(976,977)
Others	-	418,444	418,444
Balance at December 31, 2017	₩ <u>-</u>	₩ <u>(3,657,786)</u>	₩ <u>(3,657,786)</u>
Book amount			
Balance at January 1, 2017	₩ 29,474,069	₩ 10,196,440	₩ 39,670,509
Balance at December 31, 2017	₩ <u>77,565,252</u>	₩ <u>13,242,056</u>	₩ <u>90,807,308</u>

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>
Acquisition Cost			
Balance at January 1, 2016	₩ 12,110,569	₩ 11,840,711	₩ 23,951,280
Reclassification from property, plant and equipment	17,363,500	694,477	18,057,977
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	-	(87,967)	(87,967)
Balance at December 31, 2016	₩ <u>-</u>	₩ <u>(2,338,748)</u>	₩ <u>(2,338,748)</u>
Book amount			
Balance at January 1, 2016	₩ 12,110,569	₩ 9,827,673	₩ 21,938,242
Balance at December 31, 2016	₩ <u>29,474,069</u>	₩ <u>10,196,440</u>	₩ <u>39,670,509</u>

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The amounts recognized in profit or loss from investment property for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Rental income	₩ 4,270,191	₩ 1,340,970
Direct operating expense	(2,698,773)	(652,430)
	<u>₩ 1,571,418</u>	<u>₩ 688,540</u>

The fair values of investment property as at December 31, 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>Fair value</u>
Land	₩ 83,648,722
Buildings	21,428,976
	<u>₩ 105,077,698</u>

As at December 31, 2017, the Group has fire and other insurance coverage from Hyundai Marine & Fire Insurance Co., Ltd and others of up to ₩29,845 million on the Group's inventories, property, plant and equipment against fire and others.

In addition, the Group maintains insurance policies covering loss and liability arising from products, gas accidents, directors' and officers' liability and automobile accidents

As at December 31, 2017, investment property (buildings) of the Group is secured by leasehold rights for ₩ 300 million.

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13. Investments in Associate and Joint ventures

Investments in associates and joint ventures as at December 31, 2017 and 2016, are summarized as follows:

(In thousands of Korean won)

	Name	2017		2016	
		Percentage of ownership	Book value	Percentage of ownership	Book value
Associate	Beijing Zhongguan MEGABOX Cinema Co., Ltd.	49.0%	7,346,105	49.0%	6,820,814
Associate	Michigan Global Contents Investment Fund	20.0%	288,415	20.0%	489,042
Associate	Michigan Global Contents Investment Fund #3 ¹	43.3%	2,077,771	43.3%	4,175,781
Associate	Michigan Global Contents Investment Fund #4	23.0%	1,773,548	23.0%	1,910,670
Associate	Gemini Contents Investment Partnership #1	33.3%	30,017	33.3%	33,350
Associate	SMCI Korea Film Fund #5	25.9%	5,638,212	25.9%	5,108,648
Associate	Daehan distributor Corp.	35.3%	-	35.3%	-
Joint venture	Delfi-Orion Pte Ltd. ²	50.0%	889,221	50.0%	-
Joint venture	Orion Nonghyup Agri, inc. ^{2,3}	49.0%	23,036,196	49.0%	14,552,917
			<u>₩ 41,079,485</u>		<u>₩ 33,091,222</u>

¹ During 2017, Michigan Global Contents Investment Fund #3 carried out capital reduction by cash distribution

² During 2017, the companies were incorporated into the Group as a joint venture due to equity spinoff, investments in kind and business combinations.

³ The Group holds 49% shares of Orion Nonghyup Agri, inc. however, the Group classified Orion Nonghyup Agri, inc. 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.

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, 2017.

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Changes in investments in associates and joint ventures for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)

Name	2017									
	Balance at beginning of year	Acquisition	Disposal	Share of profit (loss) of associates and joint ventures	Increase/Decrease due to equity spinoff	Increase/Decrease from investments in kind	Increase/Decrease from business combinations	Other ¹	Balance at end of year	
Orion Corporation. ²	₩ -	₩ -	₩ -	₩ 6,573,725	₩ 340,286,217	₩ 1,250,000,000	₩ (1,589,903,812)	₩ (6,956,130)	₩ -	
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	6,820,815	-	-	924,649	-	-	-	(399,359)	7,346,105	
Michigan Global Contents Investment Fund	489,042	-	(200,000)	(627)	-	-	-	-	288,415	
Michigan Global Contents Investment Fund #3	4,175,780	-	(1,885,000)	(213,009)	-	-	-	-	2,077,771	
Michigan Global Contents Investment Fund #4	1,910,670	-	-	(137,122)	-	-	-	-	1,773,548	
Gemini Contents Investment Partnership #1	33,350	-	-	(3,333)	-	-	-	-	30,017	
SMCI Korea Film Fund #5	5,108,648	-	-	529,564	-	-	-	-	5,638,21	
Daehan distributor Corp.	-	-	-	-	-	-	-	-	-	
Delfi-Orion Pte Ltd.	-	1,003,253	-	(8,018)	(1,003,844)	-	889,221	8,609	889,221	
Orion Nonghyup Agri, inc.	14,552,917	-	-	(78,332)	(14,474,585)	-	23,036,196	-	23,036,196	
	₩ 33,091,222	₩ 1,003,253	₩ (2,085,000)	₩ 7,587,497	₩ 324,807,788	₩ 1,250,000,000	₩ (1,565,978,395)	₩ (7,346,880)	₩ 41,079,485	

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

² During 2017, Orion Corporation was incorporated into the Group as a subsidiary due to equity spinoff, investments in kind and business combinations. As of June 1, 2017, the Company acquired ₩ 340,286 million shares of Orion Corporation, a newly established firm, equivalent to the equity spinoff ratio for the treasury stock held by the Company. On November 15, 2017, the Company received shares of Orion Corporation, as an investment in kind, from shareholders of Orion Corporation. In return, the Company issued new shares to the shareholders who invested in kind. An investment in subsidiary of Orion Corporation increased to ₩ 1,250,000 million due to this paid-in capital increase. Although the Group holds shares of Orion Corporation less than 50%, the Group classified it as an investment in subsidiary based on the judgement that the Company has control over Orion Corporation considering the presence of contracts on exercising of the voting rights with major shareholders and others.

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(In thousands of Korean won)

Name	2016					
	Balance at beginning of year	Acquisition	Disposal	Share of profit (loss) of associates and joint ventures	Other ¹	Balance at end of year
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)	-	-
Orion Nonghyup Agri, inc.	-	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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Summary of financial information of associates and joint ventures as at December 31, 2017 and 2016, is as follows:

(In thousands of Korean won)

Name	2017					
	Assets	Liabilities	Equity	Revenue	Profit(loss) for the year	Total comprehensive income (loss)
Orion Corporation. ¹	₩ -	₩ -	₩ -	₩ 1,117,220,559	₩ 76,680,272	₩ 67,523,643
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	19,040,334	4,048,285	14,992,049	17,031,317	1,845,059	1,845,059
Michigan Global Contents Investment Fund	1,542,991	100,915	1,442,076	4,086	(3,135)	(3,135)
Michigan Global Contents Investment Fund #3	4,770,303	2,684	4,767,619	298,798	(901,649)	(901,649)
Michigan Global Contents Investment Fund #4	7,901,996	141,780	7,760,216	1,330,560	323,049	323,049
Gemini Contents Investment Partnership #1	90,051	-	90,051	1,451	(10,001)	(10,001)
SMCI Korea Film Fund #5	17,220,713	1,467,848	15,752,865	4,022,232	2,252,865	2,252,865
Daehan distributor Corp.	7,277,410	20,080,827	(12,803,417)	-	(383,451)	(383,451)
Delfi-Orion Pte Ltd.	2,247,652	469,208	1,778,444	1,821,269	(128,308)	(128,308)
Orion Nonghyup Agri, inc.	47,576,742	564,098	47,012,644	-	(564,843)	(540,872)

¹During 2017, Orion Corporation was incorporated into the Group as a subsidiary due to equity spinoff, investments in kind and business combinations. Among the financial information above, business performance is the amount before incorporation.

