

Orion Corporation and Subsidiaries

Consolidated Financial Statements

December 31, 2019 and 2018

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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, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Effect of adoption of Korea IFRS 1116 Lease on the date of initial application

Why it is determined to be a key audit matter

As explained in Note 38, the Group has applied Korean IFRS 1116 *Lease* for the period commencing January 1, 2019. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and includes the management's significant estimation and judgement on lease period and discount rate when calculating the financial effect.

We identified the establishment of accounting policies on the Group's lease in accordance to Korean IFRS 1116, and complete and accurate calculation of financial effects based on accounting policies as key audit matters.

How our audit addressed the key audit matter

We have performed following audit procedures to address the key audit matter. We:

- Obtained an understanding and assessed the Group's accounting policies relating to the initial adoption of Korean IFRS 1116
- Assessed the completeness of lease contracts
- Assessed the significant management assumptions and judgments, including the lease period, discount rates, and others, used to calculate financial effects
- Reconciled and performed recalculation on basic information such as contracts and others regarding the initial recognition and measurement of lease liabilities and right-of-use assets
- Assessed the suitability for presentation of the consolidated financial statement and appropriateness for disclosure of notes relating to the initial adoption of Korean IFRS 1116.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Seung-Hee Lee, Certified Public Accountant.

March 11, 2020

Seoul, Korea

This report is effective as of March 11, 2020, 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, 2019 and 2018

<i>(In thousands of Korean won)</i>	Notes	2019	2018
Assets			
Property, plant and equipment	7,24	₩ 1,655,508,964	₩ 1,645,979,776
Intangible assets	8	31,812,687	28,969,896
Goodwill	9	22,887,400	22,697,670
Investment property	10	6,271,219	6,290,782
Right-of-use assets	38	65,429,554	-
Investments in associates and joint ventures	11,36	32,286,796	30,383,314
Financial assets at fair value through other comprehensive income	12	19,610,041	-
Long-term trade and other receivables	15,33,36	16,409,269	834,214
Long-term deposits	16,32	2,000	2,000
Defined benefit assets	25	-	362,828
Other non-current assets	13	3,358,601	43,802,263
Deferred income tax assets	33	2,408,852	2,803,717
Total Non-current assets		1,855,985,383	1,782,126,460
Inventories	14	147,604,540	156,569,044
Other current assets	13	18,510,257	15,163,019
Current tax assets	33	8,583,387	323,284
Trade and other receivables	15,32,36	185,518,002	168,774,180
Financial assets at fair value through profit or loss	12	-	32,587,337
Short-term deposits	16,32	71,140,408	11,188,240
Cash and cash equivalents	16,32	164,965,287	184,619,098
Total Current assets		596,321,881	569,224,202
Total assets		₩ 2,452,307,264	₩ 2,351,350,662

Orion Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2019 and 2018

<i>(In thousands of Korean won)</i>	Notes	2019	2018
Equity			
Capital stock	1,17	₩ 19,768,066	₩ 19,766,981
Capital surplus		598,172,192	598,141,686
Treasury shares	18	(604,361)	(604,361)
Other capital	19	626,929,529	597,123,578
Reserves	20	72,610,786	8,977,128
Retained earnings	38	305,762,314	182,144,352
Equity attributable to owners of the Parent		1,622,638,526	1,405,549,364
Non-controlling interest		44,904,752	38,992,816
Total equity		1,667,543,278	1,444,542,180
Liabilities			
Long-term debts	24,32,35	159,776,995	279,611,588
Long-term trade and other payables	23,32,36	612,511	678,606
Non-current lease liabilities	36	17,110,219	-
Defined benefit liabilities	27	1,694,870	-
Deferred tax liabilities	33	141,107,317	126,204,195
Other non-current liabilities	26	676	3,574
Total Non-current liabilities		320,302,588	406,497,963
Current portion of long-term debts	24,32,35	120,005,915	50,046,414
Short-term borrowings	24,32,35	6,980,144	105,318,223
Trade and other payables	23,32,37	258,018,570	248,386,485
Current lease liabilities	38	7,334,189	-
Current income tax liabilities	33	21,614,263	33,719,562
Other current liabilities	26	50,508,317	62,839,835
Total Current liabilities		464,461,398	500,310,519
Total liabilities		784,763,986	906,808,482
Total equity and liabilities		₩ 2,452,307,264	₩ 2,351,350,662

