

Orion Corporation and Subsidiaries

Consolidated Financial Statements

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 Corporation

Opinion

We have audited the accompanying consolidated financial statements of Orion 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 year ended December 31, 2018 and the seven-month period ended December 31, 2017, 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 year ended December 31, 2018 and the seven-month period ended December 31, 2017 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 Sungsoo Kim, 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 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 | 7,24 | ₩ 1,645,979,776 | ₩ 1,672,772,360 |
| Intangible assets | 8 | 28,969,896 | 29,625,247 |
| Goodwill | 9 | 22,697,670 | 22,754,334 |
| Investment property | 10 | 6,290,782 | - |
| Investments in joint ventures | 11,37 | 30,383,314 | 23,925,417 |
| Long-term trade and other receivables | 15,33,37 | 834,214 | 1,178,378 |
| Long-term deposits | 16,33 | 2,000 | 49,578 |
| Defined benefit assets | 25 | 362,828 | 188,536 |
| Other non-current assets | 13 | 43,802,263 | 47,344,353 |
| Deferred income tax assets | 34 | 2,803,717 | 2,704,353 |
| Total Non-current assets | | 1,782,126,460 | 1,800,542,556 |
| Inventories | 14 | 156,569,044 | 150,686,985 |
| Other current assets | 13 | 15,163,019 | 22,511,275 |
| Current tax assets | 34 | 323,284 | 607,123 |
| Trade and other receivables | 15,33,37 | 168,774,180 | 131,312,188 |
| Financial assets at fair value through profit or loss | 12 | 32,587,337 | - |
| Short-term deposits | 16,33 | 11,188,240 | 50,731,500 |
| Cash and cash equivalents | 16,33 | 184,619,098 | 101,606,293 |
| Total Current assets | | 569,224,202 | 457,455,364 |
| Total assets | | ₩ 2,351,350,662 | ₩ 2,257,997,920 |

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

| <i>(In thousands of Korean won)</i> | Notes | 2018 | 2017 |
|--|--------------|------------------------|------------------------|
| Equity | | | |
| Capital stock | 1,17 | ₩ 19,766,981 | ₩ 19,766,751 |
| Capital surplus | | 598,141,686 | 598,135,705 |
| Treasury shares | 18 | (604,361) | (604,361) |
| Other capital | 19 | 597,123,578 | 614,741,969 |
| Reserves | 20,41 | 8,977,128 | 2,066,770 |
| Retained earnings | 41 | 182,144,352 | 74,121,259 |
| Equity attributable to owners of the Parent | | 1,405,549,364 | 1,308,228,093 |
| Non-controlling interest | | 38,992,816 | 36,676,349 |
| Total equity | | 1,444,542,180 | 1,344,904,442 |
| Liabilities | | | |
| Long-term debts | 24,33,35 | 279,611,588 | 329,446,063 |
| Long-term trade and other payables | 23,33,37 | 678,606 | 102,522 |
| Deferred tax liabilities | 34 | 126,204,195 | 60,567,010 |
| Other non-current liabilities | 26 | 3,574 | 3,368 |
| Total Non-current liabilities | | 406,497,963 | 390,118,963 |
| Current portion of long-term debts | 24,33,35 | 50,046,414 | 165,854,506 |
| Short-term borrowings | 24,33,35 | 105,318,223 | 104,443,834 |
| Trade and other payables | 23,33,37 | 248,386,485 | 192,058,519 |
| Derivative liabilities | | - | 260,928 |
| Current income tax liabilities | 34 | 33,719,562 | 17,265,318 |
| Other current liabilities | 26 | 62,839,835 | 43,091,409 |
| Total Current liabilities | | 500,310,519 | 522,974,515 |
| Total liabilities | | 906,808,482 | 913,093,478 |
| Total equity and liabilities | | ₩ 2,351,350,662 | ₩ 2,257,997,920 |

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

Orion Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Year Ended December 31, 2018 and Seven-Month Period Ended December 31, 2017

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

| | Notes | 2018 | 2017 |
|--|----------|-----------------|-----------------|
| Revenue | 6,28,37 | ₩ 1,926,947,889 | ₩ 1,073,283,219 |
| Cost of sales | 28,32,37 | (1,049,975,126) | (608,705,123) |
| Gross profit | | 876,972,763 | 464,578,096 |
| Selling expenses | 29,32 | (470,324,430) | (282,178,675) |
| General and administrative expenses | 29,32 | (124,473,303) | (74,972,808) |
| Operating profit | | 282,175,030 | 107,426,613 |
| Net other income | 30 | 6,190,343 | 1,038,970 |
| Net finance costs | 31,33 | (12,108,904) | (3,137,743) |
| Share of loss of joint ventures | 11 | (1,047,757) | (269,928) |
| Profit before income tax | | 275,208,712 | 105,057,911 |
| Income tax expense | 34 | (132,182,392) | (28,377,639) |
| Profit for the year | | 143,026,320 | 76,680,272 |
| Other comprehensive income(loss): | | | |
| Items that may be subsequently reclassified to profit or loss | | | |
| Exchange differences on translating foreign operations | | (18,477,892) | (9,670,455) |
| Share of other comprehensive income(loss) of joint ventures | 11 | 1,711 | (90,206) |
| Items that will not be reclassified to profit or loss | | | |
| Defined benefit plan actuarial gain(loss) | 25 | (1,524,086) | 781,380 |
| Share of defined benefit plan actuarial gain(loss) of joint ventures | | (47,659) | 11,746 |
| Income tax of other comprehensive income | | 368,828 | (189,094) |
| Other comprehensive income(loss) for the period, net of tax | | (19,679,098) | (9,156,629) |
| Total comprehensive income for the year | | ₩ 123,347,222 | ₩ 67,523,643 |

Orion Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Year Ended December 31, 2018 and Seven-Month Period Ended December 31, 2017

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

| | Notes | <u>2018</u> | <u>2017</u> |
|--|-------|--------------------|---------------------|
| Profit (loss) attributable to: | | | |
| Owners of the Parent | ₩ | 139,852,063 | ₩ 75,583,997 |
| Non-controlling interests | | <u>3,174,257</u> | <u>1,096,275</u> |
| Profit for the year | ₩ | <u>143,026,320</u> | <u>₩ 76,680,272</u> |
| Total comprehensive income attributable to: | | | |
| Owners of the Parent | ₩ | 121,030,755 | ₩ 66,478,960 |
| Non-controlling interests | | <u>2,316,467</u> | <u>1,044,683</u> |
| Total comprehensive income for the year | ₩ | <u>123,347,222</u> | <u>₩ 67,523,643</u> |
| Earnings per share: (in Korean won) | | | |
| | 21 | | |
| Basic earnings per share | ₩ | 3,538 | ₩ 1,912 |
| Diluted earnings per share | | 3,538 | 1,912 |

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

Orion Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Year Ended December 31, 2018 and Seven-Month Period Ended December 31, 2017

(In thousands of Korean won)

| | Capital stock | Capital surplus | Treasury shares | Other capital | Reserves | Retained earnings | Non- controlling interests | Total equity |
|--|------------------|--------------------|--------------------|------------------|-------------|----------------------|----------------------------------|-----------------|
| Balance at June 1, 2017 | ₩ 19,766,751 | ₩ 598,135,705 | ₩ - | ₩ 624,451,038 | ₩ - | ₩ - | ₩ 35,631,666 | ₩ 1,277,985,160 |
| Comprehensive income: | | | | | | | | |
| Profit for the year | - | - | - | - | - | 75,583,997 | 1,096,275 | 76,680,272 |
| Other comprehensive income: | | | | | | | | |
| Exchange differences on translating foreign operations | - | - | - | (9,618,863) | - | - | (51,592) | (9,670,455) |
| Share of other comprehensive income of joint ventures | - | - | - | (90,206) | - | - | - | (90,206) |
| Share of defined benefit plan actuarial gain(loss) of joint ventures | - | - | - | - | - | 11,746 | - | 11,746 |
| Remeasurements of net defined benefit liability | - | - | - | - | - | 592,286 | - | 592,286 |
| Total comprehensive income for the year | - | - | - | (9,709,069) | - | 76,188,029 | 1,044,683 | 67,523,643 |
| Total transactions with owners of the Company, recognized directly in equity: | | | | | | | | |
| Purchase of treasury shares | - | - | (604,361) | - | - | - | - | (604,361) |
| Addition to legal reserves | - | - | - | - | 2,066,770 | (2,066,770) | - | - |
| Total transactions with owners of the Company, recognized directly in equity | - | - | (604,361) | - | 2,066,770 | (2,066,770) | - | (604,361) |
| Balance at December 31, 2017 | ₩ 19,766,751 | ₩ 598,135,705 | ₩ (604,361) | ₩ 614,741,969 | ₩ 2,066,770 | ₩ 74,121,259 | ₩ 36,676,349 | ₩ 1,344,904,442 |

Orion Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Year Ended December 31, 2018 and Seven-Month Period Ended December 31, 2017

(In thousands of Korean won)

| | Capital stock | Capital surplus | Treasury shares | Other capital | Reserves | Retained earnings | Non- controlling interests | Total equity |
|--|------------------|--------------------|--------------------|------------------|-------------|----------------------|----------------------------------|-----------------|
| Balance at January 1, 2018 | ₩ 19,766,751 | ₩ 598,135,705 | ₩ (604,361) | ₩ 614,741,969 | ₩ 2,066,770 | ₩ 74,121,259 | ₩ 36,676,349 | ₩ 1,344,904,442 |
| Comprehensive income: | | | | | | | | |
| Profit for the year | - | - | - | - | - | 139,852,063 | 3,174,257 | 143,026,320 |
| Other comprehensive income: | | | | | | | | |
| Exchange differences on translating foreign operations | - | - | - | (17,620,102) | - | - | (857,790) | (18,477,892) |
| Share of other comprehensive income of joint ventures | - | - | - | 1,711 | - | - | - | 1,711 |
| Share of defined benefit plan actuarial gain(loss) of joint ventures | - | - | - | - | - | (47,659) | - | (47,659) |
| Remeasurements of net defined benefit liability | - | - | - | - | - | (1,155,257) | - | (1,155,257) |
| Total comprehensive income for the year | - | - | - | (17,618,391) | - | 138,649,146 | 2,316,467 | 123,347,222 |
| Total transactions with owners of the Company, recognized directly in equity: | | | | | | | | |
| Exercise of stock options | 230 | 5,981 | - | - | - | - | - | 6,211 |
| Dividends paid | - | - | - | - | - | (23,715,695) | - | (23,715,695) |
| Addition to legal reserves | - | - | - | - | 6,910,358 | (6,910,358) | - | - |
| Total transactions with owners of the Company, recognized directly in equity | 230 | 5,981 | - | - | 6,910,358 | (30,626,053) | - | (23,709,484) |
| Balance at December 31, 2018 | ₩ 19,766,981 | ₩ 598,141,686 | ₩ (604,361) | ₩ 597,123,578 | ₩ 8,977,128 | ₩ 182,144,352 | ₩ 38,992,816 | ₩ 1,444,542,180 |

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

Orion Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Year Ended December 31, 2018 and Seven-Month Period Ended December 31, 2017

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Profit for the year | ₩ 143,026,320 | ₩ 76,680,272 |
| Adjustments for: | | |
| Retirement benefits | 10,995,535 | 6,696,727 |
| Depreciation of property, plant and equipment | 114,993,762 | 64,189,623 |
| Amortization | 2,744,443 | 1,613,210 |
| Depreciation of investment property | 79,943 | - |
| Loss on sale of trade receivables | 6,356 | 589,365 |
| Bad debt expenses of trade receivables (reversal) | 239,058 | (169,418) |
| Other bad debt allowance | 52,528 | 92 |
| Impairment losses on intangible assets | 629,010 | - |
| Loss on sale of property, plant and equipment | 2,732,430 | 2,019,351 |
| Loss on sale of intangible assets | 219,727 | 911 |
| Valuation loss on derivatives | - | 619,645 |
| Foreign currency translation loss | 339,322 | 3,374,142 |
| Interest expense | 16,823,708 | 11,590,163 |
| Income tax expense | 132,182,391 | 28,377,639 |
| Share of loss of joint ventures | 1,047,757 | 269,928 |
| Other expenses | 861,868 | 1,221,808 |
| Reversal of other bad debt allowance | - | (42,864) |
| Gain on sale of property, plant and equipment | (1,366,316) | (6,281,382) |
| Gain on sale of intangible assets | (237,911) | - |
| Reversal of Impairment losses on intangible assets | (448,817) | (41,089) |
| Gain on valuation of derivatives | - | (2,491) |
| Foreign currency translation gain | (198,116) | (6,226,756) |
| Interest income | (6,783,592) | (4,361,052) |
| Other income | (9,950) | (6,258) |
| Subtotal | <u>274,903,136</u> | <u>103,431,293</u> |
| Changes in: | | |
| Trade receivables | (34,814,439) | (4,265,943) |
| Other receivables | (307,613) | 11,027,823 |
| Other current assets | 6,009,206 | 5,989,788 |
| Inventories | (7,461,485) | (53,031,226) |
| Other non-current assets | (2,324,422) | 1,615,052 |
| Trade payables | 15,281,970 | 20,231,311 |
| Other payables | 54,405,558 | 37,698,612 |
| Other current liabilities | 24,090,462 | 19,230,968 |
| Other non-current liabilities | - | 941,251 |
| Plan assets | (5,583,413) | (6,065,873) |
| Payment of defined benefit obligations | (7,114,612) | (5,263,446) |
| Subtotal | <u>₩ 42,181,212</u> | <u>₩ 28,108,317</u> |

Orion Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Year Ended December 31, 2018 and Seven-Month Period Ended December 31, 2017

