

Orion Holdings Corporation and Subsidiaries

Consolidated Financial Statements

December 31, 2018 and 2017

Orion Holdings Corporation and Subsidiaries
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December 31, 2018 and 2017

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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

Opinion

We have audited the accompanying consolidated financial statements of Orion Holdings Corporation and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

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

Other Matter

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to

the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

March 21, 2019

Seoul, Korea

This report is effective as of March 21, 2019, 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, 2018 and 2017

<i>(In thousands of Korean won)</i>	Notes	2018		2017	
Assets					
Property, plant and equipment	9,26,41	₩	1,823,994,886	₩	1,803,666,747
Intangible assets	10,41		582,208,593		641,506,738
Goodwill	11,41		874,133,264		873,384,345
Investments property	12		85,969,975		90,807,308
Investments in associates and joint ventures	13,41		36,168,974		41,079,485
Financial assets at fair value through profit or loss	14,35		3,552,534		-
Financial assets at fair value through other comprehensive income	14,35		794,390		-
Available-for-sale financial assets	14,35		-		5,955,271
Long-term trade and other receivables	17,35,37,41		1,018,218		1,584,141
Long-term deposits	18,35,37,41		89,353		136,930
Defined benefit assets	27,41		-		48,741
Other non-current assets	15,41		105,353,584		118,382,119
Deferred income tax assets	36,41		25,659,745		27,735,268
Total non-current assets			3,538,943,516		3,604,287,093
Inventories	16,41		180,118,279		174,236,220
Trade and other receivables	17,35,37,41		187,704,878		143,865,640
Financial assets at fair value through profit or loss	14,35		72,808,749		-
Short-term deposits	18,35,37,41		25,459,898		96,502,450
Other current assets	15,41		78,502,470		64,592,738
Current income tax assets	36,41		811,078		656,357
Cash and cash equivalents	18,35,37,41		257,785,259		215,153,916
Total current assets			803,190,611		695,007,321
Total non-current asset held for sale	7		-		3,555,215
Total assets		₩	4,342,134,127	₩	4,302,849,629

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2018 and 2017

	Notes	2018	2017
Equity			
Capital stock	19	₩ 31,322,147	₩ 31,322,027
Capital surplus	19	1,251,311,079	1,251,281,671
Treasury shares	20	(11,625,409)	(11,625,409)
Other capital	21	338,420,505	(2,407,503,791)
Reserves	22	114,844,532	636,782,459
Retained earnings		151,793,558	2,347,602,504
Equity attributable to owners of the Parent		<u>1,876,066,412</u>	<u>1,847,859,461</u>
Non-controlling interest	5,41	<u>1,300,521,543</u>	<u>1,270,045,827</u>
Total equity		<u>3,176,587,955</u>	<u>3,117,905,288</u>
Liabilities			
Long-term debts	26,35,37,41	309,611,588	329,446,063
Long-term trade and other payables	25,35,37,41	1,801,288	2,233,284
Defined benefit liabilities	27	37,287	-
Deferred tax liabilities	36,41	310,177,211	263,625,337
Other non-current liabilities	28,41	885,396	863,857
Total non-current liabilities		<u>622,512,770</u>	<u>596,168,541</u>
Current portion of long-term debts	26,35,37,41	50,046,414	165,854,506
Short-term borrowings	26,35,37,41	105,318,223	104,443,834
Trade and other payables	25,35,37,41	286,078,920	255,241,726
Derivative liabilities		-	260,928
Current income tax liabilities	36,41	36,643,309	17,825,180
Other current liabilities	28,41	64,946,536	45,149,626
Total current liabilities		<u>543,033,402</u>	<u>588,775,800</u>
Total liabilities		<u>1,165,546,172</u>	<u>1,184,944,341</u>
Total equity and liabilities		<u>₩ 4,342,134,127</u>	<u>₩ 4,302,849,629</u>

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, 2018 and 2017

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

	Notes	2018	2017
Continuing operations			
Revenue	30	₩ 1,997,682,828	₩ 112,748,278
Cost of sales	30,34	(1,100,287,564)	(85,244,092)
Gross profit		897,395,264	27,504,186
Selling expenses	31,34	(528,910,007)	(113,596)
General and administrative expenses	31,34	(137,972,666)	(22,489,680)
Operating profit		230,512,591	4,900,910
Net other income (expenses)	32	21,141,427	(52,159,515)
Net finance costs	33,35	(9,243,162)	(419,033)
Share of profit (loss) of associates and joint ventures	13	(1,479,476)	7,673,847
Profit (loss) before income tax		240,931,380	(40,003,791)
Income tax expense	36	(122,636,502)	(566,477)
Profit (loss) from continuing operations		118,294,878	(40,570,268)
Discontinued operations			
Profit from discontinued operations, net of tax	8	-	1,526,976,732
Profit for the year		118,294,878	1,486,406,464
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	-	(42,248)
Exchange differences on translating foreign operations		(20,613,017)	(45,469,387)
Share of other comprehensive income (loss) of associates and joint ventures	13	44,277	(7,281,628)
Income tax of other comprehensive income		-	9,305
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gain(loss)	27,36	(1,391,625)	(970,869)
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	14	(52,138)	-
Share of defined benefit plan actuarial gain(loss) of joint ventures		(47,659)	(65,252)
Income tax of other comprehensive income		339,760	230,708
Other comprehensive income for the year, net of tax		(21,720,402)	(53,589,371)
Total comprehensive income for the year		₩ 96,574,476	₩ 1,432,817,093

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2018 and 2017

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

	Notes	2018	2017
Profit (loss) attributable to:			
Owners of the Parent			
Profit (loss) from continuing operations	₩	56,332,236	₩ (47,333,263)
Profit from discontinued operations		-	1,527,646,191
		<u>56,332,236</u>	<u>1,480,312,928</u>
Non-controlling interests			
Profit from continuing operations		61,962,642	6,762,995
Loss from discontinued operations		-	(669,459)
		<u>61,962,642</u>	<u>6,093,536</u>
Profit for the year		<u>118,294,878</u>	<u>1,486,406,464</u>
Total comprehensive income attributable to			
Owners of the Parent		48,689,640	1,430,173,706
Non-controlling interests		47,884,837	2,643,387
Total comprehensive income for the year	₩	<u>96,574,477</u>	₩ <u>1,432,817,093</u>
Earnings (loss) per share: (in Korean won)			
	23		
Basic earnings (loss) per share from continuing operations		936	(1,250)
Basic earnings per share from discontinued operations		-	40,342
Diluted earnings (loss) per share from continuing operations		936	(1,250)
Diluted earnings per share from discontinued operations		-	40,341

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, 2018 and 2017

<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		-		-		-		-		-		(31,701,180)		(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		-		-		-		-		951,844		(951,844)		-		-
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
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)		(3,048,156)		(28,653,024)		1,162,029,438		(19,807,257)
Balance at December 31, 2017	₩	31,322,027	₩	1,251,281,671	₩	(11,625,409)	₩	(2,407,503,791)	₩	636,782,459	₩	2,347,602,504	₩	1,270,045,827	₩	3,117,905,288

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2018 and 2017

<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, 2018	₩	31,322,027	₩ 1,251,281,671	₩ (11,625,409)	₩ (2,407,503,791)	₩ 636,782,459	₩ 2,347,602,504	₩ 1,270,045,827	₩ 3,117,905,288
Changes in accounting policy (Note 42)		-	-	-	(301,741)	-	301,741	-	-
After adjustments		31,322,027	1,251,281,671	(11,625,409)	(2,407,805,532)	636,782,459	2,347,904,245	1,270,045,827	3,117,905,288
Comprehensive income:									
Profit for the year		-	-	-	-	-	56,332,236	61,962,642	118,294,878
Other comprehensive income:									
Gain (loss) on valuation of financial assets at fair value through other comprehensive income		-	-	-	(39,781)	-	-	279	(39,502)
Exchange differences on translating foreign operations		-	-	-	(7,398,631)	-	-	(13,214,386)	(20,613,017)
Share of other comprehensive income of associates and joint ventures		-	-	-	32,092	-	-	12,186	44,277
Remeasurements of net defined benefit liability		-	-	-	-	-	(218,463)	(846,037)	(1,064,500)
Share of defined benefit plan actuarial gain(loss) of associates		-	-	-	-	-	(17,812)	(29,847)	(47,659)
Total comprehensive income for the year		-	-	-	(7,406,320)	-	56,095,960	47,884,837	96,574,477
Total transactions with owners of the Company, recognized directly in equity									
Dividends		-	-	-	-	-	(20,507,267)	(16,170,711)	(36,677,979)
Exercise of stock options and others		120	29,408	-	(4,950)	-	-	16,735	41,314
Transfer to statutory reserve		-	-	-	-	3,762,073	(3,762,073)	-	-
Transfer to voluntary reserve		-	-	-	-	20,000,000	(20,000,000)	-	-
Transfer from voluntary reserve		-	-	-	-	(545,700,000)	545,700,000	-	-
Appropriation of retained earnings for other capital		-	-	-	2,753,637,307	-	(2,753,637,307)	-	-
Others		-	-	-	-	-	-	(1,255,145)	(1,255,145)
Total transactions with owners of the Company, recognized directly in equity		120	29,408	-	2,753,632,357	(521,937,927)	(2,252,206,647)	(17,409,121)	(37,891,810)
Balance at December 31, 2018	₩	31,322,147	₩ 1,251,311,079	₩ (11,625,409)	₩ 338,420,505	₩ 114,844,532	₩ 151,793,558	₩ 1,300,521,543	₩ 3,176,587,955

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, 2018 and 2017

(In thousands of Korean won)

	2018	2017
Cash flows from operating activities		
Loss from continuing operations	₩ 118,294,878	₩ (40,570,268)
Profit from discontinued operations	-	1,526,976,732
Adjustments for:		
Retirement benefits	12,364,742	6,354,968
Depreciation	109,729,368	27,709,868
Depreciation of investment property	678,543	760,505
Amortization	107,300,571	58,476,591
Impairment loss on intangible assets	629,010	-
Bad debt expenses(Reversal of bad debt allowance)	369,074	(84,698)
Loss on sale of trade receivables	6,356	-
Loss on sale of property, plant and equipment	2,732,475	883,526
Loss on sale of intangible assets	220,347	90,072
Loss on valuation of financial assets at fair value through profit or loss	688,058	-
Impairment loss on available-for-sale financial assets	-	225,532
Loss on sale of available-for-sale financial assets	-	21,803
Loss on sale of investments in associates	33,079	52,792,665
Bad debt expenses on other receivables	(11,070)	13,150
Valuation loss on derivatives	-	923,895
Foreign currency translation loss	344,729	4,971,678
Interest expense	16,034,081	8,464,755
Other expenses	951,807	642,655
Income tax expense	122,636,502	8,634,482
Share of loss(profit) of associates and joint ventures	1,479,476	(7,587,496)
Gain on sale of property, plant and equipment	(301,873)	(705,286)
Gain on sale of investments property	(5,541,351)	-
Reversal of impairment loss on intangible assets	(448,817)	(15,303)
Reversal of bad debt allowance	-	(66,603)
Gain on sale of available-for-sale financial assets	-	(24,466)
Gain on sale of financial assets at fair value through profit or loss	(260,851)	-
Foreign currency translation gain	(449,394)	(5,955,066)
Gain on valuation of financial assets at fair value through profit or loss	(486,800)	-
Interest income	(8,599,088)	(4,056,609)
Dividend income	(364,699)	(174,667)
Gains on disposal of assets held for sale	(7,862,720)	(1,658,434)
Gains on sale of discontinued operations	-	(1,489,856,322)
Other income	(1,056,266)	(60,266)
	<u>350,815,289</u>	<u>(1,339,279,071)</u>
Changes in:		
Trade receivables	(40,260,794)	35,079,154
Other receivables	1,201,500	(4,975,195)
Inventories	(7,461,485)	52,506,249

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

<i>(In thousands of Korean won)</i>	2018	2017
Other current assets	₩ (63,825,639)	₩ (54,052,639)
Other non-current assets	(1,239,183)	906,879
Trade payables	(3,205,514)	(30,541,484)
Other payables	48,474,537	(57,530,537)
Other current liabilities	24,143,907	(54,244,297)
Other non-current liabilities	-	205,501
Plan assets	(4,754,818)	2,678,097
Payment of defined benefit obligations	(8,919,633)	(5,198,439)
	<u>(55,847,122)</u>	<u>(115,166,711)</u>
Interest received	7,315,417	5,203,364
Dividend received	364,699	174,667
Interest paid	(16,383,386)	(9,774,123)
Income tax paid	(54,044,539)	(36,348,615)
Net cash inflow(outflow) from operating activities	<u>350,515,236</u>	<u>(8,784,025)</u>
Cash flows from investing activities		
Proceeds from sale of available-for-sale financial assets	-	2,757,760
Proceeds from sale of investment in associates	10,979,838	2,085,000
Proceeds from sale of property, plant and equipment	11,472,031	2,715,568
Proceeds from sale of intangible assets	847,491	379,186
Proceeds from sale of investment property	10,720,000	504,013
Decrease in rental deposits	929,817	293,203
Decrease in short-term loans	-	7,000,000
Proceeds from disposal of non-current assets held for sales	15,672,500	4,863,830
Increase in cash due to business combination	-	101,606,293
Proceeds from sale of other non-current assets	421,345	-
Other cash inflows from investing activities	450	242,920
Net increase in financial assets at fair value through profit or loss	(71,673,088)	-
Acquisition of available-for-sale financial assets	-	(1,200,000)
Acquisition of financial assets at amortized cost	(3,500,000)	-
Acquisition of property, plant and equipment	(167,072,194)	(58,121,785)
Acquisition of intangible assets	(4,884,867)	(3,648,853)
Acquisition of investment property	(6,460)	(680)
Increase in rental deposits	(174,040)	(107,230)
Increase in short-term loans	(1,500,000)	-
Increase in short- and long-term deposits	82,376,335	710,299
Acquisition of investments in joint ventures	(7,000,000)	(1,003,253)
Acquisition of non-current assets held for sales	-	(23,495)
Other cash outflows from investing activities	(9,000)	-
Net cash inflow(outflow) from investing activities	<u>(122,399,842)</u>	<u>59,052,776</u>

Orion Holdings Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Cash flows from financing activities		
Proceeds from exercise of stock options and others	₩ 30,789	₩ -
Increase in deposits received	153,000	590,000
Increase in short-term borrowings	1,073,790,928	433,271,895
Increase in long-term borrowings	30,000,000	109,709,160
Decrease in deposits received	(120,000)	(577,955)
Redemption of short-term borrowings	(1,078,493,056)	(385,193,838)
Redemption of current portion of long-term borrowings	(170,882,436)	(108,681,330)
Stock issue cost due to business combination	-	(558,418)
Dividends paid	(36,668,938)	(33,021,280)
Acquisition of treasury shares	-	(1,100,998)
Other cash outflows from financing activities	(18,359)	(4,969)
Net cash inflow(outflow) from financing activities	<u>(182,208,072)</u>	<u>14,432,267</u>
Effect of exchange rate fluctuations on Cash and cash equivalents, and others	<u>(3,275,979)</u>	<u>(6,380,454)</u>
Net increase in cash and cash equivalents	42,631,343	58,320,564
Cash and cash equivalents at the beginning of year	215,153,916	240,128,109
Decrease in cash equivalents due to equity spin-off	-	(83,294,757)
Cash and cash equivalents at the end of year	<u>257,785,259</u>	<u>215,153,916</u>
Cash and cash equivalents at the end of the year on the consolidated statement of financial position	<u>₩ 257,785,259</u>	<u>₩ 215,153,916</u>

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, 2018 and 2017

1. General Information

Description of the Controlling Company

Orion Holdings Corporation ("the Company" or the "Parent Company") was founded on July 25, 1956, and listed on the Korea Stock Exchange on June 27, 1975. As at December 31, 2018, 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, 2018, the Company has capital stock of ₩31,322 million, and its major stockholders are Lee Hwa Kyoung (32.63%) and four 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, 2018 and 2017, are as follows:

Name	Location	Immediate controlling party	2018 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%
RION Asset Development Co, Ltd.	Korea	Orion Holdings Corporation	100.00%	-	100.00%
SHOWBOX Corp.	Korea	Orion Holdings Corporation	57.50%	-	57.50%
Mega Mark Co., Ltd.	Korea	Orion Holdings Corporation	100.00%	-	100.00%
PAN Orion Corp. Limited.	Hong Kong	Orion Corporation	-	95.15%	95.15%
Orion International Euro LLC.	Russia	Orion Corporation	-	100.00%	100.00%
Orion Food VINA Co., Ltd.	Vietnam	Orion Corporation	-	100.00%	100.00%
Orion Nutritionals Private Ltd. ²	India	Orion Corporation	-	100.00%	100.00%
Supreme Star Investment Limited.	Hong Kong	Orion Holdings Corporation	62.66%	11.23%	73.89%
PT.Orion Food Indonesia ³	Indonesia	Orion Corporation	-	-	-
HighLand D&C Co., Ltd.	Korea	Orion Holdings Corporation	100.00%	-	100.00%
SHOWBOX Inc.	China	SHOWBOX Corp.	-	100.00%	100.00%
Misoin Co., Ltd.	Korea	Mega Mark Co., Ltd.	-	100.00%	100.00%
Orion Food Co., Ltd.	China	PAN Orion Corp. Limited	-	100.00%	100.00%
Orion Food(Shanghai) Co., Ltd.	China	PAN Orion Corp. Limited	-	100.00%	100.00%
Orion Food Guangzhou Co., Ltd.	China	PAN Orion Corp. Limited	-	100.00%	100.00%
Orion Food (Shen Yang) Co., Ltd.	China	PAN Orion Corp. Limited	-	100.00%	100.00%

Orion Holdings Corporation and Subsidiaries
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Name	Location	Immediate controlling party	2018		
			Percentage of ownership		
			The Company	Subsidiary	Total
Orion(Bei Tun) Agro Processing Co.,Ltd ⁴	China	Orion Food Co., Ltd.	-	100.00%	100.00%
Orion Agro BeiTun Co.,Ltd	China	Orion(Bei Tun) Agro Processing Co.,Ltd	-	100.00%	100.00%
Orion Consulting Co., Ltd.	China	Supreme Star Investment Limited	-	100.00%	100.00%
Beijing Supreme Star Consulting Co., Ltd. ⁵	China	Orion Consulting Co., Ltd.	-	-	-
Orion Argo Co., Ltd.	China	Orion Food Co., Ltd.	-	100.00%	100.00%
Orion Agro DuoLun Co., Ltd.	China	Orion Food Co., Ltd.	-	100.00%	100.00%
Beijing media tech Co., Ltd. ⁶	China	Orion Holdings Corporation	-	-	-
Beijing mega media Co., Ltd	China	Orion Holdings Corporation	100.00%	-	100.00%
STELLA WAY LIMITED ⁷	Hong Kong	Orion Food Co., Ltd	-	-	-
LANGFANG IPAK Co., Ltd.	China	Orion Food Co., Ltd	-	100.00%	100.00%
JeJu Yongam Soo Corp ⁸	Korea	Orion Holdings Corporation	86.89%	-	86.89%
Orion Investment Development Corp.	Korea	Orion Holdings Corporation	100.00%	-	100.00%

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%
RION Asset Development Co, Ltd.	Korea	Orion Holdings Corporation	100.00%	-	100.00%
SHOWBOX Corp.	Korea	Orion Holdings Corporation	57.50%	-	57.50%
Mega Mark Co., Ltd.	Korea	Orion Holdings Corporation	100.00%	-	100.00%
PAN Orion Corp. Limited.	Hong Kong	Orion Corporation	-	95.15%	95.15%
Orion International Euro LLC.	Russia	Orion Corporation	-	100.00%	100.00%
Orion Food VINA Co., Ltd.	Vietnam	Orion Corporation	-	100.00%	100.00%
Orion Nutritionals Private Ltd. ²	India	Orion Corporation	-	-	-
Supreme Star Investment Limited.	Hong Kong	Orion Holdings Corporation	62.66%	11.23%	73.89%
PT.Orion Food Indonesia ³	Indonesia	Orion Corporation	-	100.00%	100.00%
HighLand D&C Co., Ltd.	Korea	Orion Holdings Corporation	100.00%	-	100.00%
SHOWBOX Inc.	China	SHOWBOX Corp.	-	100.00%	100.00%
Misoin Co., Ltd.	Korea	Mega Mark Co., Ltd.	-	100.00%	100.00%
Orion Food Co., Ltd.	China	PAN Orion Corp. Limited	-	100.00%	100.00%
Orion Food(Shanghai) Co., Ltd.	China	PAN Orion Corp. Limited	-	100.00%	100.00%

Orion Holdings Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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Name	Location	Immediate controlling party	2017 Percentage of ownership		
			The		
			Company	Subsidiary	Total
Orion Food Guangzhou Co., Ltd.	China	PAN Orion Corp. Limited	-	100.00%	100.00%
Orion Food (Shen Yang) Co., Ltd.	China	PAN Orion Corp. Limited	-	100.00%	100.00%
Orion(Bei Tun) Agro Processing Co.,Ltd ⁴	China	Orion Food Co., Ltd.	-	100.00%	100.00%
Orion Agro BeiTun Co.,Ltd	China	Orion(Bei Tun) Agro ProcessingCo.,Ltd	-	100.00%	100.00%
Orion Consulting Co., Ltd.	China	Supreme Star Investment Limited	-	100.00%	100.00%
Beijing Supreme Star Consulting Co., Ltd. ⁵	China	Orion Consulting Co., Ltd.	-	100.00%	100.00%
Orion Argo Co., Ltd.	China	Orion Food Co., Ltd.	-	100.00%	100.00%
Orion Agro DuoLun Co., Ltd.	China	Orion Food Co., Ltd.	-	100.00%	100.00%
Beijing media tech Co., Ltd. ⁶	China	Orion Holdings Corporation	100.00%	-	100.00%
Beijing mega media Co., Ltd	China	Orion Holdings Corporation	100.00%	-	100.00%
STELLA WAY LIMITED ⁷	Hong Kong	Orion Food Co., Ltd	-	100.00%	100.00%
LANGFANG IPAK Co., Ltd.	China	Orion Food Co., Ltd	-	100.00%	100.00%
JeJu Yongam Soo Corp ⁸	Korea	Orion Holdings Corporation	57.00%	-	57.00%
Orion Investment Development Corp.	Korea	Orion Holdings Corporation	100.00%	-	100.00%

¹ 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 2018 Orion Nutritionals Private Ltd. was established.

³ In 2018, PT. Orion Food Indonesia went through liquidation.

⁴ In 2018, Orion(Bei Tun) Agro Processing Co.,Ltd. was sold to Orion Food Co., Ltd. by PAN Orion Corp. Limited

⁵ In 2018, Beijing Supreme Star Consulting Co., Ltd. went through liquidation.

⁶ In 2018, Beijing media tech Co., Ltd. merged into Beijing mega media Co., Ltd.

⁷ In 2018, STELLA WAY LIMITED went through liquidation.

⁸ In 2018, the Group acquired additional shares of JeJu Yongam Soo Corp.

Orion Holdings Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

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

(In millions of Korean won)

Name	Main business	2018					
		Total assets	Total liabilities	Total equity	Sales	Profit (loss) for the year	Comprehensive income (loss)
Orion Holdings Corporation	Investment	₩ 1,915,628	₩ 9,878	₩ 1,905,750	₩ 26,309	₩ 22,916	₩ 23,255
Orion Corporation	Manufacturing and selling confectioneries	1,163,673	465,776	697,896	711,902	70,765	69,491
RION Asset Development Co., Ltd.	Real estate	7,770	47,760	(39,990)	-	(2,242)	(2,242)
SHOWBOX Corp.	Movie,broadcasting, and performance	178,588	38,035	140,553	68,511	5,107	5,633
Mega Mark Co., Ltd.	Construction	27,495	624	26,871	-	(67)	(67)
PAN ORION Corp. Limited ¹	Holding company	273,019	119,538	153,481	99,840	61,362	61,362
Orion International Euro LLC	Manufacturing and selling confectioneries	61,564	6,487	55,077	64,853	6,504	6,504
Orion Food VINA Co., Ltd.	Manufacturing and selling confectioneries	220,880	33,003	187,877	233,882	36,900	36,900
Orion Nutritionals Private Ltd.	Manufacturing and selling confectioneries	4,911	225	4,686	-	(248)	(248)
Supreme Star Investment Limited	Investment Holding Company	25,076	74	25,002	4,741	549	549
PT. Orion Food Indonesia ²	Selling confectioneries	-	-	-	-	(7)	(7)
HighLand D&C Co., Ltd.	Developing and Selling buildings for residence	6,492	36,004	(29,512)	-	(1,705)	(1,705)
SHOWBOX Inc.	Planning and developing movie	1,027	986	39	-	(207)	(207)
Misoin Co., Ltd.	Developing and Supplying buildings for residence	10,281	69,549	(59,268)	-	(2,842)	(2,842)
Orion Food Co., Ltd. ³	Manufacturing and selling confectionerie	714,448	246,965	467,483	942,632	72,233	72,233
Orion Food(Shanghai) Co., Ltd.	Manufacturing confectioneries	273,048	35,312	237,736	176,595	22,587	22,587
Orion Food Guangzhou Co., Ltd.	Manufacturing confectioneries	220,111	77,122	142,989	107,609	11,643	11,643
Orion Food (Shen Yang) Co., Ltd.	Manufacturing confectioneries	175,709	75,860	99,849	78,550	8,621	8,621
Orion(Bei Tun) Agro	Processing the agricultural products	33,434	452	32,982	9,262	(501)	(501)

Orion Holdings Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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(In millions of Korean won)

Name	Main business	2018					
		Total assets	Total liabilities	Total equity	Sales	Profit (loss) for the year	Comprehensive income (loss)
Processing Co., Ltd.							
Orion Agro BeiTun Co. Ltd	Harvesting and selling the agricultural products	1,309	634	675	3,544	(876)	(876)
Orion Consulting Co., Ltd.	Consulting	1,877	21	1,856	471	181	181
Beijing Supreme Star Consulting Co., Ltd.	Advising on investments	-	-	-	-	32	32
Orion Argo Co., Ltd.	Manufacturing food and beverages	7,164	658	6,506	9,382	1,110	1,110
Orion Agro DuoLun Co., Ltd.	Processing the agricultural products	2,447	191	2,256	2,801	(4)	(4)
Beijing media tech Co., Ltd ⁴	Developing programs	-	-	-	-	-	-
Beijing mega media Co., Ltd	Consulting for making movie	408	-	408	-	(45)	(45)
STELLA WAY LIMITED ⁵	Advising on investment	-	-	-	-	-	-
LANGFANG IPAK Co., Ltd.	Manufacturing pulp and paper	22,252	4,834	17,418	11,940	(926)	(926)
JeJu Yongam Soo Corp	Beverage Business	61,483	31,327	30,156	-	(1,448)	(1,448)
Orion Investment Development Corp.	Investment	99	-	99	-	(1)	(1)
Total		₩ 5,410,193 ₩	₩ 1,301,315 ₩	₩ 4,108,875 ₩	₩ 2,552,824 ₩	₩ 309,391 ₩	₩ 308,982 ₩

¹ Sales of PAN Orion Corp. Limited is dividend received from Orion Food Co., Ltd.

² In 2018, PT. Orion Food Indonesia went through liquidation and the amount stated above presents financial information before liquidation.

³ Sales of Orion Food Co., Ltd. includes dividend received from Orion Agro Co., Ltd.

⁴ In 2018, Beijing media tech Co., Ltd merged into Beijing mega media Co., Ltd and the amount stated above presents financial information before merger.

⁵ In 2018, STELLA WAY 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.

Orion Holdings Corporation and Subsidiaries
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(In millions of Korean won)

Name	Main business	2017					
		Total assets	Total liabilities	Total equity	Sales ¹	Profit (loss) for the year	Comprehensive income (loss)
Orion Holdings Corporation ²	Investment	₩ 1,907,982	₩ 5,004	₩ 1,902,978	₩ 6,522	₩ 2,228,911	₩ 2,228,258
Orion Corporation ³	Manufacturing and selling confectioneries	1,138,455	486,341	652,114	-	-	-
Orion Reports Corp. ⁴	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 ³	Holding company	290,600	189,219	101,381	-	(4,677)	(4,677)
Orion International Euro LLC ³	Manufacturing and selling confectioneries	72,475	15,644	56,831	30,380	6,192	6,192
Orion Food VINA Co., Ltd. ³	Manufacturing and selling confectioneries	183,136	35,594	147,542	92,981	17,579	17,579
Supreme Star Investment Limited	Investment Holding Company	24,690	-	24,690	-	1,222	1,222
PT. Orion Food Indonesia ³	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. ⁶	Sports/Entertainment	-	-	-	-	-	-
Orion Food Co., Ltd. ³	Manufacturing and selling confectionerie	662,291	162,989	499,302	277,772	(22,179)	(22,179)
Orion Food(Shanghai) Co., Ltd. ³	Manufacturing confectioneries	243,359	26,536	216,823	43,708	4,116	4,116
Orion Food Guangzhou Co., Ltd. ³	Manufacturing confectioneries	229,485	97,164	132,321	30,615	2,966	2,966
Orion Food (Shen Yang) Co., Ltd. ³	Manufacturing confectioneries	175,166	83,249	91,917	18,070	594	594

Orion Holdings Corporation and Subsidiaries
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(In millions of Korean won)

Name	Main business	2017					
		Total assets	Total liabilities	Total equity	Sales ¹	Profit (loss) for the year	Comprehensive income (loss)
Orion(Bei Tun) Agro Processing Co., Ltd. ³	Processing the agricultural products	25,740	8,449	17,291	803	(590)	(590)
Orion Agro BeiTun Co. Ltd. ³	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. ³	Manufacturing food and beverages	15,245	573	14,672	322	(75)	(75)
Orion Agro DuoLun Co., Ltd. ³	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 ³	Advising on investment	25,574	-	25,574	-	(1)	(1)
LANGFANG IPAK Co., Ltd. ³	Manufacturing pulp and paper	20,374	1,950	18,424	5,157	(401)	(401)
Orion Beverages Corp ⁷	Manufacturing beverages	-	-	-	-	(2)	(2)
JeJu Yongam Soo Corp	Beverage Business	9,016	86	8,930	-	(972)	(972)
Orion Investment Development Corp.	Investment	100	-	100	-	-	-
Total		₩ 5,285,232 ₩	₩ 1,328,306 ₩	₩ 3,956,926 ₩	₩ 609,748 ₩	₩ 2,241,281 ₩	₩ 2,240,445

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Notes to the Consolidated Financial Statements
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¹ As described in Note 3, accounting policies have been changed as the Group applied Korean IFRS 1115 from 2018, and there is no impact on operating profit or loss and profit or loss for the year although certain amounts recognized in statement of comprehensive income for the year ended December 31, 2017 were adjusted.

² The Company's financial information included in continuing and discontinued operations.

³ 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.

⁴ In 2017, Orion Reports Corp went through liquidation and the amount stated above presents financial information before liquidation.

⁵ In 2017, Supreme Star Holdings Limited went through liquidation and the amount stated above presents financial information before liquidation.

⁶ In 2017, Crespo has been sold and the amount stated above presents financial information before the sale.

⁷ 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.

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

Subsidiary	Location	Remark
Orion Nutritionals Private Ltd	India	Subsidiary's acquisition of ownership

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 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 financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.3.

The consolidated financial statements were authorized to be issued by the Board of Directors on February 14, 2019, which will be submitted for approval to the shareholders' meeting to be held on March 29, 2019.

Orion Holdings Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

2.1 Basis of measurement

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

- derivative financial instruments are measured at fair value
- financial assets at fair value through profit or loss
- financial assets at fair value through other comprehensive income
- investments in associates and joint ventures
- 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.

(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 27 : Measurement of defined benefit obligations for employees
- Note 28 : Estimation of provision for warranty
- Note 36 : Deferred tax asset(liability)
- Note 37 : Trade and other receivables
- Note 38 : 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 36)

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

Orion Holdings Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

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dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

(b) Measurement of fair values

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

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

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

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

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

- Note 35 : Financial Instruments by categories

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, 2018. The adoption of these amendments did not have any material impact on the financial statements.

- Amendment to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or is 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 each investment separately at fair value through profit or loss in accordance with Korean IFRS 1109.