(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)
Orion Nonghyup Agri, inc.	29,702,867	3,036	29,699,831	-	(116,804)	(116,804)

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The details of investments in associates and joint ventures as at December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)

Name	2017			
	Net assets	Percentage of ownership(%)	Group's share of net assets	Book amount
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	₩ 14,992,049	49.00	₩ 7,346,105	₩ 7,346,105
Michigan Global Contents Investment Fund	1,442,076	20.00	288,415	288,415
Michigan Global Contents Investment Fund #3	4,767,619	43.30	2,064,379	2,077,771
Michigan Global Contents Investment Fund #4	7,760,216	23.00	1,784,850	1,773,548
Gemini Contents Investment Partnership #1	90,051	33.33	30,017	30,017
SMCI Korea Film Fund #5	15,752,865	25.90	4,079,992	5,638,212
Daehan distributor Corp.	(12,803,417)	35.30	(4,519,606)	-
Delfi-Orion Pte Ltd.	1,778,444	50.00	889,221	889,221
Orion Nonghyup Agri, inc.	47,012,644	49.00	23,036,196	23,036,196

(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)	-
Orion Nonghyup Agri, inc.	29,699,831	49.00	14,552,917	14,552,917

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, 2017 and 2016, are as follows

(In thousands of Korean won)

Name	2017		2016	
	Unrecognized share of losses	Unrecognized share of cumulative losses	Unrecognized share of losses	Unrecognized share of cumulative losses
Daehan distributor Corp.	₩ (135,358)	(4,519,606)	₩ (213,112)	(4,384,248)
Delfi-Orion Pte Ltd	-	-	(16,081)	(16,081)

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14. Available-for-sale Financial Assets

Changes in available-for-sale financial assets and held-to-maturity financial assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Balance at beginning of year	₩ 7,768,397	₩ 8,900,259
Acquisitions	1,200,000	408,055
Disposals	(2,755,099)	(234,273)
Net changes in fair value before tax	(42,248)	14,960
Reclassification before tax	-	(80,438)
Impairment	(225,532)	(795,166)
Other changes	9,753	(445,000)
Balance at end of year	₩ <u>5,955,271</u>	₩ <u>7,768,397</u>
Statement of financial position		
- Non-current	₩ <u>5,955,271</u>	₩ <u>7,768,397</u>

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Available-for-sale financial assets as at December 31, 2017 and 2016, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Available-for-sale financial assets:		
Listed		
- Crown Confectionery Co., Ltd.	₩ 112	₩ 281
- Crown Haitai Holdings Corp.	91	-
- Lotte Confectionery Co., Ltd.	292	1,785
- Lotte Holdings Corp.	1,107	-
	<u>1,602</u>	<u>2,066</u>
Unlisted		
- Ilshin leisure	-	1,000
- Daegu Football Club	3,000	3,000
- E-mart everyday inc 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
- Howon	9,753	-
- KM Culture	-	50,000
- Boston Film Contents	4,036	17,509
- Geon Contents Investment Limited#3	225,000	1,500,000
- Leading Asia Culture Investment Limited	816,961	992,493
- ACTI Culture & Contents Fund Limited Partnership	-	168,000
- TV Chosun & Daesung Win-Win	2,000,000	2,000,000
- CJ Global Contents Venture Capital #12	-	505,625
- Vision Hills co.	-	-
- KT-CKP New Media Venture Capital	408,000	1,200,000
- Hi Asset Management Co., Ltd	327,281	345,715
- KOREA ASSET INVESTMENT SECURITIES CO.,LTD.	476,650	-
- Wooribank-Company K	700,000	-
- Korea Movie Investment Association	-	-
- Others	130,815	130,816
	<u>5,953,669</u>	<u>7,766,331</u>
Total available-for-sale financial assets	₩ 5,955,271	₩ 7,768,397

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, 2017 and 2016, are summarized as follows:

	<i>(In thousands of Korean won)</i>			
	2017		2016	
	Current	Non-current	Current	Non-current
Prepayments	₩ 46,036,537	₩ 10,586,620	₩ 57,995,419	₩ 8,669,010
Prepaid expenses	9,283,136	97,596,905	10,793,359	49,717,993
Others	9,273,065	10,198,594	7,896,134	10,758,592
	<u>₩ 64,592,738</u>	<u>₩ 118,382,119</u>	<u>₩ 76,684,912</u>	<u>₩ 69,145,595</u>

16. Inventories

Inventories as at December 31, 2017 and 2016, are summarized as follows:

	2017	2016
Merchandise and finished goods	₩ 64,568,819	₩ 85,529,021
Work-in-progress	6,791,711	6,384,719
Raw materials	63,050,387	62,912,020
Supplies	2,038,310	1,426,942
Raw materials-in-transit	11,756,006	11,769,122
Sites for construction	23,549,235	23,549,235
Others	2,481,752	2,812,081
	<u>₩ 174,236,220</u>	<u>₩ 194,383,140</u>

During 2016, 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 and classified as discontinued operation.

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17. Trade and Other Receivables

Trade and other receivables as at December 31, 2017 and 2016, are summarized as follows:

<i>(In thousands of Korean won)</i>	2017		2016	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 158,265,090	₩ -	₩ 200,367,015	₩ -
Less: allowance for bad debts	(24,975,356)	-	(24,913,059)	-
Other receivables	4,266,791	-	4,162,247	-
Less: allowance for bad debts	(1,401,829)	-	(1,435,615)	-
Accrued income	5,947,839	247,103	9,098,571	6,934
Guarantee deposits	1,568,603	1,337,038	3,824,676	979,152
Loans	816,827	-	925,032	-
Less: allowance for bad debts	(622,325)	-	(622,325)	-
Others	-	-	63,026	-
	<u>₩ 143,865,640</u>	<u>₩ 1,584,141</u>	<u>₩ 191,469,568</u>	<u>₩ 986,086</u>

The aging analysis of the trade receivables, other receivables and loans as at December 31, 2017 and 2016, is as follows:

<i>(In thousands of Korean won)</i>	2017	2016
Receivables not past due	₩ 120,843,904	₩ 147,123,171
Past due but not impaired ¹		
Up to 3 months	₩ 13,322,534	₩ 24,970,930
3 to 6 months	1,841,471	6,316,077
Over 6 months	341,289	73,117
Sub total	₩ 15,505,294	₩ 31,360,124
Impaired		
Up to 6 months	₩ 735,042	₩ 1,026,359
Over 6 months	26,264,468	25,944,640
Sub total	26,999,510	26,970,999
Impairment loss	₩ (26,999,510)	₩ (26,970,999)
Grand Total	₩ 136,349,198	₩ 178,483,295

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, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>		<u>2017</u>		<u>2016</u>
Balance at beginning of year	₩	26,970,999	₩	29,699,042
Write - off		(11,803)		(777,056)
Impairment		1,701		1,427,920
Impairment(discontinued operations)		17,317		(2,403,687)
Reversal of allowance for doubtful accounts		(128,810)		-
Reversal of allowance for doubtful accounts (discontinued operations)		(59,100)		(838,687)
Decrease due to equity spinoff		(2,363,470)		-
Changes due to business combination		2,574,019		(164,388)
Fluctuations due to foreign currency translation		(1,343)		27,855
Balance at end of year	₩	<u>26,999,510</u>	₩	<u>26,970,999</u>

The trade and other receivables which are measured at amortized cost using the effective interest rate method as at December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>			<u>2016</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	1.56%~4.98%	₩ 1,569,559	₩ 1,398,226	1.65%~4.98%	₩3,849,679	₩ 1,025,101
Less discount		<u>(956)</u>	<u>(61,188)</u>		<u>(25,003)</u>	<u>(45,949)</u>
Book amount		<u>₩ 1,568,603</u>	<u>₩ 1,337,038</u>		<u>₩3,824,676</u>	<u>₩ 979,152</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, 2017 and 2016, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Cash on hand	₩ 165,583 ₩	628,585
Demand deposits	214,988,333	238,908,818
Total	₩ <u>215,153,916 ₩</u>	<u>239,537,403</u>

Deposits which are restricted in use as at December 31, 2017 and 2016, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Long-term deposits	₩ 136,931 ₩	102,365,191
Short-term deposits	50,779,117	24,304,017
Total	₩ <u>50,916,048 ₩</u>	<u>126,669,208</u>

19. Capital stock and capital surplus

Details of capital stock as at December 31, 2017 and 2016, are as follows:

<i>(In Korean won, except number of shares)</i>	<u>2017</u>	<u>2016</u>
Number of common shares:		
- Authorized ¹	480,000,000	48,000,000
- Issued ²	62,644,053	6,008,435
- Share capital	₩ 31,322,026,500	₩ 30,042,175,000
Par value per share ¹	₩ 500	₩ 5,000

¹ As at June 1, 2017, the number of authorized shares and the par value per share have changed due to the stock split.

² As at June 1, 2017, the number of issued shares has increased to 60,084,350 due to the stock split and 39,533,501 shares has been decreased due to capital reduction by cash distribution. In addition, on November 15, 2017, 42,093,204 shares were increased due to the investment in kind of shareholders of Orion Corporation.

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Changes in the capital stock and capital surplus for the years ended December 31, 2017 and 2016, are as follows:

(In thousand of won,
except number of shares)

	2017			2016		
	Number of Common shares	Capital stock	Capital surplus	Number of Common shares	Share capital	Share premium
Beginning of year	6,008,435 ₩	30,042,175 ₩	66,913,633	5,976,091 ₩	29,880,455 ₩	66,891,050
Issuance of ordinary shares upon exercise of stock options	-	-	-	136	680	27,993
Acquisition of Sports Toto Co., Ltd	-	-	-	32,208	161,040	(5,410)
Stock split	54,075,915	-	-	-	-	-
Capital reduction	(39,533,501)	(19,766,750)	(44,026,942)	-	-	-
Paid-in capital increase	42,093,204	21,046,602	1,228,394,980	-	-	-
End of year	62,644,053 ₩	31,322,027 ₩	1,251,281,671	6,008,435 ₩	30,042,175 ₩	66,913,633

Cumulative participating preferred stocks can be issued as non-voting registered stocks for up to 240,000,000 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, 2017, 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, 2017, are described in Note 24.