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Interest received | ₩ 5,520,163 | ₩ 4,403,700 |
| Interest paid | (16,378,286) | (15,587,832) |
| Income tax paid | (48,658,541) | (3,793,930) |
| Net cash inflow from operating activities | <u>400,594,004</u> | <u>193,241,820</u> |
| Cash flows from investing activities | | |
| Proceeds from disposal of available-for-sale financial assets | - | 1,070 |
| Proceeds from disposal of property, plant and equipment | 11,467,374 | 14,832,483 |
| Proceeds from disposal of intangible assets | 1,693,400 | 790,500 |
| Decrease in rental deposits | 859,187 | 2,126,681 |
| Proceeds from disposal of non-current assets held for sales | - | 1,907,944 |
| Other cash inflows from investing activities | - | 1,422,041 |
| Decrease in financial deposits | 46,368,609 | 63,654,782 |
| Increase in financial assets at fair value through profit or loss | (33,280,000) | - |
| Acquisition of available-for-sale financial assets | - | (1,155) |
| Acquisition of property, plant and equipment | (130,825,482) | (89,777,021) |
| Acquisition of intangible assets | (4,140,191) | (1,882,356) |
| Increase in rental deposits | (45,000) | (1,317,102) |
| Acquisition of joint ventures | (7,000,000) | (8,795,377) |
| Net cash outflow from investing activities | <u>(114,902,103)</u> | <u>(17,037,509)</u> |
| Cash flows from financing activities | | |
| Increase in short-term borrowings | 1,072,743,653 | 262,713,154 |
| Increase in long-term borrowings | - | 99,707,360 |
| Increase in security deposits | 53,000 | 80,000 |
| Exercise of stock options | 6,211 | - |
| Redemption of short-term borrowings | (1,077,445,781) | (289,020,420) |
| Redemption of current portion of long-term borrowings | (170,882,436) | (227,763,181) |
| Decrease in security deposits | (2,000) | (391,660) |
| Dividends paid | (23,709,756) | - |
| Acquisition of treasury shares | - | (604,361) |
| Other cash outflows from financing activities | - | (10,102) |
| Net cash outflow from financing activities | <u>(199,237,109)</u> | <u>(155,289,211)</u> |
| Effect of exchange rate fluctuations on cash held, and others | (3,441,987) | (2,603,564) |
| Net increase in cash and cash equivalents | 83,012,805 | 18,311,536 |
| Cash and cash equivalents at the beginning of the period | 101,606,293 | 83,294,757 |
| Cash and cash equivalents at the end of the period | <u>₩ 184,619,098</u> | <u>₩ 101,606,293</u> |

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

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

1. General Information

Description of the Controlling Company

Orion Corporation (the Company or the Parent Company) was established on June 1, 2017, based on the Orion Holdings Co.'s resolution of the general meeting of shareholders on March 31, 2017, by splitting the manufacturing and sales of confectionery of Orion Holdings Co. and listed on the Korea Exchange on July 7, 2017.

The Company is manufacturing and selling various kinds of confectionery with its headquarters in Baekbumro, Yongsan-gu, Seoul, and a factory in Iksan, Jeollabuk-do, and others. As at December 31, 2018, the Company's capital stock is ₩ 19,767 million. Major shareholders of the Company are Orion Holdings Co., Ltd. (37.37%) and five other related parties (6.42%).

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 joint ventures.

The Company and its consolidated subsidiaries as at December 31, 2018 and 2017 are as follows:

| Name | Location | Immediate controlling party | Percentage of ownership | | | | | |
|--|-----------|-----------------------------|-------------------------|------------|---------|-------------|------------|---------|
| | | | 2018 | | | 2017 | | |
| | | | The Company | Subsidiary | Total | The Company | Subsidiary | Total |
| Orion Corporation | Korea | The Ultimate Parent Company | - | - | - | - | - | - |
| PAN Orion Corp. Limited. | Hong Kong | Orion Corporation | 95.15% | - | 95.15% | 95.15% | - | 95.15% |
| Orion International Euro LLC. | Russia | Orion Corporation | 100.00% | - | 100.00% | 100.00% | - | 100.00% |
| Orion Food VINA Co., Ltd. | Vietnam | Orion Corporation | 100.00% | - | 100.00% | 100.00% | - | 100.00% |
| Orion Nutritionals Private Ltd. ¹ | India | Orion Corporation | 100.00% | - | 100.00% | - | - | - |
| PT.Orion Food Indonesia ² | Indonesia | Orion Corporation | - | - | - | 83.33% | 16.67% | 100.00% |
| Orion Food Co., Ltd. | China | PAN Orion Corp. Limited. | - | 100.00% | 100.00% | - | 100.00% | 100.00% |
| Orion Food (Shanghai) Co., Ltd. | China | PAN Orion Corp. Limited. | - | 100.00% | 100.00% | - | 100.00% | 100.00% |
| Orion Food Guangzhou Co., Ltd. | China | PAN Orion Corp. Limited. | - | 100.00% | 100.00% | - | 100.00% | 100.00% |
| Orion Food (Shen Yang) Co., Ltd. | China | PAN Orion Corp. Limited. | - | 100.00% | 100.00% | - | 100.00% | 100.00% |
| Orion (Bei Tun) Agro Processing Co., Ltd. ³ | China | Orion Food Co., Ltd. | - | 100.00% | 100.00% | - | 100.00% | 100.00% |

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

| Name | Location | Immediate controlling party | Percentage of ownership | | | | | |
|---------------------------------|-----------|---|-------------------------|------------|---------|-------------|------------|---------|
| | | | 2018 | | | 2017 | | |
| | | | The Company | Subsidiary | Total | The Company | Subsidiary | Total |
| Orion Agro Co., Ltd. | China | Orion Food Co., Ltd. | - | 100.00% | 100.00% | - | 100.00% | 100.00% |
| Orion Agro DuoLun Co., Ltd. | China | Orion Food Co., Ltd | - | 100.00% | 100.00% | - | 100.00% | 100.00% |
| STELLA WAY LIMITED ⁴ | Hong Kong | Orion Food Co., Ltd | - | - | - | - | 100.00% | 100.00% |
| LANGFANG IPAK Co., Ltd. | China | Orion Food Co., Ltd | - | 100.00% | 100.00% | - | 100.00% | 100.00% |
| Orion Agro BeiTun Co. Ltd | China | Orion (Bei Tun) Agro Processing Co., Ltd. | - | 100.00% | 100.00% | - | 100.00% | 100.00% |

¹ In 2018, Orion Nutritionals Private Ltd. was established.

² In 2018, PT. Orion Food Indonesia went through liquidation.

³ In 2018, Orion(Bei Tun) Agro Processing Co.,Ltd. was sold to Orion Food Co., Ltd. by PAN Orion Corp. Limited.

⁴ In 2018, STELLA WAY LIMITED went through liquidation.

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Financial information of the Company and its consolidated subsidiaries as at December 31, 2018 and 2017 and for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 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 | Total comprehensive income (loss) |
| Orion Corporation | Manufacturing and selling confectioneries | ₩ 1,163,673 | ₩ 465,777 | ₩ 697,896 | ₩ 711,902 | ₩ 70,765 | ₩ 69,491 |
| 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) |
| PT. Orion Food Indonesia ² | Selling confectioneries | - | - | - | - | (7) | (7) |
| Orion Food Co., Ltd. ³ | Manufacturing and selling confectioneries | 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 Co., Ltd. | Processing the agricultural products | 33,434 | 452 | 32,982 | 9,262 | (501) | (501) |
| Orion Agro 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) |
| STELLA WAY LIMITED ⁴ | Advising on investment | - | - | - | - | - | - |
| LANGFANG IPAK Co., Ltd. | Manufacturing pulp and paper | 22,252 | 4,834 | 17,418 | 11,940 | (926) | (926) |
| Orion Agro BeiTun Co. Ltd | Harvesting and selling the agricultural products | 1,309 | 634 | 675 | 3,544 | (876) | (876) |
| Total | | ₩ 3,173,969 | ₩ 1,067,058 | ₩ 2,106,911 | ₩ 2,452,792 | ₩ 289,163 | ₩ 287,889 |

¹ Sales of PAN Orion Corp. Limited are dividends received from Orion Food Co., Ltd. in 2018.

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

³ Sales of Orion Food Co., Ltd. include dividends received from Orion Agro Co., Ltd. in 2018.

⁴ STELLA WAY LIMITED went through liquidation in 2018 and the amount stated above presents financial information before the liquidation.

Above summarized financial information is based on the separate financial statements.

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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 | Total comprehensive income (loss) | |
| Orion Corporation | Manufacturing and selling confectioneries | ₩ 1,138,455 | ₩ 486,341 | ₩ 652,114 | ₩ 393,303 | ₩ 34,264 | ₩ 34,816 | |
| PAN ORION Corp. Limited | Holding company | 290,601 | 189,220 | 101,381 | - | (4,223) | (4,223) | |
| Orion International Euro LLC | Manufacturing and selling confectioneries | 72,475 | 15,644 | 56,831 | 46,897 | 4,648 | 4,648 | |
| Orion Food VINA Co., Ltd. | Manufacturing and selling confectioneries | 183,136 | 35,594 | 147,542 | 127,548 | 14,400 | 14,400 | |
| PT. Orion Food Indonesia | Selling confectioneries | 135 | 17 | 118 | - | (52) | (52) | |
| Orion Food Co., Ltd. | Manufacturing and selling confectioneries | 662,291 | 162,989 | 499,302 | 517,246 | 2,346 | 2,346 | |
| Orion Food(Shanghai) Co., Ltd. | Manufacturing confectioneries | 243,359 | 26,536 | 216,823 | 99,944 | 13,058 | 13,058 | |
| Orion Food Guangzhou Co., Ltd. | Manufacturing confectioneries | 229,485 | 97,164 | 132,321 | 71,658 | 10,412 | 10,412 | |
| Orion Food (Shen Yang) Co., Ltd. | Manufacturing confectioneries | 175,166 | 83,249 | 91,917 | 42,474 | 4,805 | 4,805 | |
| Orion(Bei Tun) Agro Processing Co., Ltd. | Processing the agricultural products | 25,740 | 8,449 | 17,291 | 3,668 | (1,044) | (1,044) | |
| Orion Agro BeiTun Co. Ltd | Harvesting and selling the agricultural products | 1,294 | 3,845 | (2,551) | 2,883 | (1,356) | (1,356) | |
| Orion Agro Co., Ltd. | Manufacturing food and beverages | 15,245 | 573 | 14,672 | 5,474 | 1,293 | 1,293 | |
| Orion Agro DuoLun Co., Ltd. | Processing the agricultural products | 2,361 | 88 | 2,273 | 3,047 | 338 | 338 | |
| STELLA WAY LIMITED | Advising on investment | 25,574 | - | 25,574 | - | (53) | (53) | |
| LANGFANG IPAK Co., Ltd. | Manufacturing pulp and paper | 20,374 | 1,950 | 18,424 | 10,269 | (320) | (320) | |
| Total | | ₩ 3,085,691 | ₩ 1,111,659 | ₩ 1,974,032 | ₩ 1,324,411 | ₩ 78,516 | ₩ 79,068 | |

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 the statement of comprehensive income for the seven-month period ended December 31, 2017 were adjusted.

Above summarized financial information is based on the separate financial statements.

Subsidiaries newly included in the consolidation for the year ended December 31, 2018:

| Subsidiary | Country | Reason |
|---------------------------------|---------|---|
| Orion Nutritionals Private Ltd. | India | Newly acquired by the Ultimate Parent Company |

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2. Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

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

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

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
- investments in joint ventures
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets.

2.2 Functional and presentation currency

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

2.3 Use of estimates and judgments

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and 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

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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 9 : Goodwill
- Note 11 : Investments in Joint ventures
- Note 15 : Trade and other receivables
- Note 25 : Measurement of defined benefit obligations for employees
- Note 26 : Estimation of provision for warranty
- Note 34 : Deferred tax asset(liability)
- Note 36 : Financial commitments and contingencies

Income tax on the Group's taxable income is calculated by applying the tax and taxation decisions of various countries, so there is uncertainty in estimating the final tax effect(Note 34). If certain portion of the taxable income is not used for investments, increase in wages, or dividends, 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. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

(b) Measurement of fair values

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

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

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

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

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

- Note 33 : Financial Instruments by categories and Financial Risk Management

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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 amendment and enactment do not have a significant 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.

- 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 40 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 for prior reporting period have been restated. See Note 40 for further details on the impact of the application of the standard.

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

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2018 and have not been early adopted by the Group are set out below.

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- 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.

- 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 January 1, 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.

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- 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 January 1, 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 January 1, 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.

- 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.

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4. Significant Accounting Policies

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

4.1 Operating segments

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

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

4.2 Basis of consolidation

(a) Business combination

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

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

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

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

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

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

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

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(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 interests in joint ventures.

Interests in joint ventures 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.

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 sale of related goods is recognized.

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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

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

- 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.

(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 35 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 24).

(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.

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.

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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 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.

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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> |
|----------------------------|-----------------------------|
| Rights to use facility | Indefinite |
| Industrial property rights | 5~10 |
| Other | 5 |

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

(a) Research and development

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.

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

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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.

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

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

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished; 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.

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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.

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

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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.

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

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the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Company measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest.

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

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.

- 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.

- 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 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.