- Amendment to Korean IFRS 1040 *Transfers of Investment Property*

The amendment to 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 the list of evidence for a change of use in the standard was re-characterized as a non-exclusive list of example. The amendment does not have a significant impact on the financial statements.

Orion Holdings Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

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

Amendments to Korean IFRS 1102 clarify 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. Amendments also clarify 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 amendment does not have a significant impact on the financial statements.

- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to the enactment, 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. The enactment does not have a significant impact on the financial statements.

- Korean IFRS 1109 *Financial Instruments*

The Group has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated. See Note 42 for further details on the impact of the application of the standard.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group has applied Korean IFRS 1115 *Revenue from Contracts with Customers*. In accordance with the transition provisions in Korean IFRS 1115, the new standard was applied retrospectively and comparative figures have been restated. See Note 42 for further details on the impact of the application of the standard.

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

- 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*. The Group will apply the standards for annual periods beginning on or after January 1, 2019.

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

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116. The Group is analyzing the effects on the financial statements based on available information as at December 31, 2018 to identify effects on 2018 financial statements; however, it is difficult to provide reasonable estimates of financial effects until the analysis is complete.

- Korean IFRS 1109 *Financial Instruments*

The narrow-scope amendments made to Korean IFRS 1109 *Financial Instruments* enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost that does not result in the derecognition, a modification gain or loss shall be recognized in profit or loss. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted.

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- Amendments to Korean IFRS 1019 *Employee Benefits*

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendments are effective for plan amendments, curtailments and settlements occurring in reporting periods that begin on or after 1 January 2019.

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

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted. In accordance with the transitional provisions in Korean IFRS 1109, the restatement of the comparative information is not required and the cumulative effects of initially applying the amendments retrospectively should be recognized in the beginning balance of retained earnings (or other components of equity, as appropriate) at the date of initial application.

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

The Interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. This Interpretation will be applied for annual periods beginning on or after January 1, 2019, and an entity can either restate the comparative financial statements retrospectively or recognize the cumulative effect of initially applying the Interpretation as an adjustment in the beginning balance at the date of initial application.

- Annual Improvements to Korean IFRS 2015 – 2017 Cycle:

- Korean IFRS 1103 *Business Combination*

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation. These amendments will be applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early adoption permitted.

- Korean IFRS 1111 *Joint Agreements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured. These amendments will be applied to transactions in which an entity obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early adoption permitted.

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

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. These amendments will be applied for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted.

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- Korean IFRS 1023 *Borrowing Costs*

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings. These amendments will be applied to borrowing costs incurred on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

4. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below.

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. Acquisition-related costs are expensed as incurred.

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.

(a) *Non-controlling Interests ("NCI")*

NCI are measured at their proportionate share of the acquiree's identifiable net assets at 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

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rights to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(d) Loss of control

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

(e) Interests in equity-method Investees

The Group's interests in equity-method investees comprise interest in associates and joint ventures.

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.

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

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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 Financial assets

(a) Classification

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

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

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

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

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

(b) Measurement

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

A. Debt instruments

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

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset

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is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'other income or expenses' in the year in which it arises.

B. Equity instruments

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

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

(c) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and lease receivables, the Group applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables. (Note 37 provides more detail of how the Group determines there has been a significant increase in credit risk.)

(d) Recognition and Derecognition

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

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Group classified the financial liability as "borrowings" in the statement of financial position (Note 26).

(e) Offsetting of financial instruments

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

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.

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4.8 Property, plant and equipment

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

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

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

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

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

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

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

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

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.

4.9 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

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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.

4.10 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. As the expected useful life of intangible assets was changed for the year ended December 31, 2018, cost of sales reflected as a change in an accounting estimate amounts to ₩3,380 million.

(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.

4.11 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.

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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.

4.12 Impairment of non-financial assets

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

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

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

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

4.13 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.

4.14 Financial Liabilities

(a) Classification and measurement

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

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

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

(b) Derecognition

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

4.15 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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4.16 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.

4.17 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.

4.18 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.

4.19 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.

4.20 Revenue from Contracts with Customers

(a) Revenue from contracts with customers

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. 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. The provision of rights to use the advertising materials and licenses and the provision of film distribution services for which each performance obligation is satisfied at a point in time is recognized as revenue at the time of performance. Since the Group controls each good or service before providing the goods or services to the customers in the contracts with customers, the Group determines that the Group acts as a principal in the contract with the customers.

① Variable consideration

The Group estimates an amount of variable consideration by using the method that the Group expects to better predict the amount of consideration to which it will be entitled for discount, incentive, penalty and others to be paid to customers.

② Consideration payable to a customer

The Group accounts for consideration payable to a customer as an expense or reduction of the revenue, depending on whether the payment to the customer is in exchange for a distinct good or service.

(b) Revenue from other sources

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.

4.21 Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, 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

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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.

4.22 Income taxes

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

(a) Current tax

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

(b) Deferred tax

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

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and joint ventures except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

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

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

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

4.23 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

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weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

5. Non-Controlling Interests

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

Major consolidated subsidiaries are summarized as follows:

Subsidiary	Location	Non-controlling interests percentage	
		2018	2017
Orion Corp. ¹	Korea	62.63%	62.63%
SHOWBOX Corp.	Korea	42.50%	42.50%

¹ In 2017, 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	2018					
		Profit allocated to non-controlling interests		Cumulative non-controlling interests		Dividends paid to non-controlling interests
Orion Corp.	₩	60,467,285	₩	1,229,478,191	₩	14,850,611
SHOWBOX Corp.		1,802,801		59,727,556		1,320,100

(In thousands of Korean won)

Subsidiary	2017					
		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

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Financial position and financial performance:

(In thousands of Korean won)

	2018	
	Orion Corp.¹	SHOWBOX Corp.
Current assets	₩ 569,224,203	₩ 138,401,243
Non-current assets	2,438,385,709	41,331,638
Current liabilities	500,310,519	38,679,254
Non-current liabilities	565,536,778	343,108
Revenue	1,926,947,889	68,510,508
Profit for the year	96,552,570	4,352,363
Comprehensive income	74,811,075	4,880,681

(In thousands of Korean won)

	2017	
	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 for the year	-	15,845,913
Comprehensive income	-	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.

Cash flow:

(In thousands of Korean won)

	2018	
	Orion Corp.	SHOWBOX Corp.
Cash flows from operating activities	₩ 460,923,889	₩ (51,873,104)
Cash flows from investing activities	(175,140,545)	2,819,994
Cash flows from financing activities	(199,237,110)	(3,120,000)
Effect of exchange rate fluctuations on cash held	(3,533,430)	(3,928)
Net increase (decrease) in cash and cash equivalents	83,012,804	(52,177,038)

(In thousands of Korean won)

	SHOWBOX Corp.
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.

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6. Operating Segments

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

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

Operating segments	Principal operations
Confectioneries	Manufacturing and selling of snacks and confectioneries
Entertainment	Film investments and distribution
Construction	Construction and sale of real estate
Holding business	The holding company's dividend, royalty, rental income and others
Others	Beverage, 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*.

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Segment results for the years ended December 31, 2018 and 2017, are as follows:

(in thousands of Korean won)

	2018						Consolidated Total
	Confectioneries	Entertainment	Construction	Holding ²	Others	Elimination	
Total segment sales	₩ 2,443,169,883	₩ 68,428,398	₩ -	₩ 26,308,919	₩ 470,943	₩ (540,695,315)	₩ 1,997,682,828
Less: Inter segment sales	(516,277,112)	-	-	(24,418,203)	-	540,695,315	-
External sales	1,926,892,771	68,428,398	-	1,890,716	470,943	-	1,997,682,828
Depreciation	117,883,987	40,321,896	1,077	642,362	13,389	58,598,334	217,461,045
Profit(loss) for the year	282,175,029	5,160,373	(232,221)	15,280,577	(1,437,694)	(70,433,473)	230,512,591

(in thousands of Korean won)

	2017						Consolidated Total
	Confectioneries ¹	Entertainment	Construction	Holding ²	Others	Elimination	
Total segment sales	₩ 673,713,789	₩ 102,706,678	₩ -	₩ 13,596,540	₩ 710,915	₩ (677,979,644)	₩ 112,748,278
Less: Inter segment sales	-	-	-	(4,265,856)	-	4,265,856	-
External sales	673,713,789	102,706,678	-	9,330,684	710,915	(673,713,788)	112,748,278
Depreciation	27,523,581	58,203,399	1,660	414,272	776,224	(27,495,754)	59,423,382
Profit(loss) for the year	52,000,654	10,266,952	(104,508)	(711,940)	(877,365)	(55,672,883)	4,900,910

¹ The Group classified the sales of Confectioneries segment as discontinued operations in 2017 and it is included in elimination and others (Note 7).

² In 2018, the holding segment was identified as a reportable segment and the financial information of prior year was restated.

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Segment assets and liabilities as at December 31, 2018 and 2017, as follows:

(in thousands of Korean won)

	2018						Consolidated Total
	Confectioneries	Entertainment	Construction	Holding ¹	Others	Elimination	
Total assets	₩ 3,173,969,916	₩ 179,732,881	₩ 52,036,707	₩1,915,627,521	₩ 88,943,322	₩(1,068,176,219)	₩ 4,342,134,128
Total liabilities	1,067,057,157	39,022,362	153,935,764	9,877,945	31,422,494	(135,769,549)	1,165,546,173
Investments in associates and joint ventures	30,383,314	2,169,214	-	-	3,616,446	-	36,168,974
Increase of non-current assets	(18,429,881)	342,783	(1,077)	(10,766,178)	33,425,121	(66,365,892)	(61,795,124)

(in thousands of Korean won)

	2017						Consolidated Total
	Confectioneries	Entertainment	Construction	Holding ¹	Others	Elimination	
Total assets	₩ 3,085,690,541	₩ 203,267,261	₩ 52,113,479	₩1,907,981,603	₩ 36,844,686	₩ (983,047,941)	₩ 4,302,849,629
Total liabilities	1,111,658,063	64,344,876	147,156,333	5,004,080	142,895	(143,361,906)	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)	1,742,767,160	(6,917,106)	(843,501,095)	707,141,823

¹ In 2018, the holding segment was identified as a reportable segment and the financial information of prior year was restated.

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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 (after inter-company eliminations) for the years ended December 31, 2018 and 2017, is as follows:

(In thousands of Korean won)

		2018						
		Domestic	China	Others	Total			
Continuing operation	₩	768,441,022	₩	933,788,435	₩	295,453,371	₩	1,997,682,828

(In thousands of Korean won)

		2017						
		Domestic	China	Others	Total			
Continuing operation	₩	112,037,363	₩	710,915	₩	-	₩	112,748,278
Discontinued operation		275,578,263		277,646,026		120,489,500		673,713,789

Information on regional non-current assets (after inter-company eliminations) for the years ended December 31, 2018 and 2017, is as follows:

(In thousands of Korean won)

		2018	2017	
Domestic	₩	1,074,599,183	₩	1,040,632,575
China		1,334,464,008		1,403,367,882
Other		224,632,822		251,490,680
Total	₩	2,633,696,013	₩	2,695,491,137

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, 2018 and 2017, are as follows:

(in thousands of Korean won)

		2018	2017			
			Continuing operation	Discontinued operation		
Sales of goods	₩	1,990,369,295	₩	102,706,678	₩	669,004,385
Royalty		19,754		4,754,627		-
Others		5,767,762		885,582		4,709,404
Rental income		1,526,017		4,401,391		-
	₩	1,997,682,828	₩	112,748,278	₩	673,713,789

There is no main customer who contributes more than 10% of the Group's revenues for the year ended December 31, 2018.

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7. Non-current Assets Held for sale

Non-current assets held for sale as at December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	2018	2017
Land	₩ -	₩ 2,393,909
Building	-	1,161,306
Book amount on assets held for sale	₩ -	₩ 3,555,215

₩ 8,470 million of investment property, whose disposal plan was concluded during 2018, was disposed after being classified as non-current assets held for sale, and ₩ 3,555 million was reclassified to investment property due to changes of the disposal plan.

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.

	Details
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.

-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.

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.

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i) Consolidated statements of comprehensive income

Profit or loss from discontinued operations and cash flows originated from activities of discontinued operations for the year ended December 31, 2017, are as follows:

(In thousands of Korean won)

	2017		
	<u>Confectioneries</u>	<u>Others</u>	<u>Total</u>
Results of discontinued operation			
Sales	₩ 673,713,790	₩ -	₩ 673,713,790
Cost of sales	(390,796,714)	-	(390,796,714)
Gross profit	282,917,076	-	282,917,076
Selling expenses	(194,096,158)	-	(194,096,158)
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
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>

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*.

As described in Note 3, accounting policies have been changed as the Group applied Korean IFRS 1115 from 2018, and there is no impact on operating profit or loss and profit or loss from discontinued operations although certain amounts recognized in the statement of comprehensive income for the year ended December 31, 2017 were adjusted (Note 42).

ii) Cash flow used in discontinued operations for the year ended December 31, 2017, are as follows:

(In thousands of Korean won)

	<u>2017</u>
Cash flow used in discontinued operations	
Net cash from operating activities	₩ (19,275,821)
Net cash from investing activities	(22,439,855)
Net cash from financing activities	69,981,161
The effects of changes in foreign exchange rates in cash and cash equivalents presented in foreign currencies	(3,490,812)

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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.

(In thousands of Korean won)

		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, 2018, 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, 2018	₩ 383,953,779	₩ 575,271,875	₩ 6,993,522	₩ 718,551,639	₩ 65,812,523	₩ 66,758,962	₩ 1,817,342,300
Additions	69,901	363,677	105,238	14,336,199	4,033,905	138,467,599	157,376,519
Disposals	(618,971)	(5,016,126)	(3,479)	(17,037,423)	(9,771,000)	-	(32,446,999)
Others ¹	(350,963)	49,058,851	559,489	78,093,654	2,789,653	(141,936,201)	(11,785,517)
Balance at December 31, 2018	₩ <u>383,053,746</u>	₩ <u>619,678,277</u>	₩ <u>7,654,770</u>	₩ <u>793,944,069</u>	₩ <u>62,865,081</u>	₩ <u>63,290,360</u>	₩ <u>1,930,486,303</u>
Accumulated depreciation and impairment							
Balance at January 1, 2018	₩ -	₩ (10,253,479)	₩ (16,453)	₩ -	₩ (3,405,621)	₩ -	₩ (13,675,553)
Depreciation	-	(16,767,297)	(981,419)	(79,281,281)	(12,699,371)	-	(109,729,368)
Disposals	-	869,875	2,175	9,907,947	5,533,328	-	16,313,325
Others ¹	-	409,142	134,891	(469,067)	525,213	-	600,179
Balance at December 31, 2018	₩ -	₩ <u>(25,741,759)</u>	₩ <u>(860,806)</u>	₩ <u>(69,842,401)</u>	₩ <u>(10,046,451)</u>	₩ -	₩ <u>(106,491,417)</u>
Book amount							
Balance at January 1, 2018	₩ 383,953,779	₩ 565,018,396	₩ 6,977,069	₩ 718,551,639	₩ 62,406,902	₩ 66,758,962	₩ 1,803,666,747
Balance at December 31, 2018	₩ <u>383,053,746</u>	₩ <u>593,936,518</u>	₩ <u>6,793,964</u>	₩ <u>724,101,668</u>	₩ <u>52,818,630</u>	₩ <u>63,290,360</u>	₩ <u>1,823,994,886</u>

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

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Changes in property, plant and equipment for the year ended December 31, 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
Reclassification to investments property	-	976,977	-	-	-	-	976,977
Balance at December 31, 2017	₩ -	₩ (10,253,479)	₩ (16,453)	₩ -	₩ (3,405,621)	₩ -	₩ (13,675,553)
Book amount							
Balance at January 1, 2017	₩ 319,941,572	₩ 570,884,535	₩ 6,733,219	₩ 787,002,634	₩ 71,361,856	₩ 61,540,680	₩ 1,817,464,496
Balance at December 31, 2017	₩ 383,953,779	₩ 565,018,396	₩ 6,977,069	₩ 718,551,639	₩ 62,406,902	₩ 66,758,962	₩ 1,803,666,747

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

As at December 31, 2018, the Group has entered into purchase agreements with respect to buildings and machinery, and the amount expected to be incurred in the future is ₩ 84,950 million (2017: ₩ 80,497 million).