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, 2017, no convertible bonds or bonds with stock warrants have been issued.

20. Treasury Shares

Changes in the treasury shares for the year ended December 31, 2017, are as follows:

(In thousand of won, except number of shares)	Number of Common shares	Amount
Beginning of year	724,905 ₩	32,477,479
Acquisition of treasury shares(before stock split)	787	887,535
Stock split ¹	6,531,228	-
Replacement ²	(4,774,812)	(21,953,068)
Acquisition of treasury shares(after stock split) ³	6,661	213,463
End of year	2,488,769 ₩	11,625,409

¹The number of treasury shares is changed due to stock split as at June 1, 2017

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²Treasury shares held by the company have been replaced with the shares of Orion Corporation, the newly established firm from the equity spin-off, equivalent to the equity spinoff ratio, and these shares were reclassified as investments in subsidiaries.

³During 2017, the Group acquired fractional shares resulted from equity spinoff.

21. Other Capital

Details of other capital as at December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Changes from equity transactions ¹	₩ (2,619,938,401)	₩ 39,581,634
Gains on sale of treasury stock ²	303,694,863	769,039
Changes in fair value of available-for sale financial assets	(154,946)	(135,852)
Stock options	28,284	69,548
Exchange differences on translating foreign operations	(83,107,957)	(40,906,679)
Share of other comprehensive income of associates	(7,215,212)	(37,857)
Others	<u>(810,422)</u>	<u>(810,422)</u>
	<u>₩ (2,407,503,791)</u>	<u>₩ (1,470,589)</u>

¹During 2017, the Group recognized dividends payable at the fair value of the asset group to be distributed and related liabilities due to equity spinoff. Dividends payable which amounts to 2,817,431 million is adjusted in other capital, and included in changes from equity transactions.

² Treasury shares held by the Company have been replaced with the shares of Orion Corporation, equivalent to the equity spinoff ratio, and these shares were classified as investments in subsidiaries. The difference between the investment in subsidiaries reconized at fair value and book value of the treasury shares is recognized as gain on sale of treasury shares.

22. Reserves

Details of reserves as at December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Legal reserve	₩ 80,310,030	₩ 80,130,615
Voluntary reserve	<u>555,700,000</u>	<u>559,700,000</u>
	<u>₩ 636,010,030</u>	<u>₩ 639,830,615</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)

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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.

23. Earnings per Share

Basic earnings per share from continuing operations

<i>(In Korean won, except share information)</i>	<u>2017</u>	<u>2016</u>
Loss for the year from continuing operations attributable to owners of the Group	₩ (47,333,262,882)	₩ (10,142,539,326)
Weighted-average number of ordinary shares	<u>37,867,825</u>	<u>52,634,060</u>
Basic earnings per share from continuing operations	₩ <u>(1,250)</u>	₩ <u>(193)</u>

Weighted average number of ordinary shares

	<u>2017</u>	<u>2016</u>
The number of ordinary shares issued at January 1	60,084,350	59,760,910
Capital reduction at spin-off	(23,178,546)	-
Effect of exercise of stock options	-	280
Treasury Shares	(4,458,200)	(7,248,570)
New stock issuance	<u>5,420,221</u>	<u>121,440</u>
Weighted average number of ordinary shares	<u>37,867,825</u>	<u>52,634,060</u>

The weighted average number of ordinary shares outstanding for 2016 reflects the effect of the stock split executed in 2017.

<i>(In Korean won, except share information)</i>	<u>2017</u>	<u>2016</u>
Loss for the year from continuing operations attributable to owners of the Group	₩ (47,333,262,882)	₩ (10,142,539,326)
Adjusted Loss for the year attributable to owners of the Group	(47,333,262,882)	(10,142,539,326)
Diluted weighted average number of ordinary shares	<u>37,867,825</u>	<u>52,634,060</u>
Diluted earnings per share from continuing operations	₩ <u>(1,250)</u>	₩ <u>(193)</u>

Diluted weighted average number of ordinary shares

<i>(In Korean won, except share information)</i>	<u>2017</u>	<u>2016</u>
Basic weighted average number of ordinary shares	<u>37,867,825</u>	<u>52,634,060</u>
Diluted weighted average number of ordinary shares	<u>37,867,825</u>	<u>52,634,060</u>

The average market value of the shares of the Company for the purpose of calculating diluted effects of the

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stock option is based on the average market price of the common shares during the reporting period.

Basic and diluted earnings per share from discontinued operations

<i>(In Korean won)</i>		2017		2016
Basic earnings per share	₩	40,342	₩	4,689
Diluted earnings per share		40,341		4,689

24. Share-based Payments

The terms and conditions of grants as at December 31, 2017, are as follows:

(In Korean won, except number of shares)

		2009.2.27	
Arrangement		Orion Holdings Corp.	Orion Corp.
The first grant quantity		4,797	
Exercise quantity		(3,584)	
Cancel quantity		(813)	
Available at the end of the year ¹	1,369		2,631
Exercise price ¹		₩14,980	
Date of maturity		2019.2.27	
Vesting conditions		3 years' service	

¹ As of June 1, 2017, the number of exercisable shares was changed from 400 to 4,000 shares, and the exercise price was changed from ₩149,800 to ₩14,980 due to the stock split. The number of options available for exercise at the end of the year is distributed in proportion to the spin off ratio of Orion Holdings Corp. and Orion Corp after the equity spinoff.

The inputs used in the measurement of the fair values at grant date of the share-based payment are the following: This presents the information before the stock split.

<i>(In Korean won)</i>	Inputs
Date of grant	2009.2.27
Fair value at grant date	71,772
Current price at grant date	150,000
Exercise price	149,800
Expected volatility	47.8%
Option life (expected weighted average life)	6 years
Expected dividend	1.1%
Risk-free interest rate	5.2%

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25. Trade and Other Payables

Trade and other payables as at December 31, 2017 and 2016, are summarized as follows:

<i>(In thousands of Korean won)</i>	2017		2016	
	Current	Non-current	Current	Non-current
Trade payables	₩ 95,727,924	₩ -	₩ 109,874,995	₩ -
Other payables	86,222,912	1,078,315	106,176,475	-
Withholdings	34,266,777	-	38,019,334	-
Accrued expenses	37,594,416	-	29,331,242	-
Deposits received	1,427,930	1,154,969	1,759,115	1,122,658
Others	1,767	-	26,100	-
	<u>₩ 255,241,726</u>	<u>₩ 2,233,284</u>	<u>₩ 285,187,261</u>	<u>₩ 1,122,658</u>

Details of trade and other payables that are measured at amortized cost as at December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	Effective interest rate	2017		2016	
		current	Non-current	current	Non-current
Deposits received	1.21%~1.94%	₩ 1,429,500	₩ 1,210,000	₩ 1,759,115	₩ 1,180,000
Less discount		(1,570)	(55,031)	-	(57,342)
		<u>₩ 1,427,930</u>	<u>₩ 1,154,969</u>	<u>₩ 1,759,115</u>	<u>₩ 1,122,658</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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26. Borrowings and Debentures

Borrowings and debentures as at December 31, 2017 and 2016, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Non-current		
Debentures	₩ 330,000,000	₩ 120,000,000
Less discount	(673,937)	(219,453)
Long-term debts	<u>120,000</u>	<u>156,784,054</u>
Sub total	<u>329,446,063</u>	<u>276,564,601</u>
Current		
Current portion of debentures	-	210,000,000
Less discount	-	(123,601)
Current portion of long-term debts	165,854,506	166,553,140
Short-term borrowings	<u>104,443,834</u>	<u>93,934,025</u>
Sub total	<u>270,298,340</u>	<u>470,363,564</u>
Total	₩ <u>599,744,403</u>	₩ <u>746,928,165</u>

Terms and conditions of debentures as at December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>Maturity</u>	<u>Interest rate</u>	<u>2017</u>	<u>2016</u>
96th-2	2017-03-05	-	₩ -	₩ 60,000,000
97th	2017-11-26	-	-	100,000,000
98th	2019-04-17	3.47%	50,000,000	50,000,000
99th	2017-11-26	-	-	50,000,000
100th	2020-04-24	2.11%	70,000,000	70,000,000
101th	2022-03-02	2.24%	60,000,000	-
102th	2022-05-29	2.37%	50,000,000	-
103th-1	2020-11-06	2.63%	50,000,000	-
103th-2	2022-11-06	2.87%	<u>50,000,000</u>	<u>-</u>
			330,000,000	330,000,000
			-	(210,000,000)
			₩ <u>330,000,000</u>	₩ <u>120,000,000</u>

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Terms and conditions of long-term debts as at December 31, 2017 and 2016 are as follows:

<i>(In thousands of Korean won)</i>	Maturity	Interest rate	Currency	2017	2016
The export- Import Bank of Korea	2017	-	USD ₩	- ₩	34,855,234
Hana Bank	2018	LIBOR(3M)+1.90%	USD	21,501,308	24,259,621
Korea Development Bank	2017	-	USD	-	41,514,515
	2018	LIBOR(3M)+1.68% ~LIBOR(3M)1.70%	USD	58,345,401	65,741,239
DBS Bank	2018	LIBOR(3M)+1.86%	USD	16,125,981	18,194,716
Industrial Bank of Korea	2017	-	USD	-	16,981,735
	2018	LIBOR(3M)+0.85% ~LIBOR(3M)1.67%	USD	42,945,181	48,408,478
Woori Bank	2017	-	USD	-	30,324,526
	2018	LIBOR(3M)+1.60%	USD	26,876,635	-
HSBC Siheung Environmental Management Center	2017	-	USD	-	42,817,130
	2020	-	KRW	180,000	240,000
		Total		165,974,506	323,337,194
		Less current portion		(165,854,506)	(166,553,140)
		Balance after deduction	₩	120,000	₩ 156,784,054

Short-term borrowings as at December 31, 2017 and 2016 are as follows:

<i>(In thousands of Korean won)</i>	Contents	Interest rate	Currency	2017	2016
Kookmin Bank	Usance	-	CHF	-	924,981
	Usance purchasing card	0.40%	EUR	642,290	637,704
Hyundai Card	General loan	1.44%	KRW	2,130,800	2,217,901
	General loan	-	USD	-	12,247,512
Shinhan Bank	Usance	0.40%	EUR	696,807	-
	Bills bought	LIBOR(3M)+0.30%	USD	209,691	77,084
Korea Development Bank	General loan	-	USD	-	5,709,047
	General loan	4.13%	CNY	16,365,000	-
Woori Bank	General loan	-	USD	-	36,057,139
HSBC	General loan	LIBOR(3M)+1.86%	USD	37,627,290	6,062,657
	General loan	LIBOR(3M)+1.00%	RUB	8,570,910	-
Sumitomo Mitsui Banking Corporation	Limit loan	2.36%	KRW	1,000,000	-

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Woori Investment Bank	Discount of commercial paper	-	KRW	-	30,000,000
KB Securities Co., Ltd.	Discount of commercial paper	2.14%	KRW	20,000,000	-
CITIBANK (HongKong)	General loan	LIBOR(3M)+0.65%	USD	17,201,046	-
				<u>₩ 104,443,834</u>	<u>₩ 93,934,025</u>

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, 2017 :

(In thousands of Korean won)

Asset	Lender	Type of borrowings	Borrowing amount	Book amount	Collateralized amount
Land and buildings	Siheung Environmental Management Center	General loan	180,000	9,052,168	780,000
Short-term deposits	Industrial Bank of Korea	General loan	42,945,181	50,731,500	50,731,500
			<u>₩ 43,125,181</u>	<u>₩ 59,763,668</u>	<u>₩ 51,511,500</u>

Book amount and fair value of borrowings as at December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)

	2017		2016	
	Book amount	Fair value ¹	Book amount	Fair value ¹
Short-term borrowings	₩ 270,298,340	₩ 270,298,340	₩ 470,363,564	₩ 470,363,564
Long-term borrowings	<u>₩ 329,446,063</u>	<u>₩ 330,123,635</u>	<u>₩ 276,564,601</u>	<u>₩ 276,785,617</u>
	<u>₩ 599,744,403</u>	<u>₩ 600,421,975</u>	<u>₩ 746,928,165</u>	<u>₩ 747,149,181</u>

¹ The fair values of short-term borrowings are 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 outflows at the weighted average borrowing rates of 2.52% for long-term borrowings (2016 : 2.49%).

27. Employee Benefits

The Group operates defined contribution plan and defined benefit plan. 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, 2017 and 2016, are as follows:

(In thousands of Korean won)	2017	2016
Contributions to defined contribution plans	₩ 114,693	₩ 118,715
Expenses related to post-employment defined benefit plans	2,314,020	3,241,736
Expenses related to post-employment defined benefit plans(discontinued operations)	3,932,807	10,034,581
	<u>₩ 6,361,520</u>	<u>₩ 13,395,032</u>

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Changes in net defined benefit liability for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2017	2016	2017	2016	2017	2016
Balance at January 1	₩ 71,650,982	₩ 69,243,109	₩ (70,138,939)	₩ (65,444,609)	₩ 1,512,043	₩ 3,798,500
Included in profit or loss:						
Current service costs	2,436,092	3,331,349	-	-	2,436,092	3,331,349
Interest costs (income)	15,620	13,332	(137,692)	(102,945)	(122,072)	(89,613)
Current service costs (discontinued operations)	3,957,427	10,021,407	-	-	3,957,427	10,021,407
Interest costs (income) (discontinued operations)	540,964	1,384,545	(565,584)	(1,371,371)	(24,620)	13,174
	<u>6,950,103</u>	<u>14,750,633</u>	<u>(703,276)</u>	<u>(1,474,316)</u>	<u>6,246,827</u>	<u>13,276,317</u>
Included in other comprehensive income:						
Remeasurements loss (gain)						
- Actuarial loss (gain) arising from:						
Experience adjustment	1,051,412	(1,263,318)	-	-	1,051,412	(1,263,318)
Demographic assumptions	(310,340)	(903,537)	-	-	(310,340)	(903,537)
Financial assumptions	(166,361)	74,048	-	-	(166,361)	74,048
- Return on plan assets excluding interest income	-	-	396,158	246,912	396,158	246,912
	<u>574,711</u>	<u>(2,092,807)</u>	<u>396,158</u>	<u>246,912</u>	<u>970,869</u>	<u>(1,845,895)</u>
Others:						
Contributions paid by the employer	-	-	(1,856,910)	(13,638,156)	(1,856,910)	(13,638,156)
Transfer from and to affiliated companies	(4,067,678)	-	3,738,794	-	(328,884)	-
Benefits paid	(5,198,438)	(10,277,673)	4,535,006	10,171,230	(663,432)	(106,443)
Exchange difference	(87,705)	27,720	-	-	(87,705)	27,720
Decrease due to spin-off	(64,175,493)	-	58,522,480	-	(5,653,013)	-
Business combination	69,364,957	-	(69,553,493)	-	(188,536)	-

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	<u>(4,164,357)</u>	<u>(10,249,953)</u>	<u>(4,614,123)</u>	<u>(3,466,926)</u>	<u>(8,778,480)</u>	<u>(13,716,879)</u>
Balance at December 31	₩ <u>75,011,439</u>	₩ <u>71,650,982</u>	₩ <u>(75,060,180)</u>	₩ <u>(70,138,939)</u>	₩ <u>(48,741)</u>	₩ <u>1,512,043</u>

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The components of plan assets as at December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>		<u>2016</u>	
Equity securities	₩	2,743,050	₩	1,983,271
Debt securities		40,688,823		37,984,518
Others(Deposit and others)		31,628,307		30,171,150
	₩	<u>75,060,180</u>	₩	<u>70,138,939</u>

The principal actuarial assumptions as at December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	2.77%~3.15%	2.33%~2.68%
Future salary growth	3.00%~6.32%	4.22%~5.95%

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>2017</u>			
	<u>1% increase</u>		<u>1% decrease</u>	
Discount rate	₩	(4,703,224)	₩	3,112,151
Future salary growth		3,028,952		(4,702,632)

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 5.03~9.5 years as at December 31, 2017.

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

<i>(In thousands of Korean won)</i>	<u>2017</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	₩	9,879,374	₩	9,680,691	₩	27,227,710	₩	137,764,449	₩	184,552,224

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28. 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 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 liability</u>
Hold for trading	Mar 24, 2017	Mar 23, 2018	RUB	155,025,000 USD	2,500,000	62.01	SMBC ₩	158,051
Hold for trading	July 4, 2017	July 4, 2018	RUB	95,505,000 USD	1,500,000	63.67	SMBC	102,877
							₩	260,928

29. Other Liabilities

Other liabilities as at December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>		<u>2016</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Advances received	₩ 35,903,570	₩ -	₩ 84,159,145	₩ -
Unearned revenue	5,643,451	54,536	2,124,339	56,190
Provision for warranty	2,873,120	-	3,105,955	-
Others	729,485	809,321	667,435	809,321
	<u>₩ 45,149,626</u>	<u>₩ 863,857</u>	<u>₩ 90,056,874</u>	<u>₩ 865,511</u>

30. Operating lease

As of December 31, 2017, the Company uses operating leases for some buildings and vehicles. The future minimum lease payments under operating lease agreements are as follows:

<i>(In thousands of Korean won)</i>	<u>Amount</u>
Within one year	₩ 5,389,510
Later than one year and not later than five years	8,823,500
Later than five years	3,760,437
	<u>17,973,447</u>

The Group has entered into a contract to provide operating lease for investment properties. The book value of the leased assets is as follows:

<i>(In thousands of Korean won)</i>	<u>Amount</u>
Cost	₩ 98,664,019
Accumulated amortization	(4,959,127)
	<u>93,704,892</u>

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As of December 31, 2017, the future minimum lease income expected to be received by the Group under operating lease contracts for the above investment properties are as follows:

<i>(In thousands of Korean won)</i>		<u>Amount</u>
Within one year	₩	1,461,032
Later than one year and not later than five years		1,765,274
		<u>3,226,306</u>

31. Sales and Cost of Sales

Sales and cost of sales for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>		<u>2016</u>	
	<u>Continuing operation</u>	<u>Discontinued operation</u>	<u>Continuing operation</u>	<u>Discontinued operation</u>
Sales				
Confectionary	₩ -	712,943,166	₩ -	2,259,667,983
Entertainment	102,706,678	-	125,931,981	-
Lease	4,401,391	-	1,291,917	-
Others	5,640,209	-	740,581	-
	₩ 112,748,278	712,943,166	₩ 127,964,479	2,259,667,983
Cost of sales				
Confectionary	₩ -	381,834,408	₩ -	1,134,796,636
Entertainment	82,468,261	-	100,578,690	-
Lease	2,698,773	-	635,005	-
Others	77,058	-	221,188	-
	₩ 85,244,092	381,834,408	₩ 101,434,883	1,134,796,636

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32. Selling Expenses and General and Administrative Expenses

Details of selling expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Employee welfare	-	51,066
Amortization	7,970	18,380
Advertising expenses	13,013	66,324
Freight and custody	2,095	688
Commissions	26,099	47,258
Bad debt expenses (reversal of bad debt allowance)	(88,894)	1,833,769
Others	153,313	549,172
	<u>₩ 113,596</u>	<u>₩ 2,566,657</u>

Details of general and administrative expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Salaries	₩ 12,544,597	₩ 16,622,468
Retirement and termination benefits	2,381,132	3,355,075
Employee welfare	1,507,043	1,318,953
Travel expenses	139,971	91,208
Taxes and dues	1,367,434	1,324,507
Depreciation	851,556	1,169,165
Amortization	93,805	14,006
Commissions	2,359,232	807,933
Others	1,244,910	1,053,587
	<u>₩ 22,489,680</u>	<u>₩ 25,756,902</u>

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33. Other Income and Other Expenses

Details of other income and other expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Other income		
Foreign currency transaction gain	₩ 11,892	₩ -
Foreign currency translation gain	101,863	2,234
Gain on sale of property, plant and equipment	583	-
Gains on disposal of assets held for sale	1,658,434	-
Others	<u>402,984</u>	<u>148,802</u>
	<u>2,175,756</u>	<u>151,036</u>
Other expenses		
Foreign currency transaction loss	(604,599)	(89,698)
Loss on sale of property, plant and equipment	(48)	-
Loss on sale of intangible assets	-	(72,000)
Loss on disposition of trade receivables	-	(1,461,040)
Loss on disposition of Investments in associates ¹	(52,792,664)	-
Others	<u>(937,960)</u>	<u>(644,895)</u>
	<u>(54,335,271)</u>	<u>(2,267,633)</u>
Net other expenses	₩ <u>(52,159,515)</u>	₩ <u>(2,116,597)</u>

¹ In 2017, the Company has acquired the control over Orion Corporation, and the Company recognized the difference between the carrying amount of the investment in associate and that of the fair value at the acquisition date as a loss on sale of investment in associates.

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34. Finance income and expense

Details of finance income and expense for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Finance income		
Interest income	₩ 1,525,008	₩ 1,331,708
Foreign currency transaction gain	9,006	145,751
Foreign currency translation gain	148	21,023
Gain on disposal of available-for-sale financial assets	24,466	43,818
	<u>1,558,628</u>	<u>1,542,300</u>
Finance cost		
Interest expense	(838,071)	(19,415)
Foreign currency transaction loss	(83,061)	(15,113)
Foreign currency translation loss	(809,195)	(177)
Loss on disposal of available-for-sale financial assets	(21,803)	(7,575)
Impairment loss on available-for-sale financial assets	(225,532)	(795,166)
	<u>(1,977,662)</u>	<u>(837,446)</u>
Net finance income(cost)	₩ <u>(419,034)</u>	₩ <u>704,854</u>

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35. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)

	2017		
	Cost of sales	Selling, general and administrative expense	Total
Employee benefits expense	₩ -	₩ 14,925,730	₩ 14,925,730
Depreciation and amortization	57,723,367	953,331	58,676,698
Depreciation of investment in properties	760,505	-	760,505
Service fees	1,204,515	2,385,331	3,589,846
Freight and custody	-	2,095	2,095
Others	25,555,705	4,336,789	29,892,494
	<u>₩ 85,244,092</u>	<u>₩ 22,603,276</u>	<u>₩ 107,847,368</u>

(In thousands of Korean won)

	2016		
	Cost of sales	Selling, general and administrative expense	Total
Employee benefits expense	₩ -	₩ 19,977,543	₩ 19,977,543
Depreciation and amortization	50,257,353	1,203,926	51,461,279
Depreciation of investment in properties	237,743	-	237,743
Service fees	336,444	855,191	1,191,635
Freight and custody	-	688	688
Others	50,603,342	6,286,211	56,889,553
	<u>₩ 101,434,882</u>	<u>₩ 28,323,559</u>	<u>₩ 129,758,441</u>

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36. Financial Instruments by Categories and Finance Risk Management

Finance income and cost by categories for the years ended December 31, 2017 and 2016, are as follows:

		2017				
<i>(In thousands of Korean won)</i>		Finance income	Finance cost	Net income	Other comprehensive income	Total comprehensive income
Financial assets						
Loans and receivables	₩	1,534,162	₩ -	₩ 1,534,162	₩ -	₩ 1,534,162
Available-for-sale financial assets		24,466	(247,336)	(222,870)	(42,248)	(265,118)
Subtotal		1,558,628	(247,336)	1,311,292	(42,248)	1,269,044
Financial liabilities						
Financial liabilities measured at amortized cost		-	(1,730,326)	(1,730,326)	-	(1,730,326)
Subtotal		-	(1,730,326)	(1,730,326)	-	(1,730,326)
Total	₩	1,558,628	₩ (1,977,662)	₩ (419,034)	₩ (42,248)	₩ (461,282)

		2016				
<i>(In thousands of Korean won)</i>		Finance income	Finance cost	Net income	Other comprehensive income	Total comprehensive income
Financial assets						
Loans and receivables	₩	1,498,482	₩ -	₩ 1,498,482	₩ -	₩ 1,498,482
Available-for-sale financial assets		43,818	(802,742)	(758,924)	(65,478)	(824,402)
Subtotal		1,542,300	(802,742)	739,558	(65,478)	674,080
Financial liabilities						
Financial liabilities measured at amortized cost		-	(34,704)	(34,704)	-	(34,704)
Subtotal		-	(34,704)	(34,704)	-	(34,704)
Total	₩	1,542,300	₩ (837,446)	₩ 704,854	₩ (65,478)	₩ 639,376

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The book amount and the fair value of financial instruments as at December 31, 2017 and 2016, are summarized as follows:

<i>(In thousands of Korean won)</i>	2017		2016	
	Book Value	Fair value	Book Value	Fair value
Financial assets				
Loans and receivables	₩ 457,243,077	₩ 457,243,077	₩ 590,088,412	₩ 590,088,412
Available-for-sale financial assets	1,602	1,602	2,066	2,066
Available-for-sale financial assets (Unlisted)	5,953,670	-	7,766,331	-
Financial assets at fair value through profit or loss	-	-	1,141,907	1,141,907
	<u>₩ 463,198,349</u>	<u>₩ 457,244,679</u>	<u>₩ 598,998,716</u>	<u>₩ 591,232,385</u>
Financial liabilities				
Financial liabilities at fair value through profit or loss	₩ 260,928	₩ 260,928	₩ 162,671	₩ 162,671
Financial liabilities measured at amortized cost	854,656,502	855,334,074	1,033,238,083	1,033,459,099
	<u>₩ 854,917,430</u>	<u>₩ 855,595,002</u>	<u>₩ 1,033,400,754</u>	<u>₩ 1,033,621,770</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, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	Level I	Level II	Level III	Total
December 31, 2017				
Available-for-sale financial assets	₩ 1,602	₩ -	₩ -	₩ 1,602
Financial liabilities at fair value through profit or loss	-	(260,928)	-	(260,928)
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)	-	(162,971)

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37. Income Taxes

Income tax expense for the years ended December 31, 2017 and 2016 consists of:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Current income tax expense	₩ 14,653,612	₩ 65,983,947
Adjustment for prior periods	1,018,391	9,766,257
Origination and reversal of temporary differences	<u>(7,277,534)</u>	<u>(10,710,219)</u>
Total income tax effect	8,394,469	65,039,985
Income tax recognized in other comprehensive income	<u>240,013</u>	<u>(7,741,542)</u>
Total income tax expense	<u>₩ 8,634,482</u>	<u>₩ 57,298,443</u>
income tax expense(Continuing operation)	566,477	2,762,396
income tax expense(Discontinued operations)	8,068,005	54,536,047