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

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5. Non-Controlling Interests

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

Major consolidated subsidiaries are summarized as follows:

| Subsidiary | Location | Non-controlling interests percentage | |
|-------------------------|-----------|--------------------------------------|-------|
| | | 2018 | 2017 |
| PAN Orion Corp. Limited | Hong Kong | 4.85% | 4.85% |

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

(In thousands of Korean won)

| Subsidiary | Profit allocated to non-controlling interests | Cumulative non-controlling interests | Dividends paid to non-controlling interests |
|-------------------------|---|--------------------------------------|---|
| PAN Orion Corp. Limited | ₩ 3,174,257 | ₩ 38,992,816 | ₩ - |

Financial position and financial performance:

(In thousands of Korean won)

| Subsidiary | PAN Orion Corp. Limited | Orion Food Co., Ltd. | Orion Food (Shanghai) Co., Ltd. | Orion Food Guangzhou Co., Ltd. | Orion Food (Shen Yang) Co., Ltd. |
|----------------------------------|-------------------------|----------------------|---------------------------------|--------------------------------|----------------------------------|
| Current assets | ₩ 6,657,159 | ₩ 287,369,994 | ₩ 112,235,756 | ₩ 24,466,828 | ₩ 25,081,658 |
| Non-current assets | 266,362,293 | 427,077,594 | 160,812,710 | 195,644,045 | 150,627,529 |
| Current liabilities | 102,585,482 | 225,727,226 | 24,238,419 | 67,383,312 | 71,004,286 |
| Non-current liabilities | 16,952,880 | 21,237,291 | 11,073,655 | 9,738,435 | 4,855,702 |
| Revenue | 99,840,000 | 942,631,940 | 176,595,494 | 107,608,577 | 78,550,354 |
| Profit(loss) | 61,362,063 | 72,232,612 | 22,586,614 | 11,642,703 | 8,620,867 |
| Total comprehensive income(loss) | 61,362,063 | 72,232,612 | 22,586,614 | 11,642,703 | 8,620,867 |

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The company owns 95.15% shares of PAN Orion Corp. Ltd. Pan Orion Corp. Ltd owns 100% shares of 9 companies including Orion Food Co., Ltd. In addition to the above significant subsidiaries, 4 companies including Orion(Bei Tun) Agro Processing Co., Ltd are not indicated because their non-controlling interests are not material.

Cash flow:

(In thousands of Korean won)

| Subsidiary | PAN Orion Corp. Limited | Orion Food Co., Ltd. | Orion Food(Shanghai) Co., Ltd. | Orion Food Guangzhou Co., Ltd. | Orion Food (Shen Yang) Co., Ltd. |
|--|--------------------------------|-----------------------------|---------------------------------------|---------------------------------------|---|
| Cash flows from operating activities | ₩ 80,972,876 | ₩ 232,074,746 | ₩ 34,295,898 | ₩ 27,289,019 | ₩ 18,781,507 |
| Cash flows from investing activities | 19,701,940 | (41,385,660) | (31,951,439) | (3,089,789) | (5,123,090) |
| Cash flows from financing activities | (93,859,823) | (126,088,014) | - | (24,165,371) | (13,145,600) |
| Effect of exchange rate fluctuations on cash held | (2,892,220) | (1,448,644) | (49,161) | (6,832) | (14,918) |
| Net increase (decrease) in cash and cash equivalents | 3,922,773 | 63,152,428 | 2,295,297 | 27,027 | 497,899 |

Summarized financial information of each company is based on its separate financial statements.

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6. Operating Segments

The Group has a confectionaries segment which is the Group's strategic holdings segment unit. The Group's CEO reviews internal management reports on at least a quarterly basis.

Segment results for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

(In thousands of Korean won)

| | 2018 | | |
|---------------------------|------------------------|--------------------|---------------------------|
| | Confectioneries | Elimination | Consolidated Total |
| Total segment sales | ₩ 2,443,169,883 | ₩ (516,221,994) | ₩ 1,926,947,889 |
| Less: Inter segment sales | (516,221,994) | 516,221,994 | - |
| External sales | 1,926,947,889 | - | 1,926,947,889 |
| Depreciation | 117,883,987 | (145,783) | 117,738,204 |
| Profit(loss) for the year | 282,603,436 | (428,407) | 282,175,029 |

(In thousands of Korean won)

| | 2017 | | |
|---------------------------|------------------------|--------------------|---------------------------|
| | Confectioneries | Elimination | Consolidated Total |
| Total segment sales | ₩ 1,324,410,545 | ₩ (251,127,326) | ₩ 1,073,283,219 |
| Less: Inter segment sales | (251,127,326) | 251,127,326 | - |
| External sales | 1,073,283,219 | - | 1,073,283,219 |
| Depreciation | 65,888,405 | (85,572) | 65,802,833 |
| Profit(loss) for the year | 110,650,414 | (3,223,801) | 107,426,613 |

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

(In thousands of Korean won)

| | 2018 | | |
|--------------------------------|------------------------|--------------------|---------------------------|
| | Confectioneries | Elimination | Consolidated Total |
| Total assets | ₩ 3,173,969,916 | ₩ (822,619,254) | ₩ 2,351,350,662 |
| Total liabilities | 1,067,057,157 | (160,248,675) | 906,808,482 |
| Investments in joint ventures | 30,383,314 | - | 30,383,314 |
| Increase of non-current assets | (17,216,330) | (1,213,551) | (18,429,881) |

(In thousands of Korean won)

| | 2017 | | |
|--------------------------------|------------------------|--------------------|---------------------------|
| | Confectioneries | Elimination | Consolidated Total |
| Total assets | ₩ 3,085,690,541 | ₩ (827,692,621) | ₩ 2,257,997,920 |
| Total liabilities | 1,111,658,063 | (198,564,585) | 913,093,478 |
| Investments in joint ventures | 23,925,417 | - | 23,925,417 |
| Increase of non-current assets | 12,956,498 | 1,510,742 | 14,467,240 |

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

Information on regional sales for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 is as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|-------------------------------------|------------------------|------------------------|
| Domestic | ₩ 698,177,026 | ₩ 385,596,227 |
| China | 933,317,492 | 516,307,513 |
| Other | <u>295,453,371</u> | <u>171,379,479</u> |
| Total | ₩ <u>1,926,947,889</u> | ₩ <u>1,073,283,219</u> |

Information on regional non-current assets as at December 31, 2018 and 2017 is as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|-------------------------------------|------------------------|------------------------|
| Domestic | ₩ 696,305,532 | ₩ 688,303,758 |
| China | 888,872,504 | 936,672,594 |
| Other | <u>170,247,995</u> | <u>148,879,560</u> |
| Total | ₩ <u>1,755,426,031</u> | ₩ <u>1,773,855,912</u> |

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 year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | | | |
|-------------------------------------|------------------------|-----------------|--------------------|------------------------|
| | <u>Sale of goods</u> | <u>Royalty</u> | <u>Other</u> | <u>Total</u> |
| Recognized at a point in time | ₩ 1,921,996,015 | ₩ - | ₩ 4,932,119 | ₩ 1,926,928,134 |
| Recognized over time | <u>-</u> | <u>19,754</u> | <u>-</u> | <u>19,754</u> |
| | ₩ <u>1,921,996,015</u> | ₩ <u>19,754</u> | ₩ <u>4,932,119</u> | ₩ <u>1,926,947,888</u> |

| <i>(In thousands of Korean won)</i> | <u>2017</u> | | | |
|-------------------------------------|------------------------|----------------|--------------------|------------------------|
| | <u>Sale of goods</u> | <u>Royalty</u> | <u>Other</u> | <u>Total</u> |
| Recognized at a point in time | ₩ 1,070,662,363 | ₩ - | ₩ 2,620,856 | ₩ 1,073,283,219 |
| Recognized over time | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | ₩ <u>1,070,662,363</u> | ₩ <u>-</u> | ₩ <u>2,620,856</u> | ₩ <u>1,073,283,219</u> |

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. Property, Plant and Equipment

Changes in property, plant and equipment for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

(In thousands of Korean won)

| | 2018 | | | | | | |
|--|---------------|-----------------|----------------|-----------------|----------------|--------------------------|-----------------|
| | Land | Buildings | Structures | Machinery | Others | Construction in-progress | Total |
| Acquisition cost | | | | | | | |
| Balance at January 1, 2018 | ₩ 204,083,753 | ₩ 681,457,743 | ₩ 18,205,105 | ₩ 1,321,180,822 | ₩ 145,037,232 | ₩ 66,402,422 | ₩ 2,436,367,077 |
| Additions | 41,337 | 360,917 | 101,038 | 14,336,199 | 3,942,684 | 101,299,600 | 120,081,775 |
| Disposals | (618,971) | (5,016,126) | (3,479) | (17,037,423) | (9,765,065) | - | (32,441,064) |
| Others ¹ | (133,986) | 28,465,320 | 559,707 | 93,790,609 | 2,933,919 | (141,936,202) | (16,320,633) |
| Balance at December 31, 2018 | ₩ 203,372,133 | ₩ 705,267,854 | ₩ 18,862,371 | ₩ 1,412,270,207 | ₩ 142,148,770 | ₩ 25,765,820 | ₩ 2,507,687,155 |
| Accumulated depreciation and impairment | | | | | | | |
| Balance at January 1, 2018 | ₩ - | ₩ (111,214,721) | ₩ (11,541,910) | ₩ (555,642,442) | ₩ (85,195,644) | ₩ - | ₩ (763,594,717) |
| Depreciation | - | (16,034,538) | (952,993) | (85,771,144) | (12,235,087) | - | (114,993,762) |
| Disposals | - | 869,875 | 2,175 | 9,907,947 | 5,532,096 | - | 16,312,093 |
| Others ¹ | - | 519,696 | 137,318 | (469,067) | 381,060 | - | 569,007 |
| Balance at December 31, 2018 | ₩ - | ₩ (125,859,688) | ₩ (12,355,410) | ₩ (631,974,706) | ₩ (91,517,575) | ₩ - | ₩ (861,707,379) |
| Book amount | | | | | | | |
| Balance at January 1, 2018 | ₩ 204,083,753 | ₩ 570,243,022 | ₩ 6,663,195 | ₩ 765,538,380 | ₩ 59,841,588 | ₩ 66,402,422 | ₩ 1,672,772,360 |
| Balance at December 31, 2018 | ₩ 203,372,133 | ₩ 579,408,166 | ₩ 6,506,961 | ₩ 780,295,501 | ₩ 50,631,195 | ₩ 25,765,820 | ₩ 1,645,979,776 |

¹ Others mainly include fluctuation due to foreign currency translation of foreign operations.

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(In thousands of Korean won)

| | 2017 | | | | | | |
|--|----------------------|------------------------|-----------------------|------------------------|-----------------------|---------------------------------|------------------------|
| | <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 June 1, 2017 | ₩ 206,500,778 | ₩ 663,459,853 | ₩ 17,992,111 | ₩ 1,286,793,676 | ₩ 150,270,877 | ₩ 56,784,310 | ₩ 2,381,801,605 |
| Additions | 1,307,916 | 2,532,030 | 210,800 | 7,283,243 | 2,069,712 | 83,997,091 | 97,400,792 |
| Disposals | (5,454,116) | (3,303,219) | (24,954) | (4,393,951) | (7,911,593) | - | (21,087,833) |
| Others ¹ | 1,729,175 | 18,769,079 | 27,148 | 34,246,722 | 608,236 | (74,378,979) | (18,998,619) |
| Transferred to asset held for sale | - | - | - | (2,748,868) | - | - | (2,748,868) |
| Balance at December 31, 2017 | ₩ <u>204,083,753</u> | ₩ <u>681,457,743</u> | ₩ <u>18,205,105</u> | ₩ <u>1,321,180,822</u> | ₩ <u>145,037,232</u> | ₩ <u>66,402,422</u> | ₩ <u>2,436,367,077</u> |
| Accumulated depreciation and impairment | | | | | | | |
| Balance at June 1, 2017 | ₩ - | ₩ (104,425,370) | ₩ (11,199,110) | ₩ (516,206,044) | ₩ (84,209,035) | ₩ - | ₩ (716,039,559) |
| Depreciation | - | (8,829,494) | (479,974) | (47,132,692) | (7,747,464) | - | (64,189,624) |
| Disposals | - | 1,518,132 | 22,211 | 2,942,795 | 6,147,241 | - | 10,630,379 |
| Others ¹ | - | 522,011 | 114,963 | 3,979,657 | 613,614 | - | 5,230,245 |
| Transferred to asset held for sale | - | - | - | 773,842 | - | - | 773,842 |
| Balance at December 31, 2017 | ₩ <u>-</u> | ₩ <u>(111,214,721)</u> | ₩ <u>(11,541,910)</u> | ₩ <u>(555,642,442)</u> | ₩ <u>(85,195,644)</u> | ₩ <u>-</u> | ₩ <u>(763,594,717)</u> |
| Book amount | | | | | | | |
| Balance at June 1, 2017 | ₩ <u>206,500,778</u> | ₩ <u>559,034,483</u> | ₩ <u>6,793,001</u> | ₩ <u>770,587,632</u> | ₩ <u>66,061,842</u> | ₩ <u>56,784,310</u> | ₩ <u>1,665,762,046</u> |
| Balance at December 31, 2017 | ₩ <u>204,083,753</u> | ₩ <u>570,243,022</u> | ₩ <u>6,663,195</u> | ₩ <u>765,538,380</u> | ₩ <u>59,841,587</u> | ₩ <u>66,402,423</u> | ₩ <u>1,672,772,360</u> |

¹ Others mainly include fluctuation due to foreign currency translation of foreign operations.

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As at December 31, 2018 and 2017, the Group has made purchase agreements with respect to buildings, machinery and equipment and It is expected to spend ₩ 47,695 million (2017: ₩ 46,058 million) in the future.

Borrowing costs of ₩ 55,495 thousand and ₩ 8,746 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 and the seven-month period ended December 31, 2017, respectively. The capitalization rates were 2.51% and 2.99% for the year ended December 31, 2018 and the seven-month period ended December 31, 2017, respectively.

As at December 31, 2018 and 2017, there is leasehold rights of ₩ 50 million relating deposits received on the group's property, especially the building.

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 ₩ 2,116,616 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 loss and liability arising from products, gas accidents, directors' and officers' liability and automobile accidents.