Borrowing costs of ₩ 857,983 thousand (2017: ₩ 34,583 thousand) in relation to the completion of construction, were capitalized as part of the cost of qualifying assets for the year ended December 31, 2018. The capitalization rates were 2.51%~3.35% (2017: 2.80%~2.99%) for the year ended December 31, 2018.

As at December 31, 2018 and 2017, property, plant and equipment (buildings) of the Group is secured by leasehold rights for ₩ 50 million.

As at December 31, 2018, the Group has fire and other insurance coverage from Hyundai Marine & Fire Insurance Co., Ltd and others of up to ₩ 2,141,281 million (2017: ₩1,893,057 million) on the Group's inventories, property, plant and equipment against fire and others.

In addition, as at December 31, 2018, the Group maintains insurance policies covering cash theft, loss and liability arising from products, gas accidents, directors' and officers' liability and automobile accidents.

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10. Intangible Assets

Changes in intangible assets for the year ended December 31, 2018, 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, 2018	₩ 7,786,726	₩ 504,992,754	₩ 15,181,269	₩ 9,452,153	₩ 225,979,112	₩ 384,700,000	₩ 1,148,092,014
Additions	1,253,760	196,997	-	3,186,560	-	-	4,637,317
Disposals	-	-	(1,318,859)	(200,385)	-	-	(1,519,244)
Others	(9,522)	46,335,122	768,837	(681,061)	(1,376,078)	(1,098,393)	43,938,905
Balance at December 31, 2018	₩ 9,030,964	₩ 551,524,873	₩ 14,631,247	₩ 11,757,267	₩ 224,603,034	₩ 383,601,607	₩ 1,195,148,992
Accumulated amortization and impairment							
Balance at January 1, 2018	₩ (449,371)	₩ (504,975,025)	₩ (18,000)	₩ (1,142,880)	₩ -	₩ -	₩ (506,585,276)
Amortization	(1,201,268)	(39,817,383)	-	(1,670,146)	(22,802,441)	(41,809,332)	(107,300,570)
Impairment loss	-	-	(629,010)	-	-	-	(629,010)
Reversal of impairment loss	-	-	448,817	-	-	-	448,817
Disposals	-	-	149,636	194,392	-	-	344,028
Others	3,766	(282,334)	-	77,134	342,138	640,908	781,612
Balance at December 31, 2018	₩ (1,646,873)	₩ (545,074,742)	₩ (48,557)	₩ (2,541,500)	₩ (22,460,303)	₩ (41,168,424)	₩ (612,940,399)
Book amount							
Balance at January 1, 2018	₩ 7,337,355	₩ 17,729	₩ 15,163,269	₩ 8,309,273	₩ 225,979,112	₩ 384,700,000	₩ 641,506,738
Balance at December 31, 2018	₩ 7,384,091	₩ 6,450,131	₩ 14,582,690	₩ 9,215,767	₩ 202,142,731	₩ 342,433,183	₩ 582,208,593

Others mainly include transfers from prepayments and fluctuation due to foreign currency translation of foreign operations during 2018. Also during 2018, the Group recognized the impairment loss of the rights to use facility and others whose recoverable amounts were less than the book amounts.

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

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<i>(In thousands of Korean won)</i>	<u>Industrial property rights</u>	<u>Publication rights</u>	<u>Rights to use facility</u>	<u>Other intangible assets</u>	<u>Brand value</u>	<u>Customer relationships value</u>	<u>Total</u>
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)
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.

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As at December 31, 2018, 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 ₩ 1,093 million (2017: ₩ 417 million).

11. Goodwill

Details of goodwill as at December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>	<u>Acquisitor</u>	<u>Description</u>
Orion Corporation and subsidiaries ¹	₩ 873,853,289	₩ 873,104,370	Orion Holdings Corp.	Acquisition of Orion Corp. from the business combination
JeJu Yongam Soo Corp.	<u>279,975</u>	<u>279,975</u>	Orion Holdings Corp.	Acquisition of JeJu Yongam Soo Corp. from business combination
	<u>₩ 874,133,264</u>	<u>₩ 873,384,345</u>		

¹ As at December 31, 2017, Orion Corporation was incorporated into the Group as a subsidiary.

The Group assesses 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 a cash generating unit(group) is measured based on the fair value less costs of disposal (net fair value). The fair value calculation is based on the share price at the date of the valuation, and costs of disposal are the incremental costs directly attributable to the disposal of the asset. Meanwhile, the calculation of the net fair value includes the control premium.

The key assumptions used for impairment tests for goodwill are as follows.

<i>(in Korean won)</i>	<u>Share price¹</u>	<u>Management premium²</u>	<u>Costs of disposal³</u>
Orion Corporation and subsidiaries	₩ 105,500	25.9%	1%

¹ It is the share price on September 28, 2018, the closest business day of September 30, 2018, the evaluation date.

² It is calculated by comparing the transaction price with standard share price (the average of one month, one week, and the latest share price) based on the details of changes in the largest shareholder of listed companies in Korea, which was disclosed in the electronic disclosure system of the Financial Supervisory Service for one year before the evaluation date.

³ The incremental costs directly attributable to the disposal of the asset include legal costs, stamp duties and similar transaction taxes, asset retirement costs and incremental costs directly related to the process of making the asset available for sale.

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.

The recoverable amount of the CGUs depends on the assumptions for the key variables used in the Group's goodwill impairment assessment. There is no impact on the impairment loss if the key assumptions, such as share prices, increase or decrease by 10%.

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12. Investment Property

Changes in investment property for the year ended December 31, 2018, 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, 2018	₩ 77,565,252	₩ 16,899,842	₩ 94,465,094
Additions	-	3,700	3,700
Disposals	(3,460,671)	(2,889,184)	(6,349,855)
Reclassification from property, plant and equipment	-	6,650,943	6,650,943
Reclassification from non-current assets held for sale	3,654,835	2,330,539	5,985,374
Reclassification to non-current assets held for sale	(5,191,006)	(4,333,776)	(9,524,782)
Others	-	(145,488)	(145,488)
Balance at December 31, 2018	₩ <u>72,568,410</u>	₩ <u>18,516,576</u>	₩ <u>91,084,986</u>
Accumulated depreciation			
Balance at January 1, 2018	₩ -	₩ (3,657,786)	₩ (3,657,786)
Depreciation	-	(678,543)	(678,543)
Disposals	-	731,205	731,205
Reclassification from property, plant and equipment	-	(139,530)	(139,530)
Reclassification from non-current assets held for sale	(1,260,925)	(1,169,234)	(2,430,159)
Reclassification to non-current assets held for sale	-	1,055,001	1,055,001
Others	-	4,801	4,801
Balance at December 31, 2018	₩ <u>(1,260,925)</u>	₩ <u>(3,854,086)</u>	₩ <u>(5,115,011)</u>
Book amount			
Balance at January 1, 2018	₩ <u>77,565,252</u>	₩ <u>13,242,056</u>	₩ <u>90,807,308</u>
Balance at December 31, 2018	₩ <u>71,307,485</u>	₩ <u>14,662,490</u>	₩ <u>85,969,975</u>

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
Additions	-	-	-
Disposals	48,557,348	4,402,502	52,959,850
Reclassification from property, plant and equipment	-	-	-
Reclassification from non-current assets held for sale	-	-	-
Reclassification to non-current assets held for sale	-	-	-
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)

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<i>(In thousands of Korean won)</i>	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Disposals	-	-	-
Reclassification from property, plant and equipment	-	(976,977)	(976,977)
Reclassification from non-current assets held for sale	-	-	-
Reclassification to non-current assets held for sale	-	-	-
Others	-	418,444	418,444
Balance at December 31, 2017	₩ -	₩ (3,657,786)	₩ (3,657,786)
Book amount			
Balance at January 1, 2017	₩ 29,474,069	₩ 10,196,440	₩ 39,670,509
Balance at December 31, 2017	₩ 77,565,252	₩ 13,242,056	₩ 90,807,308

The amounts recognized in profit or loss from investment property for the years ended December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Rental income	₩ 1,526,017	₩ 4,270,191
Direct operating expense	1,710,490	2,698,773

The fair values of investment property as at December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Land	₩ 92,472,118	₩ 83,648,722
Buildings	21,269,014	21,428,976
	₩ 113,741,132	₩ 105,077,698

As at December 31, 2018, the Group has fire and other insurance coverage from Hyundai Marine & Fire Insurance Co., Ltd and others of up to ₩21,218 million on the Group's inventories, property, plant and equipment against fire and others.

In addition, the Group maintains insurance policies covering directors' and officers' liability.

As at December 31, 2018 and 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, 2018 and 2017, are summarized as follows:

(In thousands of Korean won)

	Name	2018		2017	
		Percentage of ownership	Book value	Percentage of ownership	Book value
Associate	Beijing Zhongguan MEGABOX Cinema Co., Ltd.	49.00%	₩ 3,616,446	49.00%	₩ 7,346,105
Associate	Michigan Global Contents Investment Fund ¹	-	-	20.00%	288,415
Associate	Michigan Global Contents Investment Fund #3 ^{1,2}	-	-	43.30%	2,077,771
Associate	Michigan Global Contents Investment Fund #4	23.00%	812,969	23.00%	1,773,548
Associate	Gemini Contents Investment Partnership #1 ¹	-	-	33.30%	30,017
Associate	SMCI Korea Film Fund #5	25.93%	1,356,245	25.90%	5,638,212
Associate	Daehan distributor Corp.	35.30%	-	35.30%	-
Joint venture	Delfi-Orion Pte Ltd. ³	50.00%	810,431	50.00%	889,221
Joint venture	Orion Nonghyup Agri, inc. ^{3,4}	49.00%	29,572,883	49.00%	23,036,196
			<u>₩ 36,168,974</u>		<u>₩ 41,079,485</u>

¹ During 2018, Michigan Global Contents Investment Fund, Michigan Global Contents Investment Fund #3 and Gemini Contents Investment Partnership #1 went through liquidation.

² During 2017, Michigan Global Contents Investment Fund #3 carried out capital reduction by cash distribution.

³ During 2017, the companies were incorporated into the Group as a joint venture due to equity spinoff, investments in kind and business combinations.

⁴ 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. And an agreement that NongHyup Agribusiness Group Inc. sells 1% shares of total issued shares to the Group at the date after five years from the approval date of plant usage and the Group purchases them is included in the contract.

The Group acquired additional shares of Orion Nonghyup Agri, inc. for ₩ 7,000 million during the year ended December 31, 2018.

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, 2018.

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Changes in investments in associates and joint ventures for the years ended December 31, 2018 and 2017, are as follows:

(In thousands of Korean won)

Name	2018							Balance at end of year
	Balance at beginning of year	Acquisition	Disposal	Share of profit (loss) of joint ventures	Dividend	Other ¹		
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	₩ 7,346,105	₩ -	₩ -	₩ 935,024	₩ (4,707,247)	₩ 42,564	₩ 3,616,446	
Michigan Global Contents Investment Fund	288,415	-	(101,400)	(187,015)	-	-	-	
Michigan Global Contents Investment Fund #3	2,077,771	-	(1,032,063)	(1,045,708)	-	-	-	
Michigan Global Contents Investment Fund #4	1,773,548	-	(851,000)	(109,579)	-	-	812,969	
Gemini Contents Investment Partnership #1	30,017	-	(6,132)	(23,885)	-	-	-	
SMCI Korea Film Fund #5	5,638,212	-	(2,625,000)	(556)	(1,656,411)	-	1,356,245	
Daehan distributor Corp.	-	-	-	-	-	-	-	
Delfi-Orion Pte Ltd.	889,221	-	-	(115,678)	-	36,888	810,431	
Orion Nonghyup Agri, inc.	23,036,196	7,000,000	-	(932,079)	-	468,766	29,572,883	
	₩ <u>41,079,485</u>	₩ <u>7,000,000</u>	₩ <u>(4,615,595)</u>	₩ <u>(1,479,476)</u>	₩ <u>(6,363,658)</u>	₩ <u>548,218</u>	₩ <u>36,168,974</u>	

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

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(In thousands of Korean won)

Name	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	-	-	-	-	5,638,212
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 became a consolidating subsidiary as a result of 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.

Summary of financial information of associates and joint ventures as at December 31, 2018 and 2017, is as follows:

Name	2018					
	Assets	Liabilities	Equity	Revenue	Profit(loss) for the year	Total comprehensive income (loss)
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	₩ 9,598,425	₩ 2,217,921	₩ 7,380,504	₩ 16,795,225	₩ 1,908,212	₩ 1,908,212
Michigan Global Contents Investment Fund ¹	-	-	-	8,011	(935,076)	(935,076)
Michigan Global Contents Investment Fund #3 ¹	-	-	-	91,853	(2,462,271)	(2,462,271)
Michigan Global Contents Investment Fund #4	3,507,903	-	3,507,903	289,645	(377,945)	(377,945)
Gemini Contents Investment Partnership #1 ¹	-	-	-	479	(71,244)	(71,244)
SMCI Korea Film Fund #5	5,806,133	-	5,806,133	3,679,386	2,431,133	2,431,133
Daehan distributor Corp.	6,878,188	20,134,803	(13,256,615)	-	(453,198)	(453,198)
Delfi-Orion Pte Ltd.	2,644,926	1,024,062	1,620,864	2,352,352	(231,356)	(231,356)
Orion Nonghyup Agri, inc.	68,010,598	8,730,352	59,280,246	14,493,600	(1,850,524)	(1,946,323)

¹ During 2018, PT. Michigan Global Contents Investment Fund, Michigan Global Contents Investment Fund #3 and Gemini Contents Investment Partnership #1 went through liquidation and the amount stated above presents financial information before liquidation.

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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)	

¹ During 2017, Orion Corporation became a consolidating subsidiary as a result of equity spin off, investments in kind and business combinations. Business performance above represents the amount occurred before the entity became a subsidiary.

The details of investments in associates and joint ventures as at December 31, 2018 and 2017, are as follows:

(In thousands of Korean won)

Name	2018			
	Net assets	Percentage of ownership(%)	Group's share of net assets	Book amount
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	₩ 7,380,504	49.00	₩ 3,616,446	₩ 3,616,446
Michigan Global Contents Investment Fund #4	3,507,903	23.00	812,969	812,969
SMCI Korea Film Fund #5	5,806,133	25.93	1,356,245	1,356,245
Daehan distributor Corp.	(13,256,615)	35.30	(4,679,585)	-
Delfi-Orion Pte Ltd.	1,620,864	50.00	810,431	810,431
Orion Nonghyup Agri, inc.	59,280,246	49.00	29,047,321	29,572,883

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(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

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, 2018 and 2017, are as follows

(In thousands of Korean won)

Name	2018		2017	
	Unrecognized share of losses	Unrecognized share of cumulative losses	Unrecognized share of losses	Unrecognized share of cumulative losses
Daehan distributor Corp.	₩ (159,979)	₩ (4,679,585)	₩ (135,358)	₩ (4,519,606)

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14. Financial Assets

Details of financial assets at fair value through profit or loss as at December 31, 2018, are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>
Current	
Special purpose bonds	₩ 40,221,412
WMP	32,587,337
	<u>72,808,749</u>
Non-current	
Beneficiary certificates	3,421,718
Equity investments	130,816
	<u>3,552,534</u>
	<u>₩ 76,361,283</u>

Amounts recognized in profit or loss related to financial assets at fair value through profit or loss for the year ended December 31, 2018, are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>
Gain on valuation of financial assets at fair value through profit or loss	₩ 486,800
Gain on disposal of financial assets at fair value through profit or loss	260,851
Loss on valuation of financial assets at fair value through profit or loss	(688,058)
	<u>₩ 59,593</u>

Details of financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets) as at December 31, 2018, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>		<u>2017</u>	
	<u>Book amount</u>	<u>Fair value</u>	<u>Book amount</u>	<u>Fair value</u>
Listed				
- Crown Confectionery Co., Ltd.	₩ 74	₩ 74	₩ 112	₩ 112
- Crown Haitai Holdings Corp.	68	68	91	91
- Lotte Confectionery Co., Ltd.	302	302	292	292
- Lotte Holdings Corp.	896	896	1,107	1,107
	<u>1,340</u>	<u>1,340</u>	<u>1,602</u>	<u>1,602</u>
Unlisted				
- Daegu Football Club	3,000	3,000	3,000	3,000
- E-mart everyday inc Ltd	81	81	81	81
- Chung Gu Co., Ltd	195	195	195	195
- Korea Food Industry Association	-	-	20,000	20,000
- The Korea Economics Daily Co., Ltd	28,400	28,400	28,400	28,400
- Eland Retail	1,077	1,077	1,077	1,077
- ELAND PARK LIMITED	80	80	80	80

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(In thousands of Korean won)

	2018		2017	
	Book amount	Fair value	Book amount	Fair value
- Tong Yang leisure	750,463	750,463	802,340	802,340
- Howon	9,753	9,753	9,753	9,753
- Boston Film Contents	-	-	4,036	4,036
- Geon Contents Investment Limited#3	-	-	225,000	225,000
- Leading Asia Culture Investment Limited	-	-	816,961	816,961
- TV Chosun & Daesung Win-Win	-	-	2,000,000	2,000,000
- KT-CKP New Media Venture Capital	-	-	408,000	408,000
- Hi Asset Management Co., Ltd	-	-	327,281	327,281
- KOREA ASSET INVESTMENT SECURITIES CO.,LTD.	-	-	476,650	476,650
- Wooribank-Company K Korea Movie Investment Association	-	-	700,000	700,000
- Others	-	-	130,815	130,815
	<u>793,049</u>	<u>793,049</u>	<u>5,953,669</u>	<u>5,953,669</u>
Total available-for-sale financial assets	₩ <u>794,389</u>	₩ <u>794,389</u>	₩ <u>5,955,271</u>	₩ <u>5,955,271</u>

In the prior financial year, the Group had designated these financial assets as available-for-sale when the Group intended to hold them for the medium to long-term. According to Korean IFRS 1109, the Group reclassified financial assets. Upon disposal of these financial assets at fair value through other comprehensive income, any balance within the accumulated other comprehensive income for these financial assets is reclassified to retained earnings and is not reclassified to profit or loss.