Origination and reversal of temporary differences for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Deferred tax liabilities net, year-end	₩ (235,890,069)	₩ (46,855,362)
(-)Deferred tax liabilities net, beginning	(46,855,362)	(65,239,446)
Effect of spin-off	52,332,433	-
Effect of Business combination	<u>(248,644,674)</u>	<u>7,673,865</u>
Deferred tax liabilities net, ending balance	<u>₩ 7,277,534</u>	<u>₩ 10,710,219</u>

Income taxes recognized directly in other comprehensive income for the years ended December 31, 2017 and 2016 are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Current		
Remeasurements of the defined benefit liability	₩ 230,708	₩ (381,515)
Deferred		
Gains/losses on valuation of available-for-sale securities	<u>9,305</u>	<u>16,691</u>
Income tax expense (income) recognized directly in other comprehensive income	<u>₩ 240,013</u>	<u>₩ (364,824)</u>

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Reconciliation between profit before income tax and income tax expense for the years ended December 31, 2017 and 2016, follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Profit before income tax	₩ 1,495,040,946	₩ 306,348,087
Net loss before income tax expenses(Continuing operation)	(40,003,791)	(1,501,753)
Net profit before income tax expenses (Discontinued operations)	1,535,044,738	307,849,840
Income tax using the Group's statutory tax rate	₩ 362,715,845	₩ 72,568,657
Adjustments :		
Non-deductible expense(revenue)	(352,215,755)	701,154
Tax credits	(175,009)	(3,532,258)
Adjustments for prior periods	1,018,391	9,766,257
Tax effects of temporary differences for which no deferred tax assets (liabilities) are recognized	(9,192,317)	1,835,466
Effect of merger	-	(25,158,481)
Effect of Business combination	8,629,492	-
Others	(2,146,165)	1,117,648
Income tax expense	₩ <u>8,634,482</u>	₩ <u>57,298,443</u>
Effective tax rate	0.58%	18.70%

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, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	2017					
	Beginning balance	Changes resulted from spinoff	Changes resulted from business combination	Profit or loss	Directly reflected in capital	Ending balance
Bad debt expense	₩ 728,011	₩ (650,076)	₩ 264,076	₩ 1,222,350	₩ -	₩ 1,564,361
Provision for warranty	751,641	(719,300)	695,298	(32,341)	-	695,298
Research and human development reserves	(968,000)	699,111	(322,667)	268,889	-	(322,667)
Accumulated depreciation	(51,375,138)	43,923,033	(48,749,036)	8,466,835	-	(47,734,306)
Defined benefit liability	297,843	-	-	(479,474)	230,708	49,077
Land	(18,342,630)	12,124,797	(41,912,070)	(2,099)	-	(48,132,002)
Increase in the value of buildings and machinery	-	-	15,784,057	-	-	15,784,057
Prepaid expenses	-	-	(12,519,882)	-	-	(12,519,882)
Identifiable intangible assets	-	-	(147,784,345)	-	-	(147,784,345)
Investments in subsidiaries	20,941,208	(742,724)	(15,160,564)	(2,789,730)	-	2,248,190
Others	1,111,703	(2,302,408)	1,060,459	383,091	9,305	262,150
	<u>₩ (46,855,362)</u>	<u>₩ 52,332,433</u>	<u>₩ (248,644,674)</u>	<u>₩ 7,037,521</u>	<u>₩ 240,013</u>	<u>₩ (235,890,069)</u>

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<i>(In thousands of Korean won)</i>	2016				
	Beginning balance	Changes resulted from merger	Profit or loss	Directly reflected in capital	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>

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The amount of deductible temporary differences for which deferred tax assets are not recognized as at December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Investments in subsidiaries	₩ 67,940,909	₩ 164,922,910
Allowance for doubtful accounts	105,236,669	119,769,877
Other	34,700,356	45,248,900
Tax loss carryforwards	61,443,171	47,577,080

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, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Investments in subsidiaries	₩ (377,249,779)	₩ (37,576,205)
Other	(16,104,872)	(16,098,122)

As at December 31, 2017 and 2016, 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, 2017 and 2016 before offsetting are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Income taxes payable	₩ 24,087,627	₩ 29,455,286
Prepaid income taxes	(6,262,446)	(2,883,957)
Income taxes payable, net	₩ <u>17,825,181</u>	₩ <u>26,571,329</u>

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38. Financial Risk Management

The levels of Risk management

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

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

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

Risk management activities

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

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

Credit risk

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

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

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, 2017 and 2016 is as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Short-term and long-term deposits	96,639,381	158,095,355
Trade and other receivables	145,449,781	192,455,654
Cash equivalents ¹	214,988,333	238,908,818
	<u>₩ 457,077,495</u>	<u>₩ 589,459,827</u>

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

On the one hand, the Group deposits cash and cash equivalents in financial institutions such as Shinhan Bank and credit risk from financial institutions is limited because it deals with financial institutions with superior credit ratings.

As of December 31, 2017 the Company is contingently liable for guarantees (₩508,521 million) of indebtedness of the spin-off date (June 1, 2017) of Orion Holdings Corporation (formerly Orion corporation), pursuant to the clause specified in Section 9 of Article 530 in the Commercial code of Korea.

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, 2017, 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	₩ 599,744,404	₩ 600,481,601	₩ 116,250,034	₩ 162,470,310	₩ 55,537,417	₩ 266,223,840
Trades and other payables	254,912,098	254,968,700	213,656,469	39,023,916	1,428,315	860,000
Financial liabilities at fair value through profit or loss	260,928	260,928	158,051	102,877	-	-
	<u>₩ 854,917,430</u>	<u>₩ 855,711,229</u>	<u>₩ 330,064,554</u>	<u>₩ 201,597,103</u>	<u>₩ 56,965,732</u>	<u>₩ 267,083,840</u>

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>

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As of December 31, 2017 the Company is contingently liable for guarantees (₩ 508,521 million) of indebtedness of the spin-off date (June 1, 2017) of Orion Holdings Corporation (formerly Orion corporation), pursuant to the clause specified in Section 9 of Article 530 in the Commercial code of Korea. Above liability is allocated to the earliest period in which the Group can be required to pay.

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

Currency risk

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

<i>(In thousands of Korean won)</i>		USD		JPY		EUR		CHF		CNY		AUD		GBP
December 31, 2017														
Cash and cash equivalents	₩	26,700,264	₩	185,980	₩	28,612	₩	-	₩	-	₩	82,851	₩	775
Trade receivables and other receivables		2,445,303		1,610,788		539,757		-		(579,461)		-		-
Trade payables and other payables		(6,326,136)		(145,393)		(1,075,242)		(89,793)		-		-		-
Borrowings		(229,403,444)		-		(1,339,097)		-		-		-		-
	₩	<u>(206,584,013)</u>	₩	<u>1,651,375</u>	₩	<u>(1,845,970)</u>	₩	<u>(89,793)</u>	₩	<u>(579,461)</u>	₩	<u>82,851</u>	₩	<u>775</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>

The exchange rates as at December 31, 2017 and 2016, are as follows:

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	<u>2017</u>	<u>2016</u>
USD	1,071.40	1,208.50
JPY	9.49	10.37
EUR	1,279.25	1,267.60
CHF	1,094.72	1181.33
CNY	163.65	173.26
AUD	835.16	872.05
GBP	1,439.53	1,480.17

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As at December 31, 2017 and 2016, 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)	2017		2016	
	10% strengthening	10% weakening	10% strengthening	10% weakening
USD ₩	(20,658,402) ₩	20,658,402 ₩	(34,215,113) ₩	34,215,113 ₩
JPY	165,138	(165,138)	256,168	(256,168)
EUR	(184,597)	184,597	(194,710)	194,710
CHF	(8,980)	8,980	(92,498)	92,498
CNY	(57,946)	57,946	1,758	(1,758)
AUD	8,285	(8,285)	1,308	(1,308)
GBP	78	(78)	102	(102)
	₩ (20,736,424) ₩	₩ 20,736,424 ₩	₩ (34,242,985) ₩	₩ 34,242,985 ₩

Interest rate risk

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

(In thousands of Korean won)	2017		2016	
Short-term borrowings	₩	63,608,938 ₩	₩	218,928,815 ₩
Long-term debts		165,794,506		156,604,054
	₩	229,403,444 ₩	₩	375,532,869 ₩

As at December 31, 2017 and 2016, the effects of a 100bp fluctuation of the interest rates (assuming other variables are constant) on profit (loss) except long-term debts hedged at floating risk were as follows:

(In thousands of Korean won)	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
Net finance cost	₩ (2,294,034) ₩	₩ 2,294,034 ₩	₩ (3,755,329) ₩	₩ 3,755,329 ₩

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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, 2017 and 2016, the Group's net debt-to-equity ratio as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Net debt:		
Debts and borrowings	₩ 599,744,404	₩ 746,928,165
Less: Cash and cash equivalents	<u>(215,153,916)</u>	<u>(239,537,403)</u>
	384,590,488	507,390,762
Equity	3,117,905,288	1,704,895,451
Net debt-to-equity ratio	12.33%	29.76%

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39. Financial Commitments and Contingencies

Financial commitments to financial institutions as at December 31, 2017 are as follows:

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

Borrower	Lender	Type of commitment	Amount	
Orion Holdings Corporation	Hana Bank	Bank overdraft	KRW	5,000,000
Orion Corporation	Kookmin Bank	Usance	USD	10,000,000
		Purchasing loan	KRW	20,000,000
	Shinhan Bank	Bank overdraft	KRW	5,000,000
		Usance	USD	15,900,000
	Hana Bank	Purchasing loan	KRW	30,000,000
		Credit loan	KRW	5,000,000
	SMBC	Credit loan	KRW	20,000,000
	Hyundai Card	Group purchase card	KRW	12,000,000
Orion Food Co., Ltd.	Industrial and Commercial bank of China	General loan	CNY	300,000,000
	Woori Bank	General loan	CNY	100,000,000
	Hana Bank	General loan	CNY	100,000,000
	Industrial Bank of Korea	General loan	CNY	80,000,000
	Korea Development Bank	General loan	USD	7,000,000
Orion Food Guangzhou Co., Ltd	Korea Development Bank	General loan	USD	15,000,000
	Industrial Bank of Korea	General loan	USD	10,000,000
Orion Food (Shanghai) Co., Ltd.	Industrial and Commercial bank of China	General loan	CNY	150,000,000
	HSBC	General loan	CNY	50,000,000
			KRW	97,000,000
		Total	USD	57,900,000
			CNY	780,000,000

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Details of guarantees provided by the Group as of December 31, 2017 and 2016 are as follows :

(In thousands of Korean won)

<u>Counterparty</u>	<u>Contents</u>	<u>Currency</u>	<u>2017</u>	<u>2016</u>	<u>Warranty</u>
Shambhala Corp. (Formerly, Crespo Corp.)	License guarantee ¹	KRW	20,319,156	20,319,156	2012-11-22 ~2017-12-31
		KRW	354,313	354,313	2014-08-26 ~2020-04-30
		KRW	-	366,592	2015-02-09 ~2017-12-31
Jeju Special Self-Governing Province	Restoration to its original state due to groundwater development and utilization	KRW	6,097	-	2017-04-26 ~2018-04-25
Total		KRW	<u>20,679,566</u>	<u>21,040,061</u>	

¹ The amount of 20,319,156 thousand won in the license guarantee is due on December 31, 2017.

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>	<u>Classification</u>
Seoul Young Baesa	Hana Bank	₩ 400,000	Performance guarantee
Taeyeong Picture	Woori Bank	200,000	
Dongbo Cinema	Standard Chartered Bank	200,000	
Click kankokku Co., Ltd.	Seoul Guarantee Insurance	12,000	Dept retirement guarantee
Ja Ok Kim	Seoul Guarantee Insurance	6,000	Deposit guarantee insurance
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	
Sung Won Lim	Seoul Guarantee Insurance	40,000	
CGV Shindorim Co., Ltd	Seoul Guarantee Insurance	52,050	
Total		<u>₩ 959,550</u>	

As at December 31, 2017, guarantees of ₩20,829 million are provided to the Group by Seoul Guarantee Insurance Company and Construction Guarantee Cooperative for the performance of contracts.

As at December 31, 2017, 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, 2017, the Group is collectively liable to reimburse the remaining debts of Orion Corporation (the newly established firm from the spinoff) at the date of the spin-off pursuant to Article 530-9, Paragraph 1 of the Commercial Law.

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Details of lawsuit pendings as at December 31, 2017 are summarized as follows.

(In thousands of Korean won)

<u>Plaintiff</u>	<u>Defendant</u>	<u>Contents</u>	<u>Amounts</u>	<u>Progress</u>
Bong Suk Kang and 13 others	Orion Corp.	Claim for wages	₩ 397,343	Second trial in progress
Overman Corp.	Orion Corp.	Service charge	148,992	First trial in progress
Orion Corp. and 1 other	Kyung Min Cho	Compensation for damages for other accidents	600,000	First trial in progress
Orion Corp. and 2 others	Nongaekdotcom and 3 others	Compensation for damages for other accidents	600,000	First trial in progress
Orion Corp.	Hyang Sook Jung	Commodity price	6,152	Plaintiff won(2018.01.18)
Orion Corp.	Korea Seven Corp.	Bulidings dispossession	30,331	First trial in progress
Orion Corp.	Sung Tae Kim	provisional attachment against claim	448,612	Plaintiff won(2018.01.02)
Orion Corp.	Yong Seok Ko	Repayment appeal	35,310	First trial in progress
Orion Corp.	Yong Seok Ko	Compensation for damages for other accidents	198,159	Forced adjustment (2017.12.28)
Do hyun meet	Orion Holdings Corp.	exactions	104,936	First trial in Progress
Kyung Ju Choi	Orion Holdings Corp.	Compensation for damages	20,000	First trial in Progress
Oh Il Kwon and 2 others	Orion Holdings Corp.	Compensation for damages	68,600	First trial in Progress
Byung Uk Jeon	Orion Holdings Corp.	Claim for wages	35,000	First trial in Progress
Orion Holdings Corp.	Kyung Min Cho	Compensation for damages	3,007,865	Second trial in Progress
Orion Holdings Corp.	Kyung Min Cho	Compensation for damages	10,000,000	First trial in progress
Orion Holdings Corp. and 92 others	Kyung Min Cho	Compensation for damages	1,572,159	Third trial in progress
Orion Holdings Corp.	Leegamyeonok	Buildings transfer and other	107,392	First trial in progress
Orion Holdings Corp. and 2 others	Nongaekdotcom and 3 others	Compensation for damages	600,000	First trial in Progress
Showbox Corp.	Popcornfilmcom pany Corp. and 1 other	Claim for Film development cost	500,000	Plaintiff won(2018.02.01)

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40. Merger

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 Holdings Corp.(Formerly, Orion Corp.)	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>	Sports Toto Co., Ltd	Sports Toto Online Co., Ltd
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	232,287,217	57,866,216
Current liabilities	13,738,504	55,888
Non-current liabilities	4,540,384	-
Total liabilities	18,278,888	55,888
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 book value of ultimate parent company of the Group, at the merger date.

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41. Business Combination

In order to strengthen its core competitiveness in the confectionery business, the Group acquired the control of Orion Corporation through the equity spinoff, in-kind investment and business combination. The Company acquired 12.08% of the shares of Orion Corporation, a newly established firm, equivalent to the equity spinoff ratio for the treasury stock held by the Company at the date of spinoff. During the year ended December 31, 2017, the Company received the shares of Orion Corporation from the shareholders of Orion Corporation and issued and allocated the new shares of Orion Holdings Corporation in return. With this, the Company acquired 25.92% shares of Orion Corporation additionally and acquired the control through the process of concluding contracts on exercising voting rights with major shareholders. Goodwill of ₩ 873,104,371 thousand resulting from the acquisition is due to the synergy effect of business combination

The following table summarizes the consideration transferred, the book amounts of assets acquired, liabilities assumed and the fair value of non-controlling interests of Orion Corporation on the acquisition date

(In thousands of Korean won)

	<u>Amount</u>
Consideration transferred	
Equity instruments(common stock 14,775,139shares)	₩ 1,544,002,026
Consideration transferred total	<u>1,544,002,026</u>
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	101,606,293
Short-term deposits	50,731,500
Trade and other receivables	131,312,188
Inventory	150,686,985
Current tax asset	607,123
Other current assets	22,511,275
Property plant and equipment	1,732,704,042
Intangible assets (Customer relationship value, Brand value and other)	640,304,359
Investments in joint venture	23,925,417
Long-term deposits	49,578
Long-term trade and other receivables	1,178,378
Net defined benefit Asset	188,536
Deferred tax asset	2,704,353
Other non-current liabilities	99,372,932
Short-term borrowings	(104,443,834)
Current portion of long-term borrowings	(165,854,506)
Trade and other payables	(192,058,519)
Derivatives instruments	(260,928)
Income taxes payable	(17,265,318)
Other current liabilities	(43,091,410)
Long-term borrowings	(329,446,063)
Long-term trade and other payables	(102,522)
Deferred tax liabilities	(235,445,739)
Other non-current liabilities	<u>(3,367)</u>
Total fair value of identifiable net assets	1,869,910,753
Non-controlling interest	<u>(1,199,013,098)</u>
Goodwill	873,104,371
Total	<u>₩ 1,544,002,026</u>

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If Orion Corporation is consolidated from the beginning of the current period, the Group's revenue and net income for the year would have increased by ₩ 1,109,126 million and ₩ 76,680 million, respectively, in the consolidated statement of comprehensive income.

The amount of assets and liabilities recognized in the consolidated financial statements as a result of the business combination is determined provisionally because the final valuation is not completed and the amount can be adjusted in the future.

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 the fair value of non-controlling interest at the acquisition date of JeJu Yongam Soo Corp.