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8. Intangible Assets

Changes in intangible assets for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

(In thousands of Korean won)

| | 2018 | | | |
|--|-----------------------------------|---------------------------------------|--|----------------|
| | <u>Rights to use facility</u> | <u>Industrial property rights</u> | <u>Other intangible assets</u> | <u>Total</u> |
| Acquisition cost | | | | |
| Balance at January 1, 2018 | ₩ 18,262,194 | ₩ 19,758,387 | ₩ 13,535,721 | ₩ 51,556,302 |
| Additions | - | 1,063,854 | 3,076,337 | 4,140,191 |
| Disposals | (2,753,640) | - | (200,385) | (2,954,025) |
| Others ¹ | 768,837 | (9,522) | (676,511) | 82,804 |
| Balance at December 31, 2018 | ₩ 16,277,391 | ₩ 20,812,719 | ₩ 15,735,162 | ₩ 52,825,272 |
| Accumulated amortization and impairment | | | | |
| Balance at January 1, 2018 | ₩ (3,543,927) | ₩ (12,537,499) | ₩ (5,849,629) | ₩ (21,931,055) |
| Amortization | - | (1,171,209) | (1,573,234) | (2,744,443) |
| Impairment loss | (629,010) | - | - | (629,010) |
| Reversal of impairment | 448,817 | - | - | 448,817 |
| Disposals | 722,328 | - | 194,391 | 916,719 |
| Others ¹ | - | 3,766 | 79,830 | 83,596 |
| Balance at December 31, 2018 | ₩ (3,001,792) | ₩ (13,704,942) | ₩ (7,148,642) | ₩ (23,855,376) |
| Book amount | | | | |
| Balance at January 1, 2018 | ₩ 14,718,267 | ₩ 7,220,888 | ₩ 7,686,092 | ₩ 29,625,247 |
| Balance at December 31, 2018 | ₩ 13,275,599 | ₩ 7,107,777 | ₩ 8,586,520 | ₩ 28,969,896 |

¹ Others mainly include fluctuation due to foreign currency translation of foreign operations.

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(In thousands of Korean won)

| | 2017 | | | |
|--|-----------------------------------|---------------------------------------|--|----------------|
| | <u>Rights to use facility</u> | <u>Industrial property rights</u> | <u>Other intangible assets</u> | <u>Total</u> |
| Acquisition cost | | | | |
| Balance at June 1, 2017 | ₩ 19,058,758 | ₩ 19,189,821 | ₩ 12,219,109 | ₩ 50,467,688 |
| Additions | 33,463 | 562,909 | 1,348,950 | 1,945,322 |
| Disposals | (822,315) | - | - | (822,315) |
| Others ¹ | (7,712) | 5,657 | (32,338) | (34,393) |
| Balance at December 31, 2017 | ₩ 18,262,194 | ₩ 19,758,387 | ₩ 13,535,721 | ₩ 51,556,302 |
| Accumulated amortization and impairment | | | | |
| Balance at June 1, 2017 | ₩ (3,621,727) | ₩ (11,694,332) | ₩ (5,134,390) | ₩ (20,450,449) |
| Amortization | - | (837,510) | (775,700) | (1,613,210) |
| Reversal of impairment | 41,089 | - | - | 41,089 |
| Disposals | 36,711 | - | - | 36,711 |
| Others ¹ | - | (5,657) | 60,461 | 54,804 |
| Balance at December 31, 2017 | ₩ (3,543,927) | ₩ (12,537,499) | ₩ (5,849,629) | ₩ (21,931,055) |
| Book amount | | | | |
| Balance at June 1, 2017 | ₩ 15,437,031 | ₩ 7,495,489 | ₩ 7,084,719 | ₩ 30,017,239 |
| Balance at December 31, 2017 | ₩ 14,718,267 | ₩ 7,220,888 | ₩ 7,686,092 | ₩ 29,625,247 |

¹ Others mainly include fluctuation due to foreign currency translation of foreign operations.

As at December 31, 2018 and 2017, the Group has made purchase agreements with respect to other intangible asset and it is expected to spend ₩ 772 million (2017: ₩ 417 million) in the future.

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9. Goodwill

Changes in goodwill for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Balance at beginning of year | ₩ 22,754,334 | ₩ 24,058,250 |
| Fluctuations due to foreign currency translation | <u>(56,664)</u> | <u>(1,303,916)</u> |
| Balance at end of year | <u>₩ 22,697,670</u> | <u>₩ 22,754,334</u> |

Impairment tests for goodwill

| <i>(In thousands of Korean won)</i> | | | | | |
|--------------------------------------|---------------------|---------------------|-------------------|--|--|
| CGUs | <u>2018</u> | <u>2017</u> | Acquisitor | Description | |
| Orion Corp. | ₩ 12,335,100 | ₩ 12,335,100 | Orion Corp. | Transferred when Orion Snack International Corp. was merged into Orion Corp. | |
| LANGFANG IPACK Co., Ltd ¹ | 10,362,570 | 10,419,234 | Orion Corp. | Acquired in a business combination with LANGFANG IPACK Co., Ltd | |
| | <u>₩ 22,697,670</u> | <u>₩ 22,754,334</u> | | | |

¹ The amount represents goodwill arising from business combination with STELLA WAY LIMITED (including LANGFANG IPACK Co., Ltd) and the CGU was reallocated to LANGFANG IPACK Co., Ltd due to liquidation of STELLA WAY LIMITED during the year ended December 31, 2018.

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

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

| | <u>Gross Profit Margin¹</u> | <u>Growth rate of sale²</u> | <u>Permanant growth rate³</u> | <u>Pre-tax rate⁴</u> |
|------------------------|--|--|--|---------------------------------|
| Orion Corp. | 46.78% | 4.26% | 1.00% | 10.51% |
| Langfang IPAK Co., Ltd | 15.04% | 28.53% | 1.50% | 11.44% |

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

² This is the average growth rate of sale for the next five years.

³ This is the permanant growth rate expected after 5 years later.

⁴ This is the pre-tax rate applied to the expected future cash flows.

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

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10. Investment Property

Changes in investment property for the year ended December 31, 2018 are as follows:

(In thousands of Korean won)

| | 2018 | | |
|--|-------------|------------------|--------------|
| | <u>Land</u> | <u>Buildings</u> | <u>Total</u> |
| Acquisition cost | | | |
| Balance at January 1, 2018 | ₩ - | ₩ - | ₩ - |
| Transfers | - | 6,650,943 | 6,650,943 |
| Others ¹ | - | (145,489) | (145,489) |
| Balance at December 31, 2018 | ₩ - | ₩ 6,505,454 | ₩ 6,505,454 |
| Accumulated depreciation and impairment | | | |
| Balance at January 1, 2018 | ₩ - | ₩ - | ₩ - |
| Depreciation | - | (79,943) | (79,943) |
| Transfers | - | (139,530) | (139,530) |
| Others ¹ | - | 4,801 | 4,801 |
| Balance at December 31, 2018 | ₩ - | ₩ (214,672) | ₩ (214,672) |
| Book amount | | | |
| Balance at January 1, 2018 | ₩ - | ₩ - | ₩ - |
| Balance at December 31, 2018 | ₩ - | ₩ 6,290,782 | ₩ 6,290,782 |

¹ Others mainly include fluctuation due to foreign currency translation of foreign operations.

11. Investments in Joint Ventures

Investments in joint ventures as at December 31, 2018 and 2017 are summarized as follows:

(In thousands of Korean won)

| | <u>Location</u> | <u>2018</u> | | <u>2017</u> | |
|--|-----------------|--------------------------------|-------------------|--------------------------------|-------------------|
| | | <u>Percentage of ownership</u> | <u>Book value</u> | <u>Percentage of ownership</u> | <u>Book value</u> |
| Delfi-Orion Pte Ltd. | Singapore | 50.00% | ₩ 810,431 | 50.00% | ₩ 889,221 |
| Orion Nonghyup Agri, inc. ¹ | Domestic | 49.00% | 29,572,883 | 49.00% | 23,036,196 |
| | | | ₩ 30,383,314 | | ₩ 23,925,417 |

¹ 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 arrangements

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 joint ventures for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

(In thousands of Korean won)

| Name | 2018 | | | | |
|---------------------------|------------------------------|--------------------|--|--------------------|------------------------|
| | Balance at beginning of year | Acquisition | Share of profit (loss) of joint ventures | Other ¹ | Balance at end of year |
| 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>₩ 23,925,417</u> | <u>₩ 7,000,000</u> | <u>₩ (1,047,757)</u> | <u>₩ 505,654</u> | <u>₩ 30,383,314</u> |

¹ Others mainly include fluctuation due to foreign currency translation of foreign operations.

(In thousands of Korean won)

| Name | 2017 | | | | |
|---------------------------|------------------------------|--------------------|--|--------------------|------------------------|
| | Balance at beginning of year | Acquisition | Share of profit (loss) of joint ventures | Other ¹ | Balance at end of year |
| Delfi-Orion Pte Ltd. | ₩ 1,003,844 | ₩ - | ₩ (71,488) | ₩ (43,135) | ₩ 889,221 |
| Orion Nonghyup Agri, inc. | 14,474,585 | 8,795,377 | (198,441) | (35,325) | 23,036,196 |
| | <u>₩ 15,478,429</u> | <u>₩ 8,795,377</u> | <u>₩ (269,929)</u> | <u>₩ (78,460)</u> | <u>₩ 23,925,417</u> |

¹ Others mainly include fluctuation due to foreign currency translation of foreign operations.

Summary of financial information of joint ventures is as follows:

(In thousands of Korean won)

| | 2018 | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------------|--------------------------|
| | Assets | Liabilities | Equity | Revenue | Loss for the year | Total comprehensive loss |
| 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) |

Financial information of 2018 represents financial position as at December 31, 2018 and financial performance for the year ended December 31, 2018.

(In thousands of Korean won)

| | 2017 | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------------|--------------------------|
| | Assets | Liabilities | Equity | Revenue | Loss for the year | Total comprehensive loss |
| Delfi-Orion Pte Ltd. | ₩ 2,247,651 | ₩ 469,207 | ₩ 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) |

Financial information of 2017 represents financial position as at December 31, 2017 and financial performance for the year ended December 31, 2017.

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The details of investments in 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 |
| 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 |

(In thousands of Korean won)

| Name | 2017 | | | |
|---------------------------|-------------|----------------------------|-----------------------------|-------------|
| | Net assets | Percentage of ownership(%) | Group's share of net assets | Book amount |
| 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 |

12. Financial Assets at Fair Value through Profit or Loss

Financial assets mandatorily measured at fair value through profit or loss include the following classes of financial assets:

(In thousands of Korean won)

| | 2018 | 2017 |
|---------|--------------|------|
| Current | | |
| WMP | ₩ 32,587,337 | ₩ - |

Amounts recognized in profit or loss related to financial assets at fair value through profit or loss for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

(In thousands of Korean won)

| | 2018 | 2017 |
|--|-----------|------|
| Gain (loss) from financial assets at fair value through profit or loss | ₩ 573,507 | ₩ - |

13. 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 | ₩ 8,768,733 | ₩ - | ₩ 7,180,786 | ₩ - |
| Prepaid expenses | 4,263,571 | 42,850,912 | 6,810,693 | 45,558,200 |
| Others | 2,130,715 | 951,351 | 8,519,796 | 1,786,153 |
| | ₩ 15,163,019 | ₩ 43,802,263 | ₩ 22,511,275 | ₩ 47,344,353 |

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14. 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 |
| Others | | <u>2,630,237</u> | | <u>2,481,752</u> |
| | ₩ | <u>156,569,044</u> | ₩ | <u>150,686,985</u> |

The amount of inventories recognized as an expense and included as part of cost of sales during 2018 is ₩ 758,114 million (2017: ₩ 405,387 million).

15. Trade and Other Receivables

As explained in Note 2, the Group has applied Korean IFRS 1109 *Financial Instruments* from January 1, 2018. See Note 40 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 | ₩ 161,666,782 | ₩ - | ₩ 123,973,389 | ₩ - |
| Less: allowance for bad debts | (1,974,835) | - | (2,056,661) | - |
| Other receivables | 7,026,939 | - | 1,927,790 | - |
| Less: allowance for bad debts | (56,817) | - | (74,900) | - |
| Accrued income | 80,297 | - | 5,801,464 | - |
| Guarantee deposits | 1,901,930 | 834,214 | 1,546,604 | 1,178,378 |
| Loans | <u>129,884</u> | <u>-</u> | <u>194,502</u> | <u>-</u> |
| | ₩ <u>168,774,180</u> | ₩ <u>834,214</u> | ₩ <u>131,312,188</u> | ₩ <u>1,178,378</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 35.

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16. 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 | ₩ 57,521 | ₩ 53,744 |
| Demand deposits | 184,561,577 | 101,552,549 |
| | <u>₩ 184,619,098</u> | <u>₩ 101,606,293</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> | <u>Details</u> |
|-------------------------------------|----------------|---------------------|------------------------------|
| Long-term deposits | ₩ 2,000 | ₩ 49,578 | Deposit for checking account |
| Short-term deposits | - | 50,731,500 | Collateral |
| Total | <u>₩ 2,000</u> | <u>₩ 50,781,078</u> | |

17. Capital stock

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 ordinary shares: | | |
| - Authorized | 480,000,000 | 480,000,000 |
| - Issued | 39,533,961 | 39,533,501 |
| Capital stock | ₩ 19,766,980,500 | 19,766,750,500 |
| Par value per share | ₩ 500 | 500 |

Cumulative participating preferred shares can be issued as non-voting registered shares 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 shares have been issued.

The Company is allowed to grant stock options within 15/100 of the total number of shares issued with the approval from the shareholders and within 3/100 of the total number of shares issued with the approval of the Board of Directors to its employees who contribute or are able to shares 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 22.