15. Other Assets

Other assets as at December 31, 2018 and 2017, are summarized as follows:

(In thousands of Korean won)

	2018		2017	
	Current	Non-current	Current	Non-current
Prepayments	₩ 68,683,438	₩ 11,653,365	₩ 46,036,537	₩ 10,586,620
Prepaid expenses	6,738,492	84,571,378	9,283,136	97,596,905
Others	3,080,540	9,128,841	9,273,065	10,198,594
	<u>₩ 78,502,470</u>	<u>₩ 105,353,584</u>	<u>₩ 64,592,738</u>	<u>₩ 118,382,119</u>

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16. Inventories

Inventories as at December 31, 2018 and 2017, are summarized as follows:

<i>(In thousands of Korean won)</i>		<u>2018</u>		<u>2017</u>
Merchandise and finished goods	₩	73,348,420	₩	64,568,819
Work-in-progress		7,874,932		6,791,711
Raw materials		55,859,449		63,050,387
Supplies		3,490,893		2,038,310
Raw materials-in-transit		13,365,113		11,756,006
Sites for construction		23,549,235		23,549,235
Others		2,630,237		2,481,752
	₩	<u>180,118,279</u>	₩	<u>174,236,220</u>

17. Trade and Other Receivables

As explained in Note 2, the Group has applied Korean IFRS 1109 *Financial Instruments* from January 1, 2018. See Note 42 for the impact of the changes in accounting policies on the classification of financial assets and financial statements.

Trade and other receivables as at December 31, 2018 and 2017, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>		<u>2017</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Trade receivables	₩ 201,463,684	₩ -	₩ 158,265,090	₩ -
Less: allowance for bad debts	(25,023,547)	-	(24,975,356)	-
Other receivables	8,652,893	-	4,266,791	-
Less: allowance for bad debts	(1,223,528)	-	(1,401,829)	-
Accrued income	272,562	6,934	5,947,839	247,103
Guarantee deposits	1,932,930	1,011,284	1,568,603	1,337,038
Loans	2,252,209	-	816,827	-
Less: allowance for bad debts	(622,325)	-	(622,325)	-
	₩ <u>187,704,878</u>	₩ <u>1,018,218</u>	₩ <u>143,865,640</u>	₩ <u>1,584,141</u>

Trade and other receivables are financial instruments incurred in the ordinary course of business and consist of trade receivables, other receivables and others. The Group holds the trade receivables with the objective to collect the contractual cash flows and, therefore, measures them subsequently at amortized cost. Details about the Group's impairment policies and the calculation of the loss allowance are provided in Note 37.

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18. Cash and Cash Equivalents, and Restricted Deposits

Cash and cash equivalents as at December 31, 2018 and 2017, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Cash on hand	₩ 69,917	₩ 165,583
Demand deposits	257,715,342	214,988,333
Total	₩ <u>257,785,259</u>	₩ <u>215,153,916</u>

Deposits which are restricted in use as at December 31, 2018 and 2017, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Long-term deposits	₩ 4,000	₩ 51,578
	85,353	85,353
Short-term deposits	47,617	47,617
	-	50,731,500
Total	₩ <u>136,970</u>	₩ <u>50,916,048</u>

Deposit for checking account
Pledge
Pledge
Collateral

19. Capital stock and capital surplus

Details of capital stock as at December 31, 2018 and 2017, are as follows:

<i>(In Korean won, except number of shares)</i>	<u>2018</u>	<u>2017</u>
Number of common shares:		
- Authorized	480,000,000	480,000,000
- Issued	62,644,293	62,644,053
- Share capital	₩ 31,322,146,500	₩ 31,322,026,500
Par value per share ¹	₩ 500	₩ 500

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Changes in the capital stock and capital surplus for the years ended December 31, 2018 and 2017, are as follows:

(In thousand of won,
except number of shares)

	2018			2017		
	Number of Common shares	Capital stock	Capital surplus	Number of Common shares	Share capital	Share premium
Beginning of year	62,644,053 ₩	31,322,027 ₩	1,251,281,671	6,008,435 ₩	30,042,175 ₩	66,913,633
Issuance of ordinary shares upon exercise of stock options	240	120	29,408	-	-	-
Acquisition of Sports Toto Co., Ltd	-	-	-	-	-	-
Stock split ¹	-	-	-	54,075,915	-	-
Capital reduction ²	-	-	-	(39,533,501)	(19,766,750)	(44,026,942)
Paid-in capital increase ²	-	-	-	42,093,204	21,046,602	1,228,394,980
End of year	<u>62,644,293 ₩</u>	<u>31,322,147 ₩</u>	<u>1,251,311,079</u>	<u>62,644,053 ₩</u>	<u>31,322,027 ₩</u>	<u>1,251,281,671</u>

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.

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, 2018, 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, 2018, 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 W 300 billion with the approval from the Board of Directors. As at December 31, 2018, no convertible bonds or bonds with stock warrants have been issued.

20. Treasury Shares

The Group has 2,488,769 treasury shares as at December 31, 2018 with the acquisition cost of ₩ 11,625,409 thousand. The Group intends to dispose of the treasury shares in the future depending on the market conditions.

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21. Other Capital

Details of other capital as at December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	2018	2017
Changes from equity transactions ¹	₩ 43,705,662	₩ (2,709,931,645)
Gains on sale of treasury stock ²	303,694,863	303,694,863
Changes in fair value of financial assets at fair value through other comprehensive income	(496,467)	-
Changes in fair value of available-for sale financial assets	-	(154,945)
Stock options	23,334	28,284
Exchange differences on translating foreign operations	(7,934,173)	(535,542)
Share of other comprehensive income of associates	237,707	205,615
Others	(810,421)	(810,421)
	₩ 338,420,505	₩ (2,407,503,791)

¹ During 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. In 2018, retained earnings of ₩2,753,637 million were appropriated for other capital..

² During 2017, 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, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	2018	2017
Legal reserve	₩ 84,844,532	₩ 81,082,459
Voluntary reserve	30,000,000	555,700,000
	₩ 114,844,532	₩ 636,782,459

Legal Reserve

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

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23. Earnings (Loss) per Share

Basic earnings (loss) per share from continuing operations

<i>(In Korean won, except share information)</i>	<u>2018</u>	<u>2017</u>
Profit (loss) for the year from continuing operations attributable to owners of the Group	₩ 56,332,235,657	₩ (47,333,262,882)
Weighted-average number of ordinary shares	<u>60,155,370</u>	<u>37,867,825</u>
Basic earnings (loss) per share from continuing operations	₩ <u>936</u>	₩ <u>(1,250)</u>

Weighted average number of ordinary shares

<i>(in shares)</i>	<u>2018</u>	<u>2017</u>
The number of ordinary shares issued at January 1	62,644,053	60,084,350
Capital reduction at spin-off	-	(23,178,546)
Effect of exercise of stock options	86	-
Treasury shares	-	5,420,221
New stock issuance	<u>(2,488,769)</u>	<u>(4,458,200)</u>
Weighted average number of ordinary shares	<u>60,155,370</u>	<u>37,867,825</u>

The weighted average number of ordinary shares outstanding for 2017 reflects the effect of the stock split executed in 2018.

<i>(In Korean won, except share information)</i>	<u>2018</u>	<u>2017</u>
Profit (loss) for the year from continuing operations attributable to owners of the Group	₩ 56,332,235,657	₩ (47,333,262,882)
Adjusted profit (loss) for the year attributable to owners of the Group	56,332,235,657	(47,333,262,882)
Diluted weighted average number of ordinary shares	<u>60,155,756</u>	<u>37,867,825</u>
Diluted earnings (loss) per share from continuing operations	₩ <u>936</u>	₩ <u>(1,250)</u>

Diluted weighted average number of ordinary shares

<i>(in shares)</i>	<u>2018</u>	<u>2017</u>
Basic weighted average number of ordinary shares	60,155,370	37,867,825
Effect of stock options	<u>386</u>	<u>-</u>
Diluted weighted average number of ordinary shares	<u>60,155,756</u>	<u>37,867,825</u>

The average market value of the shares of the Company for the purpose of calculating diluted effects of the stock option is based on the average market price of the common shares during the reporting period.

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Basic and diluted earnings per share from discontinued operations

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

24. Share-based Payments

The terms and conditions of grants as at December 31, 2018, are as follows:

<i>(In Korean won, except number of shares)</i>	2009.2.27		2018.4.1
Arrangement	Orion Holdings Corp.	Orion Corp.	Showbox Corp.
The first grant quantity	4,797		106,000
Exercise quantity	(3,584)		-
Cancel quantity	(813)		(15,000)
Number of shares at the end of the year ¹	1,129	2,171	91,000
Available at the end of the year ¹	1,129	2,171	-
Exercise price ¹	₩14,980		₩5,785
Date of maturity	2019.2.27		2028.3.31
Vesting conditions	3 years' service		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, deducting the stock options exercised in 2018 (Orion Holdings Corp: 240 shares, Orion Corp: 460 shares).

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

i) Orion Holdings Corp. and Orion Corp

<i>(In Korean won)</i>	<u>Inputs</u>
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%

This presents the information before the stock split.

ii) Showbox Corp.

<i>(In Korean won)</i>	<u>Inputs</u>
Date of grant	2018.4.1
Fair value at grant date	₩ 1,207
Risk-free interest rate	2.645%
Discount rate	7.724%
Applied volatility	17.56%
Model used	CRR binomial model

25. Trade and Other Payables

Trade and other payables as at December 31, 2018 and 2017, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>		<u>2017</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Trade payables	₩ 91,224,432	₩ -	₩ 95,727,924	₩ -
Other payables	108,152,355	579,208	86,222,912	1,078,315
Withholdings	25,124,315	-	34,266,777	-
Accrued expenses	61,303,465	-	37,594,416	-
Deposits received	272,586	1,222,080	1,427,930	1,154,969
Others	1,767	-	1,767	-
	<u>₩ 286,078,920</u>	<u>₩ 1,801,288</u>	<u>₩ 255,241,726</u>	<u>₩ 2,233,284</u>

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26. Borrowings and Debentures

Borrowings and debentures as at December 31, 2018 and 2017, are summarized as follows:

<i>(In thousands of Korean won)</i>	2018		2017	
	Current	Non-current	Current	Non-current
Long-term borrowings				
Debentures	₩ 50,000,000	₩ 280,000,000	₩ -	₩ 330,000,000
Less discount	(13,586)	(448,412)	-	(673,937)
Long-term debts	60,000	30,060,000	165,854,506	120,000
	<u>50,046,414</u>	<u>309,611,588</u>	<u>165,854,506</u>	<u>329,446,063</u>
Short-term borrowings				
Short-term borrowings in Korean won	1,988,399	-	23,130,799	-
Short-term borrowings in foreign currency	103,329,824	-	81,313,035	-
	<u>105,318,223</u>	<u>-</u>	<u>104,443,834</u>	<u>-</u>
	<u>₩ 155,364,637</u>	<u>₩ 309,611,588</u>	<u>₩ 270,298,340</u>	<u>₩ 329,446,063</u>

Terms and conditions of debentures as at December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	Maturity	Interest rate	2018		2017	
98th	2019-04-17	3.47%	₩	50,000,000	₩	50,000,000
100th	2020-04-24	2.11%		70,000,000		70,000,000
101th	2022-03-02	2.24%		60,000,000		60,000,000
102th	2022-05-29	2.37%		50,000,000		50,000,000
103th-1	2020-11-06	2.63%		50,000,000		50,000,000
103th-2	2022-11-06	2.87%		50,000,000		50,000,000
				<u>330,000,000</u>		<u>330,000,000</u>
Less: current portion of debentures				<u>(50,000,000)</u>		<u>-</u>
			₩	<u>280,000,000</u>	₩	<u>330,000,000</u>

Terms and conditions of long-term debts as at December 31, 2018 and 2017 are as follows:

<i>(In thousands of Korean won)</i>	Maturity	Interest rate	Currency	2018		2017	
KEB Hana Bank	2018	-	USD	₩	-	₩	21,501,308
Korea Development Bank	2018	-	USD		-		58,345,401
DBS Bank	2018	-	USD		-		16,125,981
Industrial Bank of Korea	2018	-	USD		-		42,945,181
Woori Bank	2018	-	USD		-		26,876,635
Kookmin Bank	2021	Mor 6M+1.57%	KRW		30,000,000		-
Siheung Environmental Management Center	2020	-	KRW		120,000		180,000
					<u>30,120,000</u>		<u>165,974,506</u>
Less: current portion					<u>(60,000)</u>		<u>(165,854,506)</u>
			₩	<u>30,060,000</u>	₩	<u>120,000</u>	

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Short-term borrowings as at December 31, 2018 and 2017 are as follows:

<i>(In thousands of Korean won)</i>	Contents	Interest rate	Currency	2018	2017
Kookmin Bank	Usance	Libor 3M+0.3%	USD	549,889	-
	Usance	Libor 3M+0.3%	EUR	-	642,290
	Bills bought	Libor 1M+1.6%	USD	245,699	-
Shinhan Bank	Usance	Libor 3M+0.3%	EUR	397,077	696,807
	Bills bought	-	USD	-	209,691
Hyundai Card	Purchasing card	1.44%	KRW	1,988,399	2,130,800
KB Securities Co., Ltd.	Discount of commercial paper	-	KRW	-	20,000,000
Sumitomo Mitsui Banking Corporation	Limit loan	-	KRW	-	1,000,000
	General loan	-	USD	-	8,570,910
	General loan	-	USD	-	37,627,290
Citi Bank	General loan	-	USD	-	17,201,046
Korea Development Bank	General loan	Libor 3M+1.16%	USD	22,447,727	-
Woori Bank	General loan	-	CNY	-	16,365,000
	General loan	Libor 3M+0.85%	USD	28,059,659	-
	General loan	Libor 3M+0.85%	USD	11,223,864	-
DBS Bank	General loan	Libor 3M+0.85%	USD	6,734,318	-
	General loan	Libor 3M+0.85%	USD	33,671,591	-
				<u>₩ 105,318,223</u>	<u>₩ 104,443,834</u>

The following assets are pledged as collateral for the Group's trade and other payables, short-term borrowings, long-term debts and debentures as at December 31, 2018 and 2017 :

(In thousands of Korean won)

Asset	Lender	Type of borrowings	2018		
			Borrowing amount	Book amount	Collateralized amount
Land and buildings	Siheung Environmental Management Center	General loan	₩ 120,000	₩ 9,027,456	₩ 780,000
Land	Kookmin Bank	Facility loan	30,000,000	6,599,978	72,000,000
			<u>₩ 30,120,000</u>	<u>₩ 15,627,434</u>	<u>₩ 72,780,000</u>

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Asset	Lender	Type of borrowings	Borrowing amount	2017	
				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>59,783,668</u>	₩ <u>51,511,500</u>

Book amount and fair value of borrowings as at December 31, 2018 and 2017, are as follows:

(In thousands of Korean won)

	2018		2017	
	Book amount	Fair value ¹	Book amount	Fair value ¹
Short-term borrowings	₩ 155,364,637	₩ 155,364,637	₩ 270,298,340	₩ 270,298,340
Long-term borrowings	309,611,588	310,033,879	329,446,063	330,123,635
	₩ <u>464,976,225</u>	₩ <u>465,398,515</u>	₩ <u>599,744,403</u>	₩ <u>600,421,975</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 2.54% for long-term borrowings (2017 : 2.52%).