<i>(In thousands of Korean won)</i>	<u>Amount</u>
Consideration transferred	
Cash	₩ 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	<u>(3,560,000)</u>
Total fair value of identifiable net assets	3,073,376
Non-controlling interest	<u>(1,229,351)</u>
Goodwill	279,975
Total	₩ <u>2,124,000</u>

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42. Related Party Transactions

Related parties as at December 31, 2017, are as follows, excluding subsidiaries:

<u>Relationship</u>	<u>Related Party</u>
	Daehan distributor Corp.
	Gemini Contents Investment Partnership #1
	Michigan Global Contents Investment Fund
Associates	Michigan Global Contents Investment Fund #3
	Michigan Global Contents Investment Fund #4
	Beijing Zhongguan Megabox Cinema Co., Ltd.
	S.M.Contents Investment Fund No.5
Joint ventures	Delfi-Orion Pte Ltd.
	Orion Nonghyup Agri, inc.
Other	Orion Foundation

¹ K-food. Co., Ltd has been changed to Orion Nonghyup Agri, inc..

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Significant transactions which occurred in the normal course of business with related parties for the years ended December 31, 2017 and 2016, are summarized as follows:

(In thousands of Korean won)

<u>Relationship</u>	<u>Related party</u>	<u>Transaction</u>	<u>2017</u>	<u>2016</u>
		Sales	₩ 4,027,737	₩ -
		Other revenues	443,017	-
	Orion Corporation. ¹	Disposition of fixed assets	4,474	-
		Other costs	197,817	-
		Reduction of capital	200,000	200,000
	Michigan Global Contents Investment Fund	Payment of investment deposits	528	1,344
		Settlement of film revenue(cost) ²	2,644	3,013
		Reduction of capital	1,885,000	-
		Receipt of investment deposits	-	1,200,000
	Michigan Global Contents Investment Fund #3	Payment of investment deposits	27,944	2,824,212
Associates		Settlement of film revenue(cost) ²	102,616	333,860
		Receipt of investment deposits	700,000	800,000
	Michigan Global Contents Investment Fund #4	Payment of investment deposits	1,466,310	541,761
		Settlement of film revenue(cost) ²	97,930	1,102,302
		Liquidation	-	52,288
	CJ Global Contents Venture Capital #11 ³	Payment of investment deposits	-	19,874
		Receipt of investment deposits	9,600,000	6,100,000
	S.M.Contents Investment Fund No.5	Payment of investment deposits	6,310,719	10,516,213
		Settlement of film revenue(cost) ²	2,177,296	2,531,589
Joint venture	Orion Nonghyup Agri, inc.. ⁴	Other revenues	108,929	65,351
Subsidiary of the associates	Orion International Euro LLC ⁵	Sales	232,116	-
	Orion Food Co.,Ltd. ⁶	Sales	2,779,248	-
	Orion Food VINA.,Ltd. ⁷	Sales	612,815	-

¹Transactions between the Group and Orion corp. are transactions before the business combination.

²The Group recognizes the settlement of revenue (expense) in film as cost of sales.

³ 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.

⁴Transactions between the Group and Orion Nonghyup Agri, inc. are transactions before the equity spinoff

⁵ Transactions between the Group and Orion International Euro LLC are transactions from the date of the equity spin-off until the date of the business combination

⁶ Transactions between the Group and Orion Food Co., Ltd. are transactions from the date of the equity spin-off until the date of the business combination

⁷ Transactions between the Group and Orion Food VINA., Ltd. are transactions from the date of the equity

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spin-off until the date of the business combination:

Accounts receivable, payable balances with related parties as at December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)

Relationship	Related party	2017			
		Receivables	payables		
		Trade Receivables	Trade payables ¹	Deposit received	Guarantee Deposits
	Michigan Global Contents Investment Fund	₩ -	₩ 2,644	₩ 164,839	₩ -
	Michigan Global Contents Investment Fund #3	-	36,439	29,478	-
Associates	Michigan Global Contents Investment Fund #4	-	48,977	41,488	-
	Gemini Contents Investment Partnership #1	-	-	165,276	-
	S.M.Contents Investment Fund No.5	-	2,675,899	7,419,451	-
Joint venture	Delfi-Orion Pte Ltd	132,350	-	-	-
Other	Orion Foundation	-	-	-	464,000
		₩ 132,350	₩ 2,763,959	₩ 7,820,532	₩ 464,000

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

(In thousands of Korean won)

Relationship	Related party	2016		
		Receivables	payables	
		Account Receivables	Trade payables ¹	Deposit received
	Michigan Global Contents Investment Fund	₩ -	₩ 2,485	₩ 165,368
	Michigan Global Contents Investment Fund #3	-	94,067	60,177
Associates	Michigan Global Contents Investment Fund #4	-	1,067,817	807,798
	Gemini Contents Investment Partnership #1	-	-	165,276
	S.M.Contents Investment Fund No.5	-	3,228,530	4,130,170
Joint venture	Orion Nonghyup Agri, inc.	4,447	-	-
		₩ 4,447	₩ 4,392,899	₩ 5,328,789

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

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Details of fund transactions with related parties for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)

Relation-ship	Related party	Contents of Trade	2017	2016
Joint venture	Delfi-Orion Pte., Ltd ¹	Cash Investment	(1,003,253)	(1)
Joint venture	Orion Nonghyup Agri, inc. ²	Corporation establishment	-	(14,682,623)

¹ Transactions between the Group and Delfi-Orion Pte., Ltd are transactions before the date of spinoff.

² Transactions between the Group and Orion Nonghyup Agri, inc. are transactions before the date of spinoff.

Details of key management personnel compensation for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)

	2017	2016
Short-term employee benefits	₩ 2,349,055	₩ 2,455,404
Post-employment benefits	587,444	701,601
	<u>₩ 2,936,499</u>	<u>₩ 3,157,005</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.

As of December 31, 2017, the Group has entered into agreements with a major shareholder, regarding the exercise of voting rights of Orion corporation.

As of November 15, 2017, 8,105,325 shares (₩ 782,358 million) of Orion Corp. were invested at the in-kind investment price determined in accordance with Article 14, Paragraph 2 of the Enforcement Decree of the Commercial Act from major shareholders. In return, the Company issued 34,117,933 new shares (₩ 782,358 million) at the price pursuant to Article 5-18 of the Securities and Futures Regulations.

As at December 31, 2017, the Group is collectively liable to reimburse the remaining debts of Orion Corporation (the newly established firm from the spin-off) at the date of the spin-off pursuant to Article 530-9, Paragraph 1 of the Commercial Law.

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43. Supplemental Cash Flows Information

The principal non-cash transactions for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	<u>2016</u>
Reclassification from construction in progress to property, plant and equipment	₩ 51,797,734	₩ 136,987,505
Reclassification from property, plant and equipment to investment property	51,982,873	17,970,010
Reclassification from prepayments to publication rights	57,723,093	50,234,260
Other payables regarding the acquisition of property, plant and equipment	1,090,721	(8,797,159)
Reclassification from long-term borrowings to short-term borrowings	39,546,448	376,553,140
Reclassification from long-term rental deposits to short-term rental deposits	187,084	2,452,508
Write-off of trade receivables	11,803	777,056
Reclassification from long-term prepayments to short-term prepayments	2,334,419	788,769
Reclassification from available-for-sale financial assets to intangible assets	-	445,000
Advance received from disposal of non-current assets to be sold	7,000,000	-
Replacement of Asset and liability due to equity spinoff	1,280,103,979	-
Assets and liability from business combinations	1,344,904,442	-

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The reconciliation of the liabilities arising from cash flows from financing activities during the year is as follows.

<i>(In thousands of Korean won)</i>	2017.1.1		Cash flows from financing activities		Non cash flow		2017.12.31	
			Depreciation	Effects of changes in foreign exchange rates	Decrease due to spin-off	Increase from business combination	Reclassification to current portion	
Short-term borrowings	₩ 93,934,025	₩ 48,078,056	₩ -	₩ (2,759,151)	₩ (139,252,930)	₩ 104,443,834	₩ -	₩ 104,443,834
Current portion of long-term borrowings	376,429,539	(108,681,330)	65,847	(12,511,080)	(294,849,424)	165,854,506	39,546,448	165,854,506
Long-term borrowings	276,564,601	109,709,160	39,668	(10,602,735)	(336,164,246)	329,446,063	(39,546,448)	329,446,063
Current portion of leasehold deposits received	1,759,115	(187,955)	1,517	-	(536,851)	145,500	246,604	1,427,930
Leasehold deposits received	1,122,658	200,000	2,291	-	-	76,624	(246,604)	1,154,969
	₩ 749,809,938	₩ 49,117,931	₩ 109,323	₩ (25,872,966)	₩ (770,803,451)	₩ 599,966,527	₩ -	₩ 602,327,302

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.

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44. 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>2017</u>		<u>2016</u>	
Losses due to disaster	W	-	W	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. The relevant amount is reclassified as the discontinued operation.

45. Events After the Reporting Period

On March 13, 2018, the Company decided to provide a debt guarantee for the borrowing of JeJu Yongam Soo Corp. which is a subsidiary investment.

<i>(In thousands of Korean won)</i>			
<u>Comapny</u>	<u>Contents</u>	<u>Borrowing Amount</u>	<u>Guarantee Amount</u>
Jeju Yongam Soo Corp.	General Loan	60,000,000	66,000,000