According to its Articles of Incorporation, the Company can issue convertible bonds and bonds with stock warrants up to the face value of ₩ 300 billion with the approval from the Board of Directors. As at December 31, 2018, no convertible bonds or bonds with stock warrants have been issued.

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18. Treasury Shares

The Group has 7,343 treasury shares as at December 31, 2018 with the acquisition cost of ₩ 604,361 thousand, which were odd-lot shares acquired at the market price resulted from spin-off. The Group intends to dispose of the treasury shares in the future depending on the market conditions.

19. Other Capital

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

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Changes from equity transactions | ₩ 624,451,038 | ₩ 624,451,038 |
| Exchange differences on translating foreign operations | (27,238,965) | (9,618,863) |
| Share of other comprehensive income of joint ventures | (88,495) | (90,206) |
| | <u>₩ 597,123,578</u> | <u>₩ 614,741,969</u> |

20. Reserves

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

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|-------------------------------------|--------------------|--------------------|
| Legal reserves | ₩ 8,977,129 | ₩ 2,066,770 |
| | <u>₩ 8,977,129</u> | <u>₩ 2,066,770</u> |

Legal reserves

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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21. Earnings per Share

Basic earnings per share

| <i>(In Korean won, except share information)</i> | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| Profit for the year attributable to owners of the Parent Company | ₩ 139,852,062,903 | ₩ 75,583,997,115 |
| Weighted-average number of ordinary shares | <u>39,526,308</u> | <u>39,527,496</u> |
| Basic earnings per share | ₩ <u>3,538</u> | ₩ <u>1,912</u> |

Weighted average number of ordinary shares

| <i>(In shares)</i> | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Beginning balance | 39,533,501 | 39,533,501 |
| Treasury shares | (7,343) | (6,005) |
| Exercise of stock options | <u>150</u> | <u>-</u> |
| Weighted average number of ordinary shares | <u>39,526,308</u> | <u>39,527,496</u> |

Diluted earnings per share

| <i>(In Korean won, except share information)</i> | <u>2018</u> | <u>2017</u> |
|---|-----------------------|-----------------------|
| Profit for the year attributable to owners of the Parent Company | ₩ 139,852,062,903 | ₩ 75,583,997,115 |
| Adjusted profit for the year attributable to owners of the Parent Company | 139,852,062,903 | 75,583,997,115 |
| Diluted weighted average number of ordinary shares | <u>39,528,206</u> | <u>39,529,732</u> |
| Diluted earnings per share | ₩ <u>3,538</u> | ₩ <u>1,912</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 | 39,526,308 | 39,527,496 |
| Effect of stock options | <u>1,898</u> | <u>2,236</u> |
| Diluted weighted average number of ordinary shares | <u>39,528,206</u> | <u>39,529,732</u> |

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22. Share-based Payments

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

(In Korean won, except number of shares)

| Arrangement | 2009.2.27 |
|---------------------------------------|------------------|
| The first grant quantity ¹ | 4,797 |
| Exercise quantity ¹ | (3,584) |
| Cancel quantity ¹ | (813) |
| Exercisable quantity ² | 2,171 |
| Exercise price ² | ₩ 14,980 |
| Date of maturity | 2019.2.27 |
| Vesting conditions | 3 years' service |

¹ This is a share-based payment arrangement given by Orion Holdings Co., Ltd. prior to the spin-off in 2017. After the spin-off, it is divided by the equity spin-off ratio of Orion Corporation.

² As at June 1, 2017, due to stock split-up of Orion Holdings Co., Ltd. the number of exercisable shares has been changed from 400 to 4,000 shares. The exercise price has been changed from ₩149,800 to ₩14,980. The number of options available for exercise at the end of the year is calculated by the equity spin-off ratio of Orion Corporation, less 460 shares of stock options exercised during the year ended December 31, 2018.

The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following and this information is prior to spin-off.

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

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23. 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> | 2018 | | 2017 | |
|-------------------------------------|----------------------|--------------------|----------------------|--------------------|
| | Current | Non-current | Current | Non-current |
| Trade payables | ₩ 82,504,984 | ₩ - | ₩ 68,347,164 | ₩ - |
| Other payables | 99,476,328 | 579,209 | 82,781,829 | 25,898 |
| Withholdings | 5,490,036 | - | 3,472,793 | - |
| Accrued expenses | 60,741,912 | - | 37,311,233 | - |
| Deposits received | 173,225 | 99,397 | 145,500 | 76,624 |
| | <u>₩ 248,386,485</u> | <u>₩ 678,606</u> | <u>₩ 192,058,519</u> | <u>₩ 102,522</u> |

24. 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 |
| Non-current | | | | |
| Debentures | ₩ 50,000,000 | ₩ 280,000,000 | ₩ - | ₩ 330,000,000 |
| Less discount | (13,586) | (448,412) | - | (673,937) |
| Long-term debts | 60,000 | 60,000 | 165,854,506 | 120,000 |
| Subtotal | <u>50,046,414</u> | <u>279,611,588</u> | <u>165,854,506</u> | <u>329,446,063</u> |
| Current | | | | |
| Short-term borrowings | 1,988,399 | - | 23,130,799 | - |
| Current portion of long-term debts | 103,329,824 | - | 81,313,035 | - |
| Subtotal | <u>105,318,223</u> | <u>-</u> | <u>104,443,834</u> | <u>-</u> |
| Total | <u>₩ 155,364,637</u> | <u>₩ 279,611,588</u> | <u>₩ 270,298,340</u> | <u>₩ 329,446,063</u> |

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

| <i>(In thousands of Korean won)</i> | <u>Maturity</u> | <u>Interest rate (%)</u> | | <u>2018</u> | | <u>2017</u> |
|-------------------------------------|-----------------|--------------------------|---|---------------------|---|--------------------|
| 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 |
| 103-1th | 2020-11-06 | 2.63 | | 50,000,000 | | 50,000,000 |
| 103-2th | 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> | <u>Maturity</u> | <u>Interest rate (%)</u> | <u>Currency</u> | | <u>2018</u> | | <u>2017</u> |
|---|-----------------|--------------------------|-----------------|---|-----------------|---|----------------------|
| Industrial Bank of Korea | 2018 | - | USD | ₩ | - | ₩ | 10,693,218 |
| | 2018 | - | USD | | - | | 32,251,963 |
| Korea Development Bank | 2018 | - | USD | | - | | 13,232,858 |
| | 2018 | - | USD | | - | | 7,485,253 |
| Woori Bank | 2018 | - | USD | | - | | 37,627,290 |
| DBS | 2018 | - | USD | | - | | 26,876,635 |
| KEB Hana Bank | 2018 | - | USD | | - | | 16,125,981 |
| Siheung Environmental Management Center | 2020 | - | KRW | | <u>120,000</u> | | <u>180,000</u> |
| | | | | | <u>120,000</u> | | <u>165,974,506</u> |
| Less: current portion | | | | | <u>(60,000)</u> | | <u>(165,854,506)</u> |
| | | | ₩ | | <u>60,000</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> | <u>Interest rate (%)</u> | <u>Currency</u> | | <u>2018</u> | <u>2017</u> |
|-------------------------------------|--------------------------|-----------------|---|--------------------|----------------------|
| | Libor 3M+0.3% | USD | ₩ | 549,889 | ₩ - |
| Kookmin Bank | Libor 3M+0.3% | EUR | | - | 642,290 |
| | Libor 1M+1.6% | USD | | 245,699 | - |
| Shinhan Bank | Libor 3M+0.3% | EUR | | 397,077 | 696,807 |
| | - | USD | | - | 209,691 |
| Hyundai Card | 1.44% | KRW | | 1,988,399 | 2,130,800 |
| KB Sec. | - | KRW | | - | 20,000,000 |
| Sumitomo Mitsui Banking Corporation | - | KRW | | - | 1,000,000 |
| | - | USD | | - | 8,570,910 |
| | - | USD | | - | 37,627,290 |
| Citi Bank | - | USD | | - | 17,201,046 |
| Korea Development Bank | Libor 3M+1.16% | USD | | 22,447,727 | - |
| | - | CNY | | - | 16,365,000 |
| Woori Bank | Libor 3M+0.85% | USD | | 28,059,659 | - |
| | Libor 3M+0.85% | USD | | 11,223,864 | - |
| DBS Bank | Libor 3M+0.85% | USD | | 6,734,318 | - |
| | 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 accounts and notes payable – trade, short-term borrowings, long-term debts and debentures as at December 31, 2018 and 2017:

| <i>(In thousands of Korean won)</i> | | | <u>2018</u> | | | |
|-------------------------------------|---|--------------------------|-------------------------|---------------------|------------------------------|--|
| <u>Asset</u> | <u>Lender</u> | <u>Type of borrowing</u> | <u>Borrowing amount</u> | <u>Book amount</u> | <u>Collateralized amount</u> | |
| Land and buildings | Siheung Environmental Management Center | General loan | ₩ 120,000 | ₩ 9,027,456 | ₩ 780,000 | |
| <i>(In thousands of Korean won)</i> | | | <u>2017</u> | | | |
| <u>Asset</u> | <u>Lender</u> | <u>Type of borrowing</u> | <u>Borrowing amount</u> | <u>Book amount</u> | <u>Collateralized amount</u> | |
| Land and buildings | Siheung Environmental Management Center | General loan | ₩ 180,000 | ₩ 9,052,168 | ₩ 780,000 | |
| Short-term financial deposits | Industrial Bank of Korea | General loan and others | 42,945,181 | 50,731,500 | 50,731,500 | |
| | | | ₩ <u>43,125,181</u> | ₩ <u>59,783,668</u> | ₩ <u>51,511,500</u> | |

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

| <i>(In thousands of Korean won)</i> | 2018 | | 2017 | |
|-------------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|
| | <u>Book amount</u> | <u>Fair value¹</u> | <u>Book amount</u> | <u>Fair value¹</u> |
| Short-term borrowings | ₩ 155,364,637 | ₩ 155,364,637 | ₩ 270,298,340 | ₩ 270,298,340 |
| Long-term borrowings | <u>279,611,588</u> | <u>280,024,573</u> | <u>329,446,063</u> | <u>330,123,635</u> |
| | <u>₩ 434,976,225</u> | <u>₩ 435,389,210</u> | <u>₩ 599,744,403</u> | <u>₩ 600,421,975</u> |

¹ The fair values of short-term borrowings equal to their book amounts as the impact of discounting is not significant. The fair values of long-term liabilities are based on discounted cash flows at the weighted average borrowing rates of 2.47% (2017: 2.52%) for long-term borrowings.

25. Employee Benefits

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

The retirement benefit expenses for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | 2018 | 2017 |
|---|---------------------|--------------------|
| Contributions to defined contribution plans | ₩ 1,025,690 | ₩ 562,467 |
| Expenses related to post-employment defined benefit plans | <u>10,995,535</u> | <u>6,696,727</u> |
| | <u>₩ 12,021,225</u> | <u>₩ 7,259,194</u> |

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Changes in net defined benefit liability (asset) for the year ended December 31, 2018 and the seven-month period ended December 31, 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 |
| Beginning balance | ₩ 69,364,957 | ₩ 64,175,493 | ₩ (69,553,493) | ₩ (58,522,480) | ₩ (188,536) | ₩ 5,653,013 |
| Included in profit or loss: | | | | | | |
| Current service costs | 11,009,123 | 6,736,509 | - | - | 11,009,123 | 6,736,509 |
| Interest costs (income) | 1,928,765 | 771,558 | (1,942,353) | (811,340) | (13,588) | (39,782) |
| | <u>12,937,888</u> | <u>7,508,067</u> | <u>(1,942,353)</u> | <u>(811,340)</u> | <u>10,995,535</u> | <u>6,696,727</u> |
| Included in other comprehensive income: | | | | | | |
| Remeasurements loss (gain) | | | | | | |
| - Actuarial loss (gain) arising from: | | | | | | |
| Experience adjustment | (660,293) | 408,220 | - | - | (660,293) | 408,220 |
| Demographic assumptions | 935,612 | (758,705) | - | - | 935,612 | (758,705) |
| Financial assumptions | 593,560 | (576,079) | - | - | 593,560 | (576,079) |
| - Return on plan assets excluding interest income | - | - | 655,207 | 145,184 | 655,207 | 145,184 |
| | <u>868,879</u> | <u>(926,564)</u> | <u>655,207</u> | <u>145,184</u> | <u>1,524,086</u> | <u>(781,380)</u> |
| Others: | | | | | | |
| Contributions paid by the employer | - | - | (12,640,000) | (11,265,000) | (12,640,000) | (11,265,000) |
| Transferred from a related party | 4,949,072 | 4,877,873 | (4,949,072) | (4,548,989) | - | 328,884 |
| Transferred to a related party | (1,924,209) | (250,005) | 1,924,209 | 250,005 | - | - |
| Benefits paid | (7,114,612) | (5,263,446) | 7,056,587 | 5,199,127 | (58,025) | (64,319) |
| Exchange differences on translating foreign operations | 4,112 | (6,384) | - | - | 4,112 | (6,384) |
| Other | - | (750,077) | - | - | - | (750,077) |
| | <u>(4,085,637)</u> | <u>(1,392,039)</u> | <u>(8,608,276)</u> | <u>(10,364,857)</u> | <u>(12,693,913)</u> | <u>(11,756,896)</u> |
| Ending balance | ₩ <u>79,086,087</u> | ₩ <u>69,364,957</u> | ₩ <u>(79,448,915)</u> | ₩ <u>(69,553,493)</u> | ₩ <u>(362,828)</u> | ₩ <u>(188,536)</u> |

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

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|-------------------------------------|---------------------|---------------------|
| Equity securities | ₩ 13,223,421 | ₩ 2,685,587 |
| Debt securities | 16,400,123 | 37,140,366 |
| Others | 49,825,371 | 29,727,540 |
| | <u>₩ 79,448,915</u> | <u>₩ 69,553,493</u> |

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

| | <u>2018</u> | <u>2017</u> |
|----------------------|-------------|-------------|
| Discount rate | 2.53% | 3.04% |
| Future salary growth | 6.37% | 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>2017</u> | |
|-------------------------------------|--------------------|--------------------|
| | <u>1% increase</u> | <u>1% decrease</u> |
| Discount rate | ₩ (3,994,325) | ₩ 4,468,893 |
| Future salary growth | 4,366,797 | (3,984,788) |

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 5.92 years as at December 31, 2018.