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, 2018 and 2017, are as follows:

(In thousands of Korean won)

	2018		2017	
Contributions to defined contribution plans	₩	1,241,702	₩	114,693
Expenses related to post-employment defined benefit plans		12,364,742		2,314,020
Expenses related to post-employment defined benefit plans(discontinued operations)		-		3,932,807
	₩	<u>13,606,444</u>	₩	<u>6,361,520</u>

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Changes in net defined benefit liability for the years ended December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability(asset)	
	2018	2017	2018	2017	2018	2017
Balance at January 1	₩ 75,011,439	₩ 71,650,982	₩ (75,060,180)	₩ (70,138,939)	₩ (48,741)	₩ 1,512,043
Included in profit or loss:						
Current service costs	12,424,649	2,436,092	-	-	12,424,649	2,436,092
Interest costs (income)	2,041,813	15,620	(2,101,720)	(137,692)	(59,907)	(122,072)
Current service costs (discontinued operations)	-	3,957,427	-	-	-	3,957,427
Interest costs (income) (discontinued operations)	-	540,964	-	(565,584)	-	(24,620)
	<u>14,466,462</u>	<u>6,950,103</u>	<u>(2,101,720)</u>	<u>(703,276)</u>	<u>12,364,742</u>	<u>6,246,827</u>
Included in other comprehensive income:						
Remeasurements loss (gain)						
- Actuarial loss (gain) arising from:						
Experience adjustment	(1,006,430)	1,051,412	-	-	(1,006,430)	1,051,412
Demographic assumptions	938,412	(310,340)	-	-	938,412	(310,340)
Financial assumptions	710,709	(166,361)	-	-	710,709	(166,361)
- Return on plan assets excluding interest income	-	-	748,934	396,158	748,934	396,159
	<u>642,691</u>	<u>574,711</u>	<u>748,934</u>	<u>396,158</u>	<u>1,391,625</u>	<u>970,869</u>
Others:						
Contributions paid by the employer	-	-	(13,616,426)	(1,856,910)	(13,616,426)	(1,856,910)
Transfer from and to affiliated companies	3,440,860	(4,067,678)	(3,440,860)	3,738,794	-	(328,884)
Benefits paid	(8,919,633)	(5,198,438)	8,861,608	4,535,006	(58,025)	(663,432)
Exchange difference	4,112	(87,705)	-	-	4,112	(87,705)
Decrease due to spin-off	-	(64,175,493)	-	58,522,480	-	(5,653,013)
Business combination	-	69,364,957	-	(69,553,493)	-	(188,536)
	<u>(5,474,661)</u>	<u>(4,164,357)</u>	<u>(8,195,678)</u>	<u>(4,614,123)</u>	<u>(13,670,339)</u>	<u>(8,778,480)</u>
Balance at December 31	₩ <u>84,645,930</u>	₩ <u>75,011,439</u>	₩ <u>(84,608,643)</u>	₩ <u>(75,060,180)</u>	₩ <u>37,287</u>	₩ <u>(48,741)</u>

The components of plan assets as at December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	2018	2017
Equity securities	₩ 14,195,897	₩ 2,743,050
Debt securities	19,327,667	40,688,823
Others(Deposit and others)	<u>51,085,079</u>	<u>31,628,307</u>
	₩ <u>84,608,643</u>	₩ <u>75,060,180</u>

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The principal actuarial assumptions as at December 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	2.30%~2.63%	2.77%~3.15%
Future salary growth	4.06%~6.37%	3.00%~6.32%

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>2018</u>			
	<u>1% increase</u>		<u>1% decrease</u>	
Discount rate	₩	(4,251,126)	₩	4,750,617
Future salary growth		4,643,018		(4,241,798)

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 5.04 ~ 8.19 years as at December 31, 2018 (2017: 5.03 ~ 9.5 years).

28. Other Liabilities

Other liabilities as at December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>				<u>2017</u>			
	<u>Current</u>		<u>Non-current</u>		<u>Current</u>		<u>Non-current</u>	
Advances received	₩	60,844,578	₩	-	₩	35,903,570	₩	-
Unearned revenue		4,220		76,075		5,643,451		54,536
Provision for warranty		2,779,745		-		2,873,120		-
Others		1,317,993		809,321		729,485		809,321
	₩	<u>64,946,536</u>	₩	<u>885,396</u>	₩	<u>45,149,626</u>	₩	<u>863,857</u>

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29. Operating lease

As of December 31, 2018 and 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>2018</u>	<u>2017</u>
Within one year	₩ 5,962,850	₩ 5,389,510
Later than one year and not later than five years	6,238,401	8,823,500
Later than five years	4,022,546	3,760,437
	<u>₩ 16,223,797</u>	<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>2018</u>	<u>2017</u>
Cost	₩ 89,294,836	₩ 98,664,019
Accumulated amortization	<u>(3,818,699)</u>	<u>(4,959,127)</u>
	<u>₩ 85,476,137</u>	<u>₩ 93,704,892</u>

As of December 31, 2018, 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>2018</u>	<u>2017</u>
Within one year	₩ 717,132	₩ 1,461,032
Later than one year and not later than five years	1,360,752	1,765,274
	<u>₩ 2,077,884</u>	<u>₩ 3,226,306</u>

30. Sales

(a) Revenue from contracts with customers

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Revenue from contracts with customers	₩ 1,996,156,811	₩ 108,346,887
Revenue from other sources	1,526,017	4,401,391
Total revenue	<u>₩ 1,997,682,828</u>	<u>₩ 112,748,278</u>

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(b) Disaggregation of Revenue from Contracts with Customers

<i>(In thousands of Korean won)</i>	2018			
	<u>Sale of goods</u>	<u>Royalty</u>	<u>Other</u>	<u>Total</u>
Recognized at a point in time	₩ 1,990,369,295	₩ -	₩ 5,767,762	₩ 1,996,137,057
Recognized over time	-	19,754	-	19,754
	<u>₩ 1,990,369,295</u>	<u>₩ 19,754</u>	<u>₩ 5,767,762</u>	<u>₩ 1,996,156,811</u>

<i>(In thousands of Korean won)</i>	2017			
	<u>Sale of goods</u>	<u>Royalty</u>	<u>Other</u>	<u>Total</u>
Recognized at a point in time	₩ 102,706,678	₩ -	₩ 885,582	₩ 103,592,260
Recognized over time	-	4,754,627	-	4,754,627
	<u>₩ 102,706,678</u>	<u>₩ 4,754,627</u>	<u>₩ 885,582</u>	<u>₩ 108,346,887</u>

31. Selling Expenses and General and Administrative Expenses

Details of selling expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Salaries	₩ 165,252,235	₩ -
Retirement and termination benefits	4,641,195	-
Employee welfare	14,952,537	-
Travel expenses	6,549,255	-
Taxes and dues	17,746,733	-
Rental expenses	11,237,316	-
Depreciation	6,473,395	-
Amortization	1,322,273	7,970
Advertising expenses	52,595,077	13,013
Ordinary development expense	1,131,566	-
Freight and custody	79,491,741	2,095
Commissions	62,241,107	26,099
Promotion	17,399,032	-
Bad debt expenses (reversal of bad debt allowance)	305,798	(88,894)
Depreciation and amortization relating to business combination ¹	65,374,796	-
Others	22,195,951	153,313
	<u>₩ 528,910,007</u>	<u>₩ 113,596</u>

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Details of general and administrative expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Salaries	₩ 61,262,799	₩ 12,544,597
Retirement and termination benefits	6,487,414	2,381,132
Employee welfare	10,517,968	1,507,043
Travel expenses	1,973,360	139,971
Taxes and dues	5,317,036	1,367,434
Rental expenses	9,370,142	496,878
Depreciation	8,130,965	851,556
Amortization	1,416,234	93,805
Commissions	22,182,665	2,359,232
Depreciation and amortization relating to business combination ¹	1,115,098	-
Others	10,198,985	748,032
	<u>₩ 137,972,666</u>	<u>₩ 22,489,680</u>

¹ Depreciation and amortization relating to business combination in selling and general and administrative expenses is the depreciation and amortization expense for valuation of property, plant and equipment and intangible assets that are incurred in the acquisition of control over Orion Corp. during 2017.

32. Other Income and Other Expenses

Details of other income and other expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Other income		
Foreign currency transaction gain	₩ 414,412	₩ 11,892
Foreign currency translation gain	32,932	101,863
Gain on sale of property, plant and equipment	301,873	583
Gains on disposal of assets held for sale	7,862,720	1,658,434
Gain on sale of investment property	5,541,351	-
Insurance income ¹	8,020,658	-
Reversal of impairment loss on intangible assets	448,817	-
Others	5,558,967	402,984
	<u>28,181,730</u>	<u>2,175,756</u>
Other expenses		
Foreign currency transaction loss	(378,758)	(604,599)
Foreign currency translation loss	(84,132)	-
Loss on sale of property, plant and equipment	(2,732,475)	(48)
Loss on sale of intangible assets	(220,347)	-
Impairment loss on intangible assets	(629,010)	-
Loss on disposition of Investments in associates ²	(33,079)	(52,792,664)
Donation	(947,168)	(653,910)

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<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Others	(2,015,334)	(284,050)
	<u>(7,040,303)</u>	<u>(54,335,271)</u>
Net other income (expenses)	₩ 21,141,427	₩ (52,159,515)

¹ Insurance income is the outstanding balance of insurance benefit received from insurance company regarding the fire incident in Orion Icheon factory.

² 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.

33. Finance income and expense

Details of finance income and expense for the years ended December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Finance income		
Interest income	₩ 8,599,088	₩ 1,525,008
Foreign currency transaction gain	2,380,835	9,006
Foreign currency translation gain	416,462	148
Gain on valuation of financial assets at fair value through profit or loss	486,800	-
Gain on disposal of financial assets at fair value through profit or loss	260,851	-
Gain on disposal of available-for-sale financial assets	-	24,466
Gain on derivatives transaction	7,481	-
	<u>12,151,517</u>	<u>1,558,628</u>
Finance cost		
Interest expense	(16,034,081)	(838,071)
Foreign currency transaction loss	(4,411,943)	(83,061)
Foreign currency translation loss	(260,597)	(809,195)
Loss on valuation of financial assets at fair value through profit or loss	(688,058)	-
Loss on disposal of available-for-sale financial assets	-	(21,803)
Impairment loss on available-for-sale financial assets	-	(225,532)
	<u>(21,394,679)</u>	<u>(1,977,662)</u>
Net finance cost	₩ (9,243,162)	₩ (419,034)

34. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2018 and 2017, are as follows:

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(In thousands of Korean won)

	2018		
	Cost of sales	Selling, general and administrative expense	Total
Raw materials used	₩ 749,482,718	₩ -	₩ 749,482,718
Purchasing merchandise	18,494,572	-	18,494,572
Changes in inventories	(9,862,822)	-	(9,862,822)
Employee benefits expense	81,435,418	237,643,643	319,079,061
Depreciation and amortization	134,312,275	82,717,663	217,029,938
Depreciation of investment in properties	431,107	-	431,107
Service fees	25,836,671	85,538,870	111,375,541
Advertising expenses	-	52,576,666	52,576,666
Freight and custody	1,239,501	79,471,274	80,710,775
Others	98,918,124	128,934,557	227,852,681
	<u>₩ 1,100,287,564</u>	<u>₩ 666,882,673</u>	<u>₩ 1,767,170,237</u>

(In thousands of Korean won)

	2017		
	Cost of sales	Selling, general and administrative expense	Total
Raw materials used	₩ -	₩ -	₩ -
Purchasing merchandise	-	-	-
Changes in inventories	-	-	-
Employee benefits expense	-	14,925,730	14,925,730
Depreciation and amortization	57,709,547	953,331	58,662,878
Depreciation of investment in properties	760,505	-	760,505
Service fees	1,204,515	2,385,331	3,589,846
Advertising expenses	-	13,013	13,013
Freight and custody	-	2,095	2,095
Others	25,569,525	4,323,776	29,893,301
	<u>₩ 85,244,092</u>	<u>₩ 22,603,276</u>	<u>₩ 107,847,368</u>

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35. Financial Instruments by Categories

Finance income and cost by categories for the years ended December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	2018				
	Finance income	Finance cost	Net income	Other comprehensive income	Total comprehensive income
Financial assets					
Financial assets at amortized cost	₩ 10,560,547	₩ -	₩ 10,560,547	₩ -	₩ 10,560,547
Financial assets at fair value through profit or loss	1,553,679	(688,058)	865,621	-	865,621
Financial assets at fair value through other comprehensive income	-	-	-	(52,138)	(52,138)
	<u>12,114,226</u>	<u>(688,058)</u>	<u>11,426,168</u>	<u>(52,138)</u>	<u>11,374,030</u>
Financial liabilities					
Financial liabilities measured at amortized cost	29,810	(20,706,620)	(20,676,810)	-	(20,676,810)
Financial liabilities at fair value through profit or loss	7,480	-	7,480	-	7,480
	<u>37,290</u>	<u>(20,706,620)</u>	<u>(20,669,330)</u>	<u>-</u>	<u>(20,669,330)</u>
	<u>₩ 12,151,516</u>	<u>₩ (21,394,678)</u>	<u>₩ (9,243,162)</u>	<u>₩ (52,138)</u>	<u>₩ (9,295,300)</u>
	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)
	<u>1,558,628</u>	<u>(247,336)</u>	<u>1,311,292</u>	<u>(42,248)</u>	<u>1,269,044</u>
Financial liabilities					
Financial liabilities measured at amortized cost	-	(1,730,326)	(1,730,326)	-	(1,730,326)
	<u>-</u>	<u>(1,730,326)</u>	<u>(1,730,326)</u>	<u>-</u>	<u>(1,730,326)</u>
	<u>₩ 1,558,628</u>	<u>₩ (1,977,662)</u>	<u>₩ (419,034)</u>	<u>₩ (42,248)</u>	<u>₩ (461,282)</u>

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The book amount and the fair value of financial instruments as at December 31, 2018 and 2017, are summarized as follows:

<i>(In thousands of Korean won)</i>	2018		2017	
	Book Value	Fair value	Book Value	Fair value
Financial assets				
Financial assets at amortized cost	₩ 471,991,844	₩ 471,991,844	₩ 457,243,077	₩ 457,243,077
Financial assets at fair value through profit or loss	76,361,282	76,361,282	-	-
Financial assets at fair value through other comprehensive income	794,390	794,390	-	-
Available-for-sale financial assets	-	-	1,602	1,602
Available-for-sale financial assets (Unlisted)	-	-	5,953,670	-
	<u>₩ 549,147,516</u>	<u>₩ 549,147,516</u>	<u>₩ 463,198,349</u>	<u>₩ 457,244,679</u>
Financial liabilities				
Financial liabilities at fair value through profit or loss	₩ -	₩ -	₩ 260,928	₩ 260,928
Financial liabilities measured at amortized cost	739,320,593	739,742,883	854,656,502	855,334,074
	<u>₩ 739,320,593</u>	<u>₩ 739,742,883</u>	<u>₩ 854,917,430</u>	<u>₩ 855,595,002</u>

The Group estimates the book amounts of financial assets, other than financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and long-term borrowings, at reasonable amounts that approximate fair values.