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

| <i>(In thousands of Korean won)</i> | <u>Within 1 year</u> | | <u>1-2 years</u> | | <u>2-5 years</u> | | <u>Beyond 5 years</u> | | <u>Total</u> | |
|-------------------------------------|----------------------|-------------|------------------|---------------|------------------|--|-----------------------|--|--------------|--|
| Benefit payments | ₩ 9,148,122 | ₩ 9,709,893 | ₩ 26,229,565 | ₩ 133,248,753 | ₩ 178,336,333 | | | | | |

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26. Other Liabilities

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

| <i>(In thousands of Korean won)</i> | 2018 | | 2017 | |
|-------------------------------------|---------------------|--------------------|---------------------|--------------------|
| | Current | Non-current | Current | Non-current |
| Advances received | ₩ 58,738,794 | ₩ - | ₩ 35,903,570 | ₩ - |
| Unearned revenue | 3,588 | 3,574 | 3,685,518 | 3,368 |
| Provision for warranty | 2,779,745 | - | 2,873,120 | - |
| Others | 1,317,709 | - | 629,201 | - |
| | <u>₩ 62,839,836</u> | <u>₩ 3,574</u> | <u>₩ 43,091,409</u> | <u>₩ 3,368</u> |

27. Operating lease

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

| <i>(In thousands of Korean won)</i> | 2018 | 2017 |
|---|---------------------|---------------------|
| Within one year | ₩ 9,485,305 | ₩ 10,194,641 |
| Later than one year and not later than five years | 15,322,087 | 25,389,819 |
| Later than five years | 4,022,546 | 3,760,437 |
| | <u>₩ 28,829,938</u> | <u>₩ 39,344,897</u> |

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28. Sales and Cost of Sales

Sales and cost of sales for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

(a) Revenue from contracts with customers

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|---------------------------------------|------------------------|------------------------|
| Revenue from contracts with customers | ₩ 1,926,947,889 | ₩ 1,073,283,219 |
| | <u>₩ 1,926,947,889</u> | <u>₩ 1,073,283,219</u> |

Details of revenue from contracts with customers for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | | | |
|-------------------------------------|------------------------|-----------------|--------------------|------------------------|
| | <u>Sale of goods</u> | <u>Royalty</u> | <u>Other</u> | <u>Total</u> |
| Recognized at a point in time | ₩ 1,921,996,016 | ₩ - | ₩ 4,932,119 | ₩ 1,926,928,135 |
| Recognized over time | - | 19,754 | - | 19,754 |
| | <u>₩ 1,921,996,016</u> | <u>₩ 19,754</u> | <u>₩ 4,932,119</u> | <u>₩ 1,926,947,889</u> |

| <i>(In thousands of Korean won)</i> | <u>2017</u> | | | |
|-------------------------------------|------------------------|----------------|--------------------|------------------------|
| | <u>Sale of goods</u> | <u>Royalty</u> | <u>Other</u> | <u>Total</u> |
| Recognized at a point in time | ₩ 1,070,662,363 | ₩ - | ₩ 2,620,856 | ₩ 1,073,283,219 |
| Recognized over time | - | - | - | - |
| | <u>₩ 1,070,662,363</u> | <u>₩ -</u> | <u>₩ 2,620,856</u> | <u>₩ 1,073,283,219</u> |

(b) Cost of sales

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|-------------------------------------|------------------------|----------------------|
| Sale of goods | ₩ 1,048,099,318 | ₩ 607,547,290 |
| Others | 1,875,808 | 1,157,833 |
| | <u>₩ 1,049,975,126</u> | <u>₩ 608,705,123</u> |

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29. Selling Expenses and General and Administrative Expenses

Details of selling expenses for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|-------------------------------------|----------------------|----------------------|
| Salaries | ₩ 165,252,235 | ₩ 95,603,509 |
| Retirement and termination benefits | 4,641,195 | 2,965,059 |
| Employee welfare | 14,952,425 | 7,548,638 |
| Travel expenses | 6,548,825 | 3,900,809 |
| Taxes and dues | 17,746,733 | 10,043,987 |
| Rental expenses | 16,202,732 | 10,864,336 |
| Depreciation | 6,473,395 | 4,040,406 |
| Amortization | 1,322,273 | 937,216 |
| Advertising expenses | 52,576,393 | 27,224,384 |
| Ordinary development expense | 1,131,566 | 671,063 |
| Freight and custody | 79,471,274 | 48,724,096 |
| Commissions | 64,255,781 | 42,751,474 |
| Promotion | 17,399,032 | 13,831,437 |
| Bad debt expenses (reversal) | 239,380 | (169,418) |
| Others | 22,111,191 | 13,241,679 |
| | <u>₩ 470,324,430</u> | <u>₩ 282,178,675</u> |

Details of general and administrative expenses for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|-------------------------------------|----------------------|---------------------|
| Salaries | ₩ 52,589,578 | ₩ 34,169,550 |
| Retirement and termination benefits | 4,932,883 | 3,071,539 |
| Employee welfare | 9,136,629 | 4,751,260 |
| Travel expenses | 1,831,988 | 998,813 |
| Taxes and dues | 4,186,494 | 2,097,460 |
| Rental expenses | 8,811,076 | 5,003,740 |
| Depreciation | 7,516,169 | 4,618,745 |
| Amortization | 1,289,263 | 620,729 |
| Commissions | 25,041,430 | 13,998,516 |
| Others | 9,137,793 | 5,642,456 |
| | <u>₩ 124,473,303</u> | <u>₩ 74,972,808</u> |

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30. Other Income and Other Expenses

Details of other income and other expenses for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|--|--------------------|--------------------|
| Other income | | |
| Foreign currency transaction gain | ₩ 363,609 | ₩ 208,928 |
| Foreign currency translation gain | 19,001 | 794,897 |
| Gain on sale of property, plant and equipment | 1,366,316 | 6,281,382 |
| Gain on sale of intangible assets | 237,911 | 5,807 |
| Reversal of impairment loss on intangible assets | 448,817 | 41,089 |
| Reversal of bad debt allowance | 323 | 42,864 |
| Insurance income ¹ | 8,020,658 | - |
| Others | 2,103,321 | 2,668,251 |
| | <u>12,559,956</u> | <u>10,043,218</u> |
| Other expenses | | |
| Foreign currency transaction loss | (335,960) | (260,868) |
| Foreign currency translation loss | (84,132) | (2,998,585) |
| Loss on sale of property, plant and equipment | (2,732,430) | (2,019,351) |
| Loss on sale of intangible assets | (219,727) | (911) |
| Impairment loss on intangible assets | (629,010) | - |
| Loss on disposition of trade receivables | (6,356) | (589,365) |
| Loss on disposal of assets held-for-sale | - | (101,043) |
| Others | (2,361,998) | (3,034,125) |
| | <u>(6,369,613)</u> | <u>(9,004,248)</u> |
| Net other income | <u>₩ 6,190,343</u> | <u>₩ 1,038,970</u> |

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

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31. Finance income and expense

Details of finance income and expense for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|-------------------------------------|-----------------------|----------------------|
| Finance income | | |
| Interest income | ₩ 6,783,592 | ₩ 4,361,052 |
| Foreign currency transaction gain | 2,299,467 | 25,290 |
| Foreign currency translation gain | 179,114 | 5,431,860 |
| Gain on derivatives valuation | - | 2,491 |
| Gain on derivatives transaction | 7,480 | 63,124 |
| | <u>9,269,653</u> | <u>9,883,817</u> |
| Finance cost | | |
| Interest expense | (16,823,708) | (11,590,163) |
| Foreign currency transaction loss | (4,299,660) | (436,195) |
| Foreign currency translation loss | (255,190) | (375,557) |
| Loss on derivatives valuation | - | (619,645) |
| | <u>(21,378,558)</u> | <u>(13,021,560)</u> |
| Net finance cost | <u>₩ (12,108,905)</u> | <u>₩ (3,137,743)</u> |

32. Nature of expenses

Details of nature of expenses for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | | | <u>2017</u> | | |
|--|------------------------|--|------------------------|----------------------|--|----------------------|
| | <u>Cost of sales</u> | <u>Selling, general and administrative expense</u> | <u>Total</u> | <u>Cost of sales</u> | <u>Selling, general and administrative expense</u> | <u>Total</u> |
| Raw materials and consumables used | ₩ 749,482,718 | ₩ - | ₩ 749,482,718 | ₩ 344,406,127 | ₩ - | ₩ 344,406,127 |
| Purchasing merchandise | 18,494,572 | - | 18,494,572 | 2,794,723 | - | 2,794,723 |
| Changes in inventories of finished goods and merchandise | (9,862,822) | - | (9,862,822) | 58,186,618 | - | 58,186,618 |
| Employee benefits expense | 81,435,418 | 227,415,891 | 308,851,309 | 48,837,120 | 135,809,656 | 184,646,776 |
| Taxes and Dues | 2,022,424 | 21,933,227 | 23,955,651 | 1,319,034 | 12,141,447 | 13,460,481 |
| Rental Expenses | 476,467 | 25,013,807 | 25,490,274 | 9,800 | 15,868,076 | 15,877,876 |
| Depreciation and amortization | 101,137,105 | 16,601,099 | 117,738,204 | 55,585,737 | 10,217,096 | 65,802,833 |
| Advertising expenses | - | 52,576,393 | 52,576,393 | - | 27,159,921 | 27,159,921 |
| Freight and custody | 1,239,501 | 79,471,274 | 80,710,775 | 1,095,581 | 48,724,096 | 49,819,677 |
| Maintenance cost of vehicles | 177,610 | 5,187,402 | 5,365,012 | 102,432 | 3,344,868 | 3,447,300 |
| Commission | 25,310,974 | 89,297,211 | 114,608,185 | 11,198,420 | 56,925,659 | 68,124,079 |
| Others | 80,061,159 | 77,301,430 | 157,362,589 | 85,169,531 | 46,960,664 | 132,130,195 |
| | <u>₩ 1,049,975,126</u> | <u>₩ 594,797,734</u> | <u>₩ 1,644,772,860</u> | <u>₩ 608,705,123</u> | <u>₩ 357,151,483</u> | <u>₩ 965,856,606</u> |

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33. Financial Instruments by Categories

Finance income and cost by categories for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| (In thousands of Korean won) | 2018 | | | | |
|--|--------------------|-----------------------|-----------------------|--|-----------------------------------|
| | Finance income | Finance cost | Net income | Other comprehensive income (before income tax) | Total comprehensive income (loss) |
| Financial assets | | | | | |
| Financial assets at amortized cost | ₩ 8,658,856 | ₩ (468) | ₩ 8,658,388 | ₩ - | ₩ 8,658,388 |
| Financial assets at fair value through profit or loss | 573,507 | - | 573,507 | - | 573,507 |
| | <u>9,232,363</u> | <u>(468)</u> | <u>9,231,895</u> | <u>-</u> | <u>9,231,895</u> |
| Financial liabilities | | | | | |
| Financial liabilities measured at amortized cost | 29,810 | (21,378,090) | (21,348,280) | - | (21,348,280) |
| Financial liabilities at fair value through profit or loss | 7,480 | - | 7,480 | - | 7,480 |
| | <u>37,290</u> | <u>(21,378,090)</u> | <u>(21,340,800)</u> | <u>-</u> | <u>(21,340,800)</u> |
| | <u>₩ 9,269,653</u> | <u>₩ (21,378,558)</u> | <u>₩ (12,108,905)</u> | <u>₩ -</u> | <u>₩ (12,108,905)</u> |
| (In thousands of Korean won) | 2017 | | | | |
| | Finance income | Finance cost | Net income | Other comprehensive income (before income tax) | Total comprehensive income (loss) |
| Financial assets | | | | | |
| Loans and receivables | ₩ 4,471,210 | ₩ (12,722) | ₩ 4,458,488 | ₩ - | ₩ 4,458,488 |
| Available-for-sale financial assets | 5 | (85) | (80) | - | (80) |
| | <u>4,471,215</u> | <u>(12,807)</u> | <u>4,458,408</u> | <u>-</u> | <u>4,458,408</u> |
| Financial liabilities | | | | | |
| Financial liabilities measured at amortized cost | 5,346,987 | (12,389,108) | (7,042,121) | - | (7,042,121) |
| Financial liabilities at fair value through profit or loss | 65,615 | (619,645) | (554,030) | - | (554,030) |
| | <u>5,412,602</u> | <u>(13,008,753)</u> | <u>(7,596,151)</u> | <u>-</u> | <u>(7,596,151)</u> |
| | <u>₩ 9,883,817</u> | <u>₩ (13,021,560)</u> | <u>₩ (3,137,743)</u> | <u>₩ -</u> | <u>₩ (3,137,743)</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 | ₩ 365,351,969 | ₩ 365,351,969 | ₩ 284,877,937 | ₩ 284,877,937 |
| Financial assets at fair value through profit or loss | 32,587,337 | 32,587,337 | - | - |
| Financial liabilities | | | | |
| Financial liabilities measured at amortized cost | 671,990,587 | 672,403,572 | 783,157,866 | 783,835,438 |
| Financial liabilities at fair value through profit or loss | - | - | 260,928 | 260,928 |

The Group estimates the book amounts of financial assets, other than 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 | ₩ - | ₩ 32,587,337 | ₩ - | ₩ 32,587,337 |
| December 31, 2017 | | | | |
| Financial liabilities at fair value through profit or loss | - | (260,928) | - | (260,928) |

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34. Income Taxes

Income tax expense (benefit) for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 consists of:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|---|----------------------|---------------------|
| Current income tax expense | ₩ 66,275,741 | ₩ 23,036,509 |
| Origination and reversal of temporary differences | 65,537,821 | 5,530,224 |
| Total income tax effect | 131,813,562 | 28,566,733 |
| Income tax recognized in other comprehensive income | 368,829 | (189,094) |
| Total income tax expense | ₩ 132,182,391 | ₩ 28,377,639 |

Origination and reversal of temporary differences for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|---|-----------------|----------------|
| Deferred tax liabilities net, ending balance | ₩ (123,400,478) | ₩ (57,862,657) |
| Deferred tax liabilities net, beginning balance | (57,862,657) | (52,332,433) |
| Origination and reversal of temporary differences | ₩ (65,537,821) | ₩ (5,530,224) |

Income taxes recognized directly in other comprehensive income for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|--|------------------|--------------------|
| Remeasurements of the defined benefit liability | ₩ 368,829 | ₩ (189,094) |
| Income tax expense (income) recognized directly in other comprehensive income | ₩ 368,829 | ₩ (189,094) |

Reconciliation between profit before income tax and income tax expense for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 is as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|--|---------------|---------------|
| Profit before income tax | ₩ 275,208,711 | ₩ 105,057,911 |
| Income tax using the Group's statutory tax rate | 77,999,069 | 26,470,863 |
| Adjustments : | | |
| Non-deductible expense | 111,812 | 109,222 |
| Tax credits | (1,545,308) | (336,124) |
| Income tax effect on temporary differences for unrecognized deferred tax | 55,235,906 | - |
| Others | 380,912 | 2,133,678 |
| Income tax expense | ₩ 132,182,391 | ₩ 28,377,639 |
| Effective tax rate | 48.03% | 27.01% |

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

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Changes in deferred tax assets and liabilities for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| | | 2018 | | | |
|---|---|--------------------------|-----------------------|-----------------------------------|------------------------|
| <i>(In thousands of Korean won)</i> | | Beginning balance | Profit or loss | Other comprehensive income | Ending balance |
| Bad debt expense | ₩ | 306,006 | ₩ (18,651) | ₩ - | ₩ 287,355 |
| Provision for warranty | | 695,298 | (22,600) | - | 672,698 |
| Research and human development reserves | | (322,667) | 322,667 | - | - |
| Accumulated depreciation | | (59,817,058) | (13,645,962) | - | (73,463,020) |
| Defined benefit liability | | - | 536,411 | 368,829 | 905,240 |
| Land | | (11,553,512) | (36,327) | - | (11,589,839) |
| Investments in subsidiaries | | 742,724 | (55,599,492) | - | (54,856,768) |
| Others | | 12,086,552 | 2,557,304 | - | 14,643,856 |
| | ₩ | <u>(57,862,657)</u> | ₩ <u>(65,906,650)</u> | ₩ <u>368,829</u> | ₩ <u>(123,400,478)</u> |
| | | 2017 | | | |
| <i>(In thousands of Korean won)</i> | | Beginning balance | Profit or loss | Other comprehensive income | Ending balance |
| Bad debt expense | ₩ | 650,076 | ₩ (344,070) | ₩ - | ₩ 306,006 |
| Provision for warranty | | 719,300 | (24,002) | - | 695,298 |
| Research and human development reserves | | (699,111) | 376,444 | - | (322,667) |
| Accumulated depreciation | | (43,923,033) | (15,894,025) | - | (59,817,058) |
| Defined benefit liability | | - | 189,094 | (189,094) | - |
| Land | | (12,124,797) | 571,285 | - | (11,553,512) |
| Investments in subsidiaries | | 742,724 | - | - | 742,724 |
| Others | | 2,302,408 | 9,784,144 | - | 12,086,552 |
| | ₩ | <u>(52,332,433)</u> | ₩ <u>(5,341,130)</u> | ₩ <u>(189,094)</u> | ₩ <u>(57,862,657)</u> |

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

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|--|--------------|--------------|
| Investments in subsidiaries and joint ventures | ₩ 92,686,289 | ₩ 91,592,584 |
| Other | 267,736 | 149,257 |

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 carry-forwards 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:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|-------------------------------------|----------------|----------------|
| Investments in subsidiaries | ₩ (37,576,205) | ₩ (37,576,205) |

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:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|-------------------------------------|---------------------|---------------------|
| Income taxes payable | ₩ 40,735,049 | ₩ 17,673,284 |
| Prepaid income taxes | (7,338,772) | (407,966) |
| Income taxes payable, net | <u>₩ 33,396,277</u> | <u>₩ 17,265,318</u> |

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35. 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 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. 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.

There is no material concentration of credit risk and the risk is dispersed to various business partners at December 31, 2018.

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 | ₩ 11,190,240 | ₩ 50,781,078 |
| Trade and other receivables | 169,608,394 | 132,490,566 |
| Cash equivalents ¹ | 184,561,577 | 101,552,549 |
| | <u>₩ 365,360,211</u> | <u>₩ 284,824,193</u> |

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

Meanwhile, the Group is depositing cash or cash equivalents to financial institutes such as Shinhan Bank whose credit rating is high. Thus credit risk from financial institution is limited.

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Besides above, as at December 31, 2018, the Group has an obligation to pay back liability(₩ 847 million) at June 1, 2017(the date of spin-off) in solidarity with Orion Holdings Corporation (formerly, Orion Corporation), by the Commercial Law Article 530-9 (1). Above liability is allocated to the earliest period in which the Group can be required to pay.

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> |
|-------------------------------------|----------------|-----------------------------------|-----------------------------------|------------------------------------|---------------|
| December 31, 2018 | | | | | |
| Expected loss rate | 0.89% | 0.19% | 0.35% | 14.62% | 1.22% |
| Gross carrying amount | ₩ 126,714,393 | ₩ 20,304,987 | ₩ 9,374,600 | ₩ 5,272,802 | ₩ 161,666,782 |
| Loss allowance provision | 1,133,611 | 37,940 | 32,439 | 770,845 | 1,974,835 |

Movements in the loss allowance provision for trade receivables for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017¹</u> |
|--|--------------------|-------------------------|
| Beginning balance - Korean IFRS 1039 | ₩ 2,056,661 | ₩ 2,240,932 |
| Amounts restated through beginning balance of retained earnings | - | - |
| Loss allowance as at January 1, 2018 - calculated under Korean IFRS 1109 | 2,056,661 | 2,240,932 |
| Increase in loss allowance recognized in profit or loss during the year | 239,058 | (169,418) |
| Receivables written off during the year as uncollectible | (281,927) | (7,191) |
| Others | (38,957) | (7,662) |
| Ending balance | ₩ <u>1,974,835</u> | ₩ <u>2,056,661</u> |

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

Trade receivables are written off or 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'.

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

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017¹</u> |
|--|-----------------|-------------------------|
| Beginning balance - Korean IFRS 1039 | ₩ 74,900 | ₩ 122,539 |
| Amounts restated through beginning balance of retained earnings | - | - |
| Loss allowance as at January 1, 2018 - calculated under Korean IFRS 1109 | 74,900 | 122,539 |
| Increase in loss allowance recognized in profit or loss during the year | 52,528 | (42,864) |
| Receivables written off during the year as uncollectible | (66,814) | - |
| Others | (3,797) | (4,775) |
| Ending balance | <u>₩ 56,817</u> | <u>₩ 74,900</u> |

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

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

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 non-derivative financial liabilities as at December 31, 2018 and 2017 is as follows:

| <i>(In thousands of Korean won)</i> | <u>Book Value</u> | <u>Contractual cash flow</u> | <u>Within 6 months</u> | <u>6-12 months</u> | <u>1-2 years</u> | <u>2-5 years</u> |
|--|----------------------|------------------------------|------------------------|----------------------|----------------------|----------------------|
| December 31, 2018 | | | | | | |
| Borrowings | ₩ 434,976,225 | ₩ 457,099,824 | ₩ 161,300,674 | ₩ 3,380,750 | ₩ 126,082,650 | ₩ 166,335,750 |
| Trade and other payables | <u>237,014,362</u> | <u>237,075,680</u> | <u>229,462,866</u> | <u>6,873,166</u> | <u>83,000</u> | <u>656,648</u> |
| | <u>₩ 671,990,587</u> | <u>₩ 694,175,504</u> | <u>₩ 390,763,540</u> | <u>₩ 10,253,916</u> | <u>₩ 126,165,650</u> | <u>₩ 166,992,398</u> |
| December 31, 2017 | | | | | | |
| Borrowings | ₩ 599,744,404 | ₩ 600,481,601 | ₩ 116,250,034 | ₩ 162,470,310 | ₩ 55,537,417 | ₩ 266,223,840 |
| Trade and other payables | 183,413,462 | 183,416,839 | 177,359,917 | 5,951,024 | 55,898 | 50,000 |
| Financial liabilities at fair value through profit or loss | <u>260,928</u> | <u>260,928</u> | <u>158,051</u> | <u>102,877</u> | <u>-</u> | <u>-</u> |
| | <u>₩ 783,418,794</u> | <u>₩ 784,159,368</u> | <u>₩ 293,768,002</u> | <u>₩ 168,524,211</u> | <u>₩ 55,593,315</u> | <u>₩ 266,273,840</u> |

Besides above, as at December 31, 2018 and 2017, the Group has an obligation to pay back liability (₩ 847 million) at June 1, 2017 (the date of spin-off) in solidarity with Orion Holdings Corporation (formerly, Orion Corporation), by the Commercial Law Article 530-9 (1). Above liability is allocated to the earliest period in which the Group can be required to pay.

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

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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:

(In thousands of Korean won)

| | <u>USD</u> | <u>JPY</u> | <u>EUR</u> | <u>CNY</u> | <u>HKD</u> | <u>CHF</u> |
|-----------------------------|------------------------|--------------------|----------------------|--------------------|------------------|-------------------|
| December 31, 2018 | | | | | | |
| Cash and cash equivalents | ₩ 5,646,145 | ₩ 21,544 | ₩ - | ₩ 814 | ₩ - | ₩ - |
| Trade and other receivables | 2,229,304 | 1,388,075 | 145,770 | 2,161,224 | - | - |
| Trade and other payables | (2,045,232) | (192,018) | (428,037) | - | (4,554) | - |
| Borrowings | (102,932,747) | - | (397,077) | - | - | - |
| | <u>₩ (97,102,530)</u> | <u>₩ 1,217,601</u> | <u>₩ (679,344)</u> | <u>₩ 2,162,038</u> | <u>₩ (4,554)</u> | <u>₩ -</u> |
| December 31, 2017 | | | | | | |
| Cash and cash equivalents | ₩ 4,346,063 | ₩ 131,584 | ₩ - | ₩ - | ₩ - | ₩ - |
| Trade and other receivables | 1,865,842 | 1,610,788 | 539,757 | - | - | - |
| Trade and other payables | (6,310,673) | (145,393) | (1,075,242) | - | - | (89,793) |
| Borrowings | (229,403,444) | - | (1,339,097) | - | - | - |
| | <u>₩ (229,502,212)</u> | <u>₩ 1,596,979</u> | <u>₩ (1,874,582)</u> | <u>₩ -</u> | <u>₩ -</u> | <u>₩ (89,793)</u> |

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

(In thousands of Korean won)

| | <u>2018</u> | <u>2017</u> |
|-----|-------------|-------------|
| USD | ₩ 1,118.10 | ₩ 1,071.40 |
| JPY | 10.13 | 9.49 |
| EUR | 1,279.16 | 1,279.25 |
| CNY | 162.76 | - |
| HKD | 142.77 | - |
| CHF | - | 1,094.72 |

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:

(In thousands of Korean won)

| | <u>2018</u> | | <u>2017</u> | |
|-----|--------------------------|----------------------|--------------------------|----------------------|
| | <u>10% strengthening</u> | <u>10% weakening</u> | <u>10% strengthening</u> | <u>10% weakening</u> |
| USD | ₩ (9,710,253) | ₩ 9,710,253 | ₩ (22,950,222) | ₩ 22,950,222 |
| JPY | 121,760 | (121,760) | 159,698 | (159,698) |
| EUR | (67,934) | 67,934 | (187,458) | 187,458 |
| CNY | 216,204 | (216,204) | - | - |
| HKD | (455) | 455 | - | - |
| CHF | - | - | (8,979) | 8,979 |
| | <u>₩ (9,440,678)</u> | <u>₩ 9,440,678</u> | <u>₩ (22,986,961)</u> | <u>₩ 22,986,961</u> |

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Interest rate risk

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

| <i>(In thousands of Korean won)</i> | <u>2018</u> | | <u>2017</u> | |
|---|-------------|--------------------|-------------|--------------------|
| Short-term borrowings | ₩ | 103,329,824 | ₩ | 63,608,938 |
| Current portion of long-term borrowings | | - | | 165,794,506 |
| | ₩ | <u>103,329,824</u> | ₩ | <u>229,403,444</u> |

As at December 31, 2018 and 2017, the effects of a 100bp fluctuation of the interest rates 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 | ₩ (1,033,298) | ₩ 1,033,298 | ₩ (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 Group's main objective is to maximize shareholder's profit and monitoring the level of dividends as a mean of capital management. Capital structure of the Group consists of net debts which is Debts and borrowings less cash and cash equivalents and equity.