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, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	Level 1	Level 2	Level 3	Total
December 31, 2018				
Financial assets at fair value through profit or loss	₩ -	₩ 73,276,366	₩ 3,084,916	₩ 76,361,282
Financial assets at fair value through other comprehensive income	1,340	-	793,050	794,390
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)

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36. Income Taxes

Income tax expense for the years ended December 31, 2018 and 2017 consists of:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Current income tax expense	₩ 73,909,973	₩ 14,653,612
Adjustment for prior periods	(240,628)	1,018,391
Origination and reversal of temporary differences	<u>48,627,397</u>	<u>(7,277,534)</u>
Total income tax effect	122,296,742	8,394,469
Income tax recognized in other comprehensive income	<u>339,760</u>	<u>240,013</u>
Total income tax expense	<u>₩ 122,636,502</u>	<u>₩ 8,634,482</u>
income tax expense(Continuing operation)	122,636,502	566,477
income tax expense(Discontinued operations)	-	8,068,005

Origination and reversal of temporary differences for the years ended December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Deferred tax liabilities net, year-end	₩ (284,517,466)	₩ (235,890,069)
(-)Deferred tax liabilities net, beginning	(235,890,069)	(46,855,362)
Effect of spin-off	-	52,332,433
Effect of Business combination	-	(248,644,674)
Deferred tax liabilities net, ending balance	<u>₩ (48,627,397)</u>	<u>₩ 7,277,534</u>

Income taxes recognized directly in other comprehensive income for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Current		
Remeasurements of the defined benefit liability	₩ 327,125	₩ 230,708
Deferred		
Gains/losses on valuation of available-for-sale securities	-	9,305
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	<u>12,636</u>	<u>-</u>
Income tax expense recognized directly in other comprehensive income	<u>₩ 339,761</u>	<u>₩ 240,013</u>

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Reconciliation between profit before income tax and income tax expense for the years ended December 31, 2018 and 2017, follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Profit before income tax		
Net profit(loss) before income tax expenses(Continuing operation)	₩ 240,931,380	₩ (40,003,791)
Net profit before income tax expenses (Discontinued operations)	-	1,535,044,738
	<u>240,931,380</u>	<u>1,495,040,946</u>
Income tax using the Group's statutory tax rate	₩ 71,111,159	₩ 362,715,845
Adjustments :		
Non-deductible expense(revenue)	(222,085)	(352,215,755)
Tax credits	(1,629,250)	(175,009)
Adjustments for prior periods	(240,628)	1,018,391
Tax effects of temporary differences for which no deferred tax assets (liabilities) are recognized	52,364,634	(9,192,317)
Effect of Business combination	-	8,629,492
Others	1,252,672	(2,146,165)
Income tax expense	₩ <u>122,636,502</u>	₩ <u>8,634,482</u>
Effective tax rate	50.90%	0.58%

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

Changes in deferred tax assets and liabilities for the years ended December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>			
	<u>Beginning balance</u>	<u>Profit or loss</u>	<u>Directly reflected in capital</u>	<u>Ending balance</u>
Bad debt expense	₩ 1,564,361	₩ (292,735)	₩ -	₩ 1,271,626
Provision for warranty	695,298	(22,600)	-	672,698
Research and human development reserves	(322,667)	322,667	-	-
Accumulated depreciation	(47,734,306)	(24,681,099)	-	(72,415,405)
Defined benefit liability	49,077	563,040	327,125	939,242
Land	(48,132,002)	64,080	-	(48,067,922)
Increase in the value of buildings and machinery	15,784,057	(1,130,769)	-	14,653,288
Prepaid expenses	(12,519,882)	269,854	-	(12,250,028)
Identifiable intangible assets	(147,784,345)	15,636,049	-	(132,148,296)
Investments in subsidiaries	2,248,190	(53,873,763)	-	(51,625,573)
Others	262,150	14,178,118	12,636	14,452,904
	₩ <u>(235,890,069)</u>	₩ <u>(48,967,158)</u>	₩ <u>339,761</u>	₩ <u>(284,517,466)</u>

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	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
	₩ (46,855,362)	₩ 52,332,433	₩ (248,644,674)	₩ 7,037,521	₩ 240,013	₩ (235,890,069)

The amount of deductible temporary differences for which deferred tax assets are not recognized as at December 31, 2018 and 2017, are as follows:

(In thousands of Korean won)	2018	2017
Investments in subsidiaries	₩ 71,292,285	₩ 67,940,909
Allowance for doubtful accounts	105,356,433	105,236,669
Other	34,720,355	34,700,356
Tax loss carryforwards	64,611,465	61,443,171

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, 2018 and 2017, are as follows:

(In thousands of Korean won)	2018	2017
Investments in subsidiaries	₩ (377,249,779)	₩ (377,249,779)
Other	(16,084,729)	(16,104,872)

As at December 31, 2018 and 2017, 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, 2018 and 2017 before offsetting are as follows:

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<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Income taxes payable	₩ 39,366,967	₩ 24,087,627
Prepaid income taxes	<u>(2,723,658)</u>	<u>(6,262,446)</u>
Income taxes payable, net	<u>₩ 36,643,309</u>	<u>₩ 17,825,181</u>

37. 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, 2018 and 2017 is as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Short-term and long-term deposits	₩ 25,549,251	₩ 96,639,381
Trade and other receivables	188,723,097	145,707,019
Cash equivalents ¹	257,715,342	214,988,333
	<u>₩ 471,987,690</u>	<u>₩ 457,334,733</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.

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 12 month before December 31, 2018, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect forward-looking information affecting the ability of the customers to settle the receivables.

The loss allowance as at December 31, 2018 was determined as follows for trade receivables:

<i>(In thousands of Korean won)</i>	<u>Current</u>	<u>More than 60 days past due</u>	<u>More than 90 days past due</u>	<u>More than 120 days past due</u>	<u>Total</u>
Expected loss rate	0%~1.53%	0%~5.05%	0%~13.29%	0%~84.05%	
Gross carrying amount	₩ 143,443,163	₩ 20,304,987	₩ 9,376,250	₩ 28,339,284	₩ 201,463,684
Loss allowance provision	1,133,611	37,940	32,439	23,819,557	25,023,547

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Movements in the loss allowance provision for trade receivables for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017¹</u>
Beginning balance - Korean IFRS 1039	₩ 24,975,356	₩ 24,913,059
Amounts restated through beginning balance of retained earnings	-	-
Loss allowance as at January 1, 2018 - calculated under Korean IFRS 1109	24,975,356	24,913,059
Increase (decrease) in loss allowance recognized in profit or loss during the year	369,074	(128,810)
Increase in loss allowance recognized in profit or loss during the year (discontinued operations)	-	(54,344)
Receivables written off during the year as uncollectible	(281,926)	(11,013)
Decrease due to equity spinoff	-	(2,240,932)
Others	(38,957)	(1,723)
Changes in consolidation scope	-	2,499,119
Ending balance	<u>₩ 25,023,547</u>	<u>₩ 24,975,356</u>

¹ The amounts as at December 31, 2017, were calculated under Korean IFRS 1039.

Trade receivables are written off or non-performing receivables are disposed when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, impossibility of collection due to the failure of a debtor to engage in a repayment plan with the group.

Impairment losses on trade receivables are presented as net impairment losses within impairment loss in the statement of profit or loss. Subsequent recoveries of amounts previously written off are recognized as 'other income'.

Movements in loss allowance provision for other financial assets at amortized cost for the years ended December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>	<u>2017¹</u>
Beginning balance - Korean IFRS 1039	₩ 2,024,154	₩ 2,057,940
Amounts restated through beginning balance of retained earnings	-	-
Loss allowance as at January 1, 2018 - calculated under Korean IFRS 1109	2,024,154	2,057,940
Increase in loss allowance recognized in profit or loss during the year	(72,318)	1,701
Increase in loss allowance recognized in profit or loss during the year (discontinued operations)	-	12,561
Receivables written off during the year as uncollectible	(102,185)	(791)
Decrease due to equity spinoff	-	(122,539)
Others	(3,798)	382
Changes in consolidation scope	-	74,900
Ending balance	<u>₩ 1,845,853</u>	<u>₩ 2,024,154</u>

¹ The amounts as at December 31, 2017, were calculated under Korean IFRS 1039.

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As at December 31, 2018, other financial assets at amortized cost include other receivables, loans and others. The Group recognizes the loss allowance on credit-impaired other receivables and loans.

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, 2018 and 2017, is as follows:

<i>(In thousands of Korean won)</i>	2018					
	Book Value	Contractual cash flow	Within 6 months	6-12 months	1-2 years	2-5 years
Debentures and borrowings	₩ 464,976,225	₩ 489,361,074	₩ 161,803,174	₩ 3,883,250	₩ 127,087,650	₩ 196,587,000
Trades and other payables	274,344,368	274,479,641	265,670,827	6,873,166	483,000	1,452,648
	<u>₩ 739,320,593</u>	<u>₩ 763,840,715</u>	<u>₩ 427,474,001</u>	<u>₩ 10,756,416</u>	<u>₩ 127,570,650</u>	<u>₩ 198,039,648</u>

<i>(In thousands of Korean won)</i>	2017					
	Book Value	Contractual cash flow	Within 6 months	6-12 months	1-2 years	2-5 years
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 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 occurs on the assets and liabilities that are not presented with functional currency. 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	HKD	AUD	GBP
December 31, 2018								
Cash and cash equivalents	₩ 26,995,173	₩ 119,331	₩ 7,154	₩ -	₩ 814	₩ -	₩ 25,855	₩ -
Financial assets at fair value through profit or loss	6,780,241	-	-	-	-	-	-	-
Trade and other receivables	2,752,688	1,388,075	145,770	-	3,344,342	-	-	-
Trade and other payables	(2,055,095)	(192,018)	(428,037)	-	-	(4,554)	-	-
Borrowings	(102,932,747)	-	(397,077)	-	-	-	-	-
	<u>₩ (68,459,740)</u>	<u>₩ 1,315,388</u>	<u>₩ (672,190)</u>	<u>₩ -</u>	<u>₩ 3,345,156</u>	<u>₩ (4,554)</u>	<u>₩ 25,855</u>	<u>₩ -</u>

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

The exchange rates as at December 31, 2018 and 2017, are as follows:

<i>(in Korean won)</i>	2018		2017	
USD	₩	1,118.10	₩	1,071.40
JPY		10.13		9.49
EUR		1,279.16		1,279.25
CHF		-		1,094.72
CNY		162.76		163.65
HKD		142.77		-
AUD		-		835.16
GBP		-		1,439.53

As at December 31, 2018 and 2017, the effects of a 10% appreciating or depreciating of foreign currencies against functional currency on profit before tax are as follows:

<i>(In thousands of Korean won)</i>	2018		2017	
	10% strengthening	10% weakening	10% strengthening	10% weakening
USD	₩ (6,845,974)	₩ 6,845,974	₩ (20,658,402)	₩ 20,658,402
JPY	131,539	(131,539)	165,138	(165,138)
EUR	(67,219)	67,219	(184,597)	184,597
CHF	-	-	(8,980)	8,980
CNY	334,516	(334,516)	(57,946)	57,946
HKD	(455)	455	-	-
AUD	2,586	(2,586)	8,285	(8,285)
GBP	-	-	78	(78)
	₩ (6,445,009)	₩ 6,445,009	₩ (20,736,424)	₩ 20,736,424

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Interest rate risk

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

<i>(In thousands of Korean won)</i>	<u>2018</u>		<u>2017</u>	
Short-term borrowings	₩	103,329,824	₩	63,608,938
Long-term debts		30,000,000		165,794,506
	₩	<u>133,329,824</u>	₩	<u>229,403,444</u>

As at December 31, 2018 and 2017, 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:

<i>(In thousands of Korean won)</i>	<u>2018</u>				<u>2017</u>			
	<u>10% increase</u>		<u>10% decrease</u>		<u>10% increase</u>		<u>10% decrease</u>	
Net finance cost	₩	(1,333,298)	₩	1,333,298	₩	(2,294,034)	₩	2,294,034

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, 2018 and 2017, the Group's net debt-to-equity ratio as follows:

<i>(In thousands of Korean won)</i>	<u>2018</u>		<u>2017</u>	
Net debt:				
Debts and borrowings	₩	464,976,225	₩	599,744,404
Less: Cash and cash equivalents		(257,785,259)		(215,153,916)
		<u>207,190,966</u>		<u>384,590,488</u>
Equity		3,176,587,954		3,117,905,288
Net debt-to-equity ratio		6.52%		12.33%

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38. Financial Commitments and Contingencies

Financial commitments to financial institutions as at December 31, 2018 and 2017, are as follows:

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

<u>Borrower</u>	<u>Lender</u>	<u>Type of commitment</u>		<u>2018</u>	<u>2017</u>
Orion Holdings Corporation	KEB Hana Bank	Bank overdraft	KRW	5,000,000	5,000,000
Orion Corporation	Kookmin Bank	Usance	USD	10,000,000	10,000,000
		Purchasing loan	KRW	20,000,000	20,000,000
	Shinhan Bank	Bank overdraft	KRW	5,000,000	5,000,000
		Usance	USD	15,900,000	15,900,000
	KEB Hana Bank	Purchasing loan	KRW	30,000,000	30,000,000
		Credit loan	KRW	-	5,000,000
	SMBC	Credit loan	KRW	20,000,000	20,000,000
	Hyundai Card	Group purchase card	KRW	12,000,000	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
	KEB 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	150,000,000
	HSBC	General loan	CNY	-	50,000,000
Orion Food VINA Co., Ltd	Korea Development Bank	Usance	USD	5,000,000	-
	KEB Hana Bank	Usance	USD	10,000,000	-
JeJu Yongam Soo Corp.	Kookmin Bank	Facility loan	KRW	60,000,000	-
			KRW	152,000,000	97,000,000
		Total	USD	40,900,000	57,900,000
			CNY	150,000,000	780,000,000

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Details of guarantees provided by the Group as of December 31, 2018 and 2017, are as follows :

(In thousands of Korean won)

<u>Counterparty</u>	<u>Contents</u>	<u>Currency</u>	<u>2018</u>	<u>2017</u>	<u>Warranty</u>
Shambhala Corp. (Formerly, Crespo Corp.)	License guarantee ¹	KRW	-	20,319,156	2012-11-22 ~ 2017-12-31
		KRW	-	354,313	2014-08-26 ~ 2020-04-30
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>-</u>	<u>20,679,566</u>	

¹ The amount of ₩354,313 thousand in the license guarantee was cancelled in 2018.

As at December 31, 2018, the Group has provided joint surety amounting to ₩537 million in relation to the license guarantee of KP&D co., Ltd provided by Construction Guarantee.

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>2018</u>	<u>2017</u>	<u>Classification</u>
Seoul Young Baesa	KEB Hana Bank	₩ 400,000	₩ 400,000	Performance guarantee
Taeyyeong Picture	Woori Bank	200,000	200,000	
Dongbo Cinema	Standard Chartered Bank	200,000	200,000	
Click kankokku Co., Ltd.	Seoul Guarantee Insurance	-	12,000	Deposit guarantee insurance
Ja Ok Kim	Seoul Guarantee Insurance	-	6,000	
Taechang MP Films Co., Ltd.	Seoul Guarantee Insurance	6,500	6,500	
Apolron Entertainment Co., Ltd.	Seoul Guarantee Insurance	33,000	33,000	
PK Entertainment Co., Ltd	Seoul Guarantee Insurance	10,000	10,000	
Sung Won Lim	Seoul Guarantee Insurance	40,000	40,000	
CGV Shindorim Co., Ltd	Seoul Guarantee Insurance	52,050	52,050	
Home and Shopping Co.,Ltd	Seoul Guarantee Insurance	100,000	-	Performance guarantee
Total		<u>₩ 1,041,550</u>	<u>₩ 959,550</u>	

As at December 31, 2018, guarantees of ₩7,432 million (2017: ₩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, 2018, the Group has factoring agreements with Woori Bank, for trade receivables of Coupang Corp. The trade receivables provided by the Group in the factoring transaction which meet the requirements for asset derecognition, were derecognized because there is no recourse obligation for the above trade receivables in case of debtors' default and accordingly Woori Bank retains substantially all the risks and rewards.

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As at December 31, 2018, the Group provides guarantees to the customers with the maximum amount of ₩ 12,000 million (2017: ₩ 12,000 million) in relation to the Corporate Purchase Card of Hyundai Card.

Details of lawsuit pendings as at December 31, 2018 are summarized as follows.