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 | ₩ | 434,976,225 | ₩ | 599,744,403 |
| Less: Cash and cash equivalents | | <u>(184,619,098)</u> | | <u>(101,606,293)</u> |
| | | 250,357,127 | | 498,138,110 |
| Equity | | <u>1,444,542,180</u> | | <u>1,344,904,442</u> |
| Net debt-to-equity ratio | | <u>17.33%</u> | | <u>37.04%</u> |

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36. 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)

| Contract Company | Lender | Type of commitment | Currency | 2018 | 2017 |
|---------------------------------|---|---------------------------|-----------------|-------------|-------------|
| Orion Corporation | Kookmin Bank | Usance | USD | 10,000,000 | 10,000,000 |
| | | Purchase 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 | Purchase loan | KRW | 30,000,000 | 30,000,000 |
| | | Credit loan | KRW | - | 5,000,000 |
| Orion Food Co., Ltd. | Sumitomo Mitsui Banking Corporation | Credit loan | KRW | 20,000,000 | 20,000,000 |
| | Hyundai Card | Group purchase card | KRW | 12,000,000 | 12,000,000 |
| | Industrial and Commercial bank of China | General loan | CNY | - | 300,000,000 |
| Orion Food Guangzhou Co., Ltd. | 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 |
| | Korea Development Bank | General loan | USD | - | 15,000,000 |
| Orion Food (Shanghai) Co., Ltd. | Industrial Bank of Korea | General loan | USD | - | 10,000,000 |
| | Industrial and Commercial Bank of China | General loan | CNY | 150,000,000 | 150,000,000 |
| Orion Food VINA Co., Ltd. | HSBC | General loan | CNY | - | 50,000,000 |
| | Korea Development Bank | Usance | USD | 5,000,000 | - |
| | KEB Hana Bank | Usance | USD | 10,000,000 | - |
| | | | KRW | 87,000,000 | 92,000,000 |
| | | | USD | 40,900,000 | 57,900,000 |
| | | | CNY | 150,000,000 | 780,000,000 |
| Total | | | | | |

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.

As at December 31, 2018 and 2017, guarantees of ₩ 568 million (2017: ₩ 271 million) are provided to the Group by Seoul Guarantee Insurance Company etc. for the performance of contracts.

As at December 31, 2018, the Group has an obligation to pay back liability(₩ 847 million) at June 1, 2017 (the date of spin-off) in solidarity with Orion Holdings Corporation (formerly, Orion Corporation), by the Commercial Law Article 530-9 (1). Above liability is allocated to the earliest period in which the Group can be required to pay.

As at December 31, 2018 and 2017, the Group provides guarantees to the customers with the maximum

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amount of ₩ 12,000 million in relation to the Corporate purchase card of Hyundai Card.

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

(In thousands of Korean won)

| Plaintiff | Defendant | Contents | Amounts | Progress |
|--|---|---|----------------|------------------------------|
| Orion Corp. and 1 other | Kyung Min Cho | Compensation for damages | ₩ 600,000 | Lost at first trial |
| Orion Corp, Orion Holdings Corp. and 1 other | Non-Gaek dot com and 3 others | Compensation for damages | 600,000 | First trial in progress |
| Orion Corp. | Sung Tae Kim | Compensation for damages | 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. | Compensation for damages | 148,992 | 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 | 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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37. Related Party Transactions

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

| Relationship | Related Party |
|------------------------------------|--|
| Parent | Orion Holdings Corp. |
| Joint ventures | Delfi-Orion Pte Ltd, Orion Nonghyup Agri, inc. |
| Parent's subsidiaries ¹ | Reon A&D Corp, Showbox Corp., Megamark International, Supreme Star Investment Corp. Limited, JeJu Yongam Soo Corp, Highland D&C Corp., Misoin Corp., Orion Consulting Co., Ltd., Beijing Megamedia Co., Ltd., SHOWBOX Inc., Orion Investment Development Corp. |
| Associates ² | Daehan distributor Corp., Michigan Global Contents Investment Fund #4, Beijing Zhongguan Megabox Cinema Co., Ltd., S.M.Contents Investment Fund No.5, Orion Institute |

¹ In 2018, Beijing Mediatech Co.,Ltd. was merged into Beijing Megamedia Co., Ltd., and Supreme Star Holdings Limited and Beijing Supreme Star Consulting Co., Ltd. went through liquidation.

² In 2018, Michigan Global Contents Investment Fund, Michigan Global Contents Investment Fund #3 and Gemini Contents Investment Partnership #1 went through liquidation.

Significant transactions which occurred in the normal course of business with related parties for the year ended December 31, 2018 and the seven-month period ended December 31, 2017, are summarized as follows:

Sales etc.

(In thousands of Korean won)

| Relationship | Related party | Transaction | 2018 | 2017 |
|-----------------------|---------------------------|---------------------------------------|--------------|-------------|
| Parents | Orion Holdings Corp. | Sales | ₩ - | ₩ 740 |
| | | Other income etc. | 276,149 | 161,527 |
| Parents' subsidiaries | Showbox Corp. | Sales | 55,118 | 27,020 |
| | | Other income | - | 7,834 |
| | | Sale of intangible assets | 1,100,000 | - |
| | | Other income etc. | 174,581 | 696 |
| Joint ventures | JeJu Yongam Soo Corp. | Other income etc. | 174,581 | 696 |
| | Delfi-Orion Pte Ltd | Sales | 1,794,058 | 1,369,069 |
| | Orion Nonghyup Agri, inc. | Sales | 1,745 | 122,192 |
| | | Other income etc. | 162,464 | |
| Others | Major shareholders | Sale of property, plant and equipment | 6,064,000 | - |
| | | Sale of property, plant and equipment | 998,000 | - |
| | | Other income | 210 | - |
| | | | ₩ 10,626,325 | ₩ 1,689,078 |

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Purchase etc.

(In thousands of Korean won)

| <u>Relationship</u> | <u>Related party</u> | <u>Transaction</u> | <u>2018</u> | <u>2017</u> |
|-----------------------|---------------------------|-------------------------|--------------|-------------|
| Parents | Orion Holdings Corp. | Other expense | ₩ 14,528,907 | ₩ 8,094,136 |
| Parents' subsidiaries | Showbox Corp. | Other expense | - | 797 |
| | | Purchase of fixed asset | - | 4,474 |
| Joint ventures | Orion Nonghyup Agri, inc. | Purchase | 12,091,389 | - |
| | | | ₩ 26,620,296 | ₩ 8,099,407 |

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

(In thousands of Korean won)

| <u>Relationship</u> | <u>Related party</u> | <u>2018</u> | | | |
|-----------------------|---------------------------|--------------------------|--------------------------|-----------------------|-----------------------|
| | | <u>Receivables</u> | | <u>Payables</u> | |
| | | <u>Trade receivables</u> | <u>Other receivables</u> | <u>Trade payables</u> | <u>Other payables</u> |
| Parents | Orion Holdings Corp. | ₩ - | ₩ 45,889 | ₩ - | ₩ 2,863,747 |
| Parents' subsidiaries | JeJu Yongam Soo Corp. | - | 62,401 | - | - |
| | Showbox Corp. | 1,113 | 580 | - | - |
| Joint ventures | Delfi-Orion Pte Ltd | 407,320 | - | - | - |
| | Orion Nonghyup Agri, inc. | - | 230,722 | 3,430,206 | - |
| | | ₩ 408,433 | ₩ 339,592 | ₩ 3,430,206 | ₩ 2,863,747 |

(In thousands of Korean won)

| <u>Relationship</u> | <u>Related party</u> | <u>2017</u> | | | |
|-----------------------|-----------------------|--------------------------|--------------------------|-----------------------|-----------------------|
| | | <u>Receivables</u> | | <u>Payables</u> | |
| | | <u>Trade receivables</u> | <u>Other receivables</u> | <u>Trade payables</u> | <u>Other payables</u> |
| Parents | Orion Holdings Corp. | ₩ - | ₩ 24,610 | ₩ 2,482,680 | - |
| Parents' subsidiaries | JeJu Yongam Soo Corp. | - | 3,544 | 5,033 | - |
| Joint ventures | Delfi-Orion Pte Ltd | 132,350 | - | - | - |
| | | ₩ 132,350 | ₩ 28,154 | ₩ 2,487,713 | - |

Investments transactions with related parties as at December 31, 2018 and 2017 are as follows:

(In thousands of Korean won)

| <u>Relationship</u> | <u>Related party</u> | <u>Transaction</u> | <u>2018</u> | <u>2017</u> |
|---------------------|---------------------------|----------------------|---------------|-------------|
| Parents | Orion Holdings Corp. | Payment of dividends | ₩ (8,865,083) | ₩ - |
| Joint ventures | Orion Nonghyup Agri, inc. | Cash investments | (7,000,000) | (8,795,377) |

As at December 31, 2018, the Group is provided with a payment guarantee from Orion Holdings Corp. related to credit limit of KEB Hana Bank.

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Details of key management personnel compensation for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|-------------------------------------|--------------------|--------------------|
| Short-term employee benefits | ₩ 7,128,863 | ₩ 6,097,558 |
| Post-employment benefits | 1,190,548 | 1,626,998 |
| | <u>₩ 8,319,411</u> | <u>₩ 7,724,556</u> |

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

Dividends paid to 6 related parties during the year ended December 31, 2018 amount to ₩ 1,890 million.

as at December 31, 2018, the Group has an obligation to pay back liability(₩ 847 million) at June 1, 2017(the date of spin-off) in solidarity with Orion Holdings Corporation (formerly, Orion Corporation), by the Commercial Law Article 530-9 (1). Above liability is allocated to the earliest period in which the Group can be required to pay.

38. Supplemental Cash flows information

The principal non-cash transactions for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | <u>2018</u> | <u>2017</u> |
|--|---------------|--------------|
| Reclassification from construction in progress to property, plant and equipment | ₩ 142,233,757 | ₩ 73,805,660 |
| Reclassification from property, plant and equipment to investment property | 6,511,413 | - |
| Other payables regarding the acquisition of property, plant and equipment | 10,743,707 | (7,623,771) |
| Other payables regarding the acquisition of intangible assets | - | (62,966) |
| Reclassification from long-term borrowings to short-term borrowings | 50,023,765 | 106,514,872 |
| Reclassification from long-term prepaid expenses to short-term prepaid expenses | 1,148,411 | 385,013 |
| Reclassification from property, plant and equipment to non-current asset held for sale | - | 1,975,026 |
| Reclassification from long-term rental deposits to short-term rental deposits | 215,258 | 137,360 |
| Write-off of trade receivables and others | 348,740 | - |

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Changes in liabilities arising from financial activities for the year ended December 31, 2018 and the seven-month period ended December 31, 2017 are as follows:

| <i>(In thousands of Korean won)</i> | 2018 | | | | | |
|---|--------------------------|---|--------------------------------|---|-------------------------|-----------------------|
| | Beginning Balance | Cash flows from financing activities | Non cashflow activities | | | Ending balance |
| | | | Depreciation etc | Effects on foreign currency change | Reclassification | |
| 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 | - | 189,290 | - | (50,023,765) | 279,611,588 |
| Current Leasehold deposits received | 145,500 | (2,000) | 235 | - | 29,490 | 173,225 |
| Leasehold deposits received | 76,624 | 53,000 | (737) | - | (29,490) | 99,397 |
| | <u>₩ 599,966,527</u> | <u>₩ (175,533,564)</u> | <u>₩ 211,437</u> | <u>₩ 10,604,447</u> | <u>₩ -</u> | <u>₩ 435,248,847</u> |

| <i>(In thousands of Korean won)</i> | 2017 | | | | | |
|---|--------------------------|---|--------------------------------|---|-------------------------|-----------------------|
| | Beginning Balance | Cash flows from financing activities | Non cashflow activities | | | Ending balance |
| | | | Depreciation etc | Effects on foreign currency change | Reclassification | |
| Short-term borrowings | ₩ 139,252,930 | ₩ (26,307,266) | ₩ - | ₩ (8,501,830) | ₩ - | ₩ 104,443,834 |
| Current portion of long-term borrowings | 294,849,424 | (227,763,181) | - | (7,746,609) | 106,514,872 | 165,854,506 |
| Long-term borrowings | 336,164,246 | 99,707,360 | - | 89,330 | (106,514,872) | 329,446,064 |
| Current Leasehold deposits received | 536,851 | (391,660) | 309 | - | - | 145,500 |
| Leasehold deposits received | - | 80,000 | (3,376) | - | - | 76,624 |
| | <u>₩ 770,803,451</u> | <u>₩ (154,674,747)</u> | <u>₩ (3,067)</u> | <u>₩ (16,159,109)</u> | <u>₩ -</u> | <u>₩ 599,966,528</u> |

The Group is presenting net amount of cash flow caused by financial assets at fair value through profit or loss whose amount is big due to frequent transactions and maturity comes in a short period of time.

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39. Spin-off

The Group was established by the spin-off of the Orion Holdings Corporation (formerly, Orion Corporation) confectionary's manufacturing and sales segment on June 1, 2017. Shareholders approved the spin-off on March 31, 2017, during the shareholders' meeting.

The progress of equity spinoff is as follows:

| Category | 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 Group transferred book value of consolidated financial statement of Orion Holdings Corporation (formerly, Orion Corporation), top-tier parent company before spin-off.

40. Changes in Accounting Policies

As explained in Note 3, the Group has applied Korean IFRS 1115 *Revenue from Contracts with Customers*. As a result, 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 ₩ 43,937 million, cost of sales increased by ₩ 15,228 million and selling expenses decreased by ₩ 59,165 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. 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.

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. As the simplified approach is applied for impairment of trade receivables in accordance with the application of Korean IFRS 1109, the Group uses a lifetime expected loss allowance for all trade receivables.

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41. Reclassification of Prior Year Financial Statements

Certain amounts in the financial statements as at and for the seven-month period ended December 31, 2017, have been reclassified to conform to the current year financial statements presentation. These reclassifications have no effect on previously reported profit or equity.