(In thousands of Korean won)

Plaintiff	Defendant	Contents	Amounts	Progress
Byeonguk Jeon	Orion Holdings Corp.	Claim for wages	₩ 35,000	First trial in progress
Orion Holdings Corp.	Kyung Min Cho	Compensation for damages	3,007,866	Second trial in progress
Orion Corp., Orion Holdings Corp. and 1 other	Kyung Min Cho	Compensation for damages	10,000,000	Second trial in progress
Orion Holdings Corp.	Nongaekdotcom and 3 others	Compensation for damages	600,000	First trial in progress
Orion Holdings Corp.	Miseo Yoon	Payments under commitments	36,600	Plaintiff won (2019.01.18)
Korean Chemistry & Textile Federation of Unions and 2 others	Orion Holdings Corp. and 1 other	Compensation for damages	94,179	First trial in progress
Orion Holdings Corp.	Kyung Min Cho and 1 other	Compensation for damages	200,000	First trial in progress
Orion Holdings Corp.	Kyung Min Cho and 1 other	A breach of act on the aggravated punishment, etc. of specific crimes	-	First trial in progress
Orion Corp. and 1 other	Kyung Min Cho	Compensation for damages for other accidents	600,000	Lost at first trial
Orion Corp.	Sung Tae Kim	Compensation for damages for other accidents	448,612	Second trial in progress
Bong Suk Kang and 13 others	Orion Corp.	Claim for wages	26,388	Third trial in progress
Overman Corp.	Orion Corp.	Service charge	148,992	Plaintiff partially won at first trial
Orion Corp.	Head of the Central Labor Relations Committee	Retrial adjudication revocation for relief of unfair personnel appointments	50,000	Second trial in progress
Orion Corp.	Sung Tae Kim	Payments under commitments	45,427	Second trial in progress
Orion Corp.	Korea Retail Co.,Ltd and 1 other	Commodity price	8,145	First trial in progress
Orion Corp.	Taeyeong Park	Commodity price	3,534	Plaintiff won at first trial
Orion Corp.	Indeok Kang	Commodity price	2,018	First trial in progress
Orion Corp.	Jeongju Kim	Commodity price	1,754	First trial in progress
Orion Corp.	Geun Hur	Commodity price	1,092	First trial in progress
Orion Corp.	Hyundai Green distribution co., Ltd and 1 other	Commodity price	3,106	First trial in progress

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39. Related Party Transactions

Related parties as at December 31, 2018, are as follows, excluding subsidiaries:

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

¹ During 2018, Michigan Global Contents Investment Fund, Michigan Global Contents Investment Fund #3 and Gemini Contents Investment Partnership #1 went through liquidation.

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

<u>Relationship</u>	<u>Related Party</u>
Associates ¹	Daehan distributor Corp. Gemini Contents Investment Partnership #1 Michigan Global Contents Investment Fund 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. ¹
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, 2018 and 2017, are summarized as follows:

(In thousands of Korean won)

Related party	Transaction	2018	2017
Associates			
	Sales	₩ -	₩ 4,027,737
Orion Corporation. ¹	Other revenues	-	443,017
	Disposition of fixed assets	-	4,474
	Other costs	-	197,817
	Reduction of capital	91,390	200,000
Michigan Global Contents Investment Fund	Payment of investment deposits	3,234	528
	Settlement of film revenue(cost) ²	-	2,644
	Reduction of capital	992,017	1,885,000
Michigan Global Contents Investment Fund #3	Receipt of investment deposits	29,478	27,944
	Settlement of film revenue(cost) ²	-	102,616
	Reduction of capital	851,000	-
Michigan Global Contents Investment Fund #4	Receipt of investment deposits	-	700,000
	Payment of investment deposits	35,444	1,466,310
	Settlement of film revenue(cost) ²	19,805	97,930
	Reduction of capital	2,625,000	-
S.M.Contents Investment Fund No.5	Other revenues	1,643,565	-
	Receipt of investment deposits	2,900,000	9,600,000
	Payment of investment deposits	7,620,573	6,310,719
	Settlement of film revenue(cost) ²	1,119,840	2,177,296
	Reduction of capital	2,625,000	-
Subsidiary of the associates			
Orion International Euro LLC ³	Sales	-	232,116
Orion Food Co.,Ltd. ⁴	Sales	-	2,779,248
Orion Food VINA.,Ltd. ⁵	Sales	-	612,815
Joint venture			
Delfi-Orion Pte Ltd	Sales	1,794,058	-
Orion Nonghyup Agri, inc.	Other revenues	164,209	108,929
	Sale of property, plant and equipment	6,064,000	-
	Purchase	12,091,389	-
	Other revenues	39,082	-
Others			
Major shareholders	Sale of property, plant and equipment and others	1,206,000	-
	Other revenues	39,082	-

¹ Transactions between the Group and Orion corp. are transactions before included into a subsidiary after the spin-off date.

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

³ 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.

⁴ 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.

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⁵ Transactions between the Group and Orion Food VINA., Ltd. are transactions from the date of the equity spin-off until the date of the business combination.

Accounts receivable, payable balances with related parties as at December 31, 2018 and 2017, are as follows:

(In thousands of Korean won)

Relationship	Related party	2018				
		Receivables		Payables		
		Trade receivables	Other receivables	Trade payables ¹	Deposit received	Guarantee deposits
Associates	Michigan Global Contents Investment Fund	₩ -	₩ -	₩ 19,806	₩ 6,044	₩ -
	S.M.Contents Investment Fund No.5	-	-	238,154	2,698,878	-
Joint venture	Delfi-Orion Pte Ltd	407,320	-	-	-	-
	Orion Nonghyup Agri, inc.	-	230,722	3,430,206	-	-
Other	Orion Foundation	2,090	566	-	-	396,000
		₩ 409,410	₩ 231,288	₩ 3,688,166	₩ 2,704,922	₩ 396,000

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

(In thousands of Korean won)

Relationship	Related party	2017			
		Receivables	payables		
		Trade receivables	Trade payables ¹	Deposit received	Guarantee deposits
Associates	Michigan Global Contents Investment Fund	₩ -	₩ 2,644	₩ 164,839	₩ -
	Michigan Global Contents Investment Fund #3	-	36,439	29,478	-
	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.

Details of fund transactions with related parties for the years ended December 31, 2018 and 2017, are as follows:

(In thousands of Korean won)

Relationship	Related party	Contents of Trade	2018	2017
Joint venture	Delfi-Orion Pte., Ltd	Cash Investment	₩ -	₩ (1,003,253)
Joint venture	Orion Nonghyup Agri, inc.	Cash Investment	(7,000,000)	-
Associates	Beijing Zhongguan Megabox Cinema Co., Ltd.	Dividend received	4,740,910	-
Associates	S.M.Contents Investment Fund No.5	Reduction of capital and dividend received	4,268,565	-
Associates	Michigan Global Contents Investment Fund #4	Reduction of capital	851,000	-
Associates	Michigan Global Contents Investment Fund	Liquidation	91,390	-
Associates	Michigan Global Contents Investment Fund #3	Liquidation	992,017	-

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Details of key management personnel compensation for the years ended December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	2018	2017
Short-term employee benefits	₩ 11,778,123	₩ 13,947,304
Post-employment benefits	2,041,744	3,187,841
	₩ 13,819,867	₩ 17,135,145

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

Dividends paid to the related parties during the year ended December 31, 2018, amount to ₩ 10,283 million.

As of December 31, 2018, 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.

40. Supplemental Cash Flows Information

The principal non-cash transactions for the years ended December 31, 2018 and 2017, are as follows:

<i>(In thousands of Korean won)</i>	2018	2017
Reclassification from construction in progress to property, plant and equipment	₩ 142,233,757	₩ 51,797,734
Other payables regarding the acquisition of property, plant and equipment	10,823,156	1,090,721
Reclassification from non-current assets held for sale to investment property	3,555,215	-
Reclassification of leasehold deposits received	1,100,000	-
Transfer to reserves	21,000,000	-
Transfer from reserves	545,700,000	-
Appropriation of retained earnings for other capital	2,753,637,307	-
Reclassification from investment property to non-current assets held for sale	8,469,780	-
Reclassification from property, plant and equipment to investment property	6,511,413	51,982,873
Reclassification from prepaid expenses to current portion	1,148,411	-
Reclassification from prepayments to publication rights	46,335,122	57,723,093
Reclassification from long-term rental deposits to short-term rental deposits	267,918	187,084
Reclassification from long-term borrowings to short-term borrowings	50,023,765	39,546,448
Reclassification from long-term prepayments to short-term prepayments	1,066,744	2,334,419
Advance received from disposal of non-current assets/liabilities to be sold	-	7,000,000
Write-off of trade receivables	384,111	11,803
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 for the years ended December 31, 2018 and 2017, is as follows:

(In thousands of Korean won)	2018.1.1	Cash flows from financing activities	Non cash flow				2018.12.31
			Depreciation and other	Effects of changes in foreign exchange rates	Reclassification to current portion	Others	
Short-term borrowings	₩ 104,443,834	₩ (4,702,128)	₩ -	₩ 5,576,517	₩ -	₩ -	₩ 105,318,223
Current portion of long-term borrowings	165,854,506	(170,882,436)	22,649	5,027,930	50,023,765	-	50,046,414
Long-term borrowings	329,446,063	30,000,000	189,290	-	(50,023,765)	-	309,611,588
Current portion of leasehold deposits received	1,427,930	(120,000)	2,574	-	(267,918)	(770,000)	272,586
Leasehold deposits received	1,154,969	153,000	(23,807)	-	267,918	(330,000)	1,222,080
	₩ 602,327,302	₩ (145,551,564)	₩ 190,706	₩ 10,604,447	₩ -	₩ (1,100,000)	₩ 466,470,891

(In thousands of Korean won)	2017.1.1	Cash flows from financing activities	Non cash flow				2017.12.31	
			Depreciation and other	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 assets at fair value through profit or loss on a net basis, which turnover is quick, amounts are large and maturities are short.

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, investments in-kind 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 25.29% shares of Orion Corporation additionally and acquired the control through the process of concluding contracts on exercising voting rights with major shareholders. Goodwill of ₩ 873,853,289 thousand resulting from the acquisition is due to the synergy effect of business combination

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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.

<i>(In thousands of Korean won)</i>	<u>Amount</u>
Consideration transferred	
Equity instruments(common stock 14,775,139 shares)	₩ 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	1,739,371,117
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	90,061,974
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	(234,805,919)
Other non-current liabilities	(3,367)
Total fair value of identifiable net assets	<u>1,867,906,690</u>
Non-controlling interest	<u>(1,197,757,953)</u>
Goodwill	873,853,289
Total	₩ <u>1,544,002,026</u>

If Orion Corporation is consolidated from the beginning of the prior 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.

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42. Changes in Accounting Policies

42.1 Korean IFRS 1115 *Revenue from Contracts with Customers*

As explained in Note 3, the Group has applied Korean IFRS 1115 *Revenue from Contracts with Customers*. In accordance with the transition provisions in Korean IFRS 1115, the accounting policy has been changed and the amounts recognized in consolidated financial statements have been restated. But the consolidated statement of financial position as at the date of initial application (January 1, 2018) and the beginning date of comparative period (January 1, 2017), and the consolidated statement of cash flows for the prior period have not been changed. After applying Korean IFRS 1115, sales decreased by ₩ 39,229 million, cost of sales increased by ₩ 8,962 million and selling expenses decreased by ₩ 48,191 million in the consolidated statement of comprehensive income for the prior period, compared to the amounts recognized under previous accounting policy. These effects are mostly incurred from the following (a) variable consideration and (b) consideration payable to a customer. All of these amounts were recognized as profit or loss from discontinued operations for the year ended December 31, 2017 (Note 8).

Major changes are as follows.

(a) *Variable consideration*

The Group estimates an amount of variable consideration by using the method that the Group expects to better predict the amount of consideration to which it will be entitled for discount, incentive, penalty and others to be paid to customers.

(b) *Consideration payable to a customer*

The Group accounts for consideration payable to a customer as an expense or reduction of the revenue, depending on whether the payment to the customer is in exchange for a distinct good or service.

42.2 Korean IFRS 1109 *Financial Instruments*

As explained in Note 3, the Group has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated. The impact on the consolidated financial statements is as follows:

The total impact on the Group's retained earnings due to classification and measurement of financial instruments as at January 1, 2018, is as follows:

<i>(in thousands of Korean won)</i>	Notes	January 1, 2018
Beginning balance - Korean IFRS 1039		₩ 2,348,374,933
Reclassification of available-for-sale financial assets to financial assets at fair value through other comprehensive income	14	313,434
Reclassification of available-for-sale financial assets to financial assets at fair value through profit or loss	14	(11,694)
Adjustments to retained earnings from adoption of Korean IFRS 1109		301,740
Beginning balance of retained earnings - Korean IFRS 1109		<u>₩ 2,348,676,673</u>

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On the date of initial application of Korean IFRS 1109, January 1, 2018, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate Korean IFRS 1109 categories. The main effects resulting from this reclassification are as follows:

<i>(in thousands of Korean won)</i>	Notes	Fair value through profit or loss	Fair value through other comprehensive income (Available-for- sale financial assets in 2017)	Amortized cost (Held-to-maturity financial assets, loans and receivables in 2017) ²	Total
Beginning balance – Korean IFRS 1039 ¹		₩ -	₩ 5,955,271	₩ 457,243,077	₩ 463,198,348
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	14	5,088,744	(5,088,744)	-	-
Reclassification of equity investments that are not held for trading from available-for-sale financial assets to financial assets at fair value through other comprehensive income	14	-	-	-	-
Beginning balance - Korean IFRS 1109		<u>₩ 5,088,744</u>	<u>₩ 866,527</u>	<u>₩ 457,243,077</u>	<u>₩ 463,198,348</u>

¹ The beginning balance as at January 1, 2018, presented available-for-sale financial assets at fair value through other comprehensive income, and held-to-maturity investments and loans and receivables at amortized cost, respectively, see the table in (i) below for details. These reclassifications have no impact on the measurement categories.

² Includes cash and cash equivalents

The impact on these changes on the Group's equity is as follows:

<i>(in thousands of Korean won)</i>	Notes	Effect on accumulated other comprehensive income	Effects on fair value through other comprehensive income	Effect on retained earnings
Beginning balance – Korean IFRS 1039		₩ (154,945)	₩ -	₩ 2,348,374,933
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	14	11,694	-	(11,694)
Reclassification of equity investments that are not held for trading from available-for-sale financial assets to financial assets at fair value through other comprehensive income	14	143,251	(456,685)	313,434
		<u>154,945</u>	<u>(456,685)</u>	<u>301,740</u>
Beginning balance - Korean IFRS 1109		<u>₩ -</u>	<u>₩ (456,685)</u>	<u>₩ 2,348,676,673</u>

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(i) Reclassifications of financial instruments on adoption of Korean IFRS 1109

On the date of initial application, January 1, 2018, the financial instruments of the Group with any reclassifications noted, were as follows:

	Measurement category		Carrying amount		
	Korean IFRS 1039	Korean IFRS 1109	Korean IFRS 1039	Korean IFRS 1109	Difference
<i>(in thousands of Korean won)</i>					
Current financial assets					
Trade and other receivables	Amortized costs	Amortized costs	₩ 143,865,640	₩143,865,640	₩ -
Cash and cash equivalents	Amortized costs	Amortized costs	215,153,916	215,153,916	-
Short-term deposit	Amortized costs	Amortized costs	96,502,450	96,502,450	-
Non-current financial assets					
Trade and other receivables	Amortized costs	Amortized costs	1,584,141	1,584,141	-
Available-for-sale financial assets	Available-for-sale financial assets	Fair value through other comprehensive income	866,527	866,527	-
Available-for-sale financial assets	Available-for-sale financial assets	Fair value through profit or loss	5,088,744	5,088,744	-
Long-term deposits	Amortized costs	Amortized costs	136,930	136,930	-
Current financial liabilities					
Current portion of long-term debts	Amortized costs	Amortized costs	165,854,506	165,854,506	-
Short-term borrowings	Amortized costs	Amortized costs	104,443,834	104,443,834	-
Other payables	Amortized costs	Amortized costs	252,678,815	252,678,815	-
Derivative liabilities	Fair value through profit or loss	Fair value through profit or loss	260,928	260,928	-
Non-current financial liabilities					
Long-term borrowings	Amortized costs	Amortized costs	329,446,063	329,446,063	-
Long-term other payables	Amortized costs	Amortized costs	2,233,284	2,233,284	-