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

Orion Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018

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

	Notes	<u>2019</u>	<u>2018</u>
Revenue	6,27,36	₩ 2,023,296,057	₩ 1,926,947,889
Cost of sales	27,31,36	<u>(1,110,079,910)</u>	<u>(1,049,975,126)</u>
Gross profit		913,216,147	876,972,763
Selling expenses	28,31	(457,930,854)	(470,324,430)
General and administrative expenses	28,31	<u>(127,696,548)</u>	<u>(124,473,303)</u>
Operating profit		327,588,745	282,175,030
Net other income (expenses)	29	(17,350,820)	6,190,343
Net finance costs	30,32	(2,136,300)	(12,108,904)
Share of profit (loss) of associates and joint ventures	11	7,494	(1,047,757)
Profit before income tax		<u>308,109,119</u>	<u>275,208,712</u>
Income tax expense	33	<u>(87,641,211)</u>	<u>(132,182,392)</u>
Profit for the year		<u>220,467,908</u>	<u>143,026,320</u>
Other comprehensive income(loss):			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating foreign operations		29,797,364	(18,477,892)
Share of other comprehensive income(loss) of joint ventures	11	13,531	1,711
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gain(loss)	25	(4,417,579)	(1,524,086)
Share of defined benefit plan actuarial gain(loss) of joint ventures		(5,239)	(47,659)
Income tax of other comprehensive income		1,069,054	368,828
Gain (loss) on valuation of financial assets at fair value through other comprehensive income		1,020,093	-
Other comprehensive income(loss) for the period, net of tax		<u>27,477,224</u>	<u>(19,679,098)</u>
Total comprehensive income for the year		<u>₩ 247,945,132</u>	<u>₩ 123,347,222</u>

Orion Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018

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

	Notes	<u>2019</u>	<u>2018</u>
Profit (loss) attributable to:			
Owners of the Parent	₩	215,579,327	₩ 139,852,063
Non-controlling interests		<u>4,888,581</u>	<u>3,174,257</u>
Profit for the year	₩	<u>220,467,908</u>	<u>₩ 143,026,320</u>
Total comprehensive income attributable to:			
Owners of the Parent	₩	242,031,513	₩ 121,030,755
Non-controlling interests		<u>5,913,619</u>	<u>2,316,467</u>
Total comprehensive income for the year	₩	<u>247,945,132</u>	<u>₩ 123,347,222</u>
Earnings per share: (in Korean won)			
	21		
Basic earnings per share		₩ 5,454	₩ 3,538
Diluted earnings per share		5,454	3,538

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

Orion Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2019 and 2018

(In thousands of Korean won)

	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Treasury shares</u>	<u>Other capital</u>	<u>Reserves</u>	<u>Retained earnings</u>	<u>Non-controlling interests</u>	<u>Total equity</u>
Balance at January 1, 2018	₩ 19,766,751	₩ 598,135,706	₩ (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	-	-	-	-	-	(1,155,258)	-	(1,155,258)
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	5,980	-	-	-	-	-	6,210
Dividends paid	-	-	-	-	-	(23,715,694)	-	(23,715,694)
Addition to legal reserves	-	-	-	-	6,910,359	(6,910,359)	-	-
Total transactions with owners of the Company, recognized directly in equity	230	5,980	-	-	6,910,359	(30,626,053)	-	(23,709,484)
Balance at December 31, 2018	₩ 19,766,981	₩ 598,141,686	₩ (604,361)	₩ 597,123,578	₩ 8,977,129	₩ 182,144,352	₩ 38,992,816	₩ 1,444,542,180

Orion Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2019 and 2018

	Capital stock	Capital surplus	Treasury shares	Other capital	Reserves	Retained earnings	Non- controlling interests	Total equity
<i>(In thousands of Korean won)</i>								
Balance at January 1, 2019	₩ 19,766,981	₩ 598,141,686	₩ (604,361)	₩ 597,123,578	₩ 8,977,129	₩ 182,144,352	₩ 38,992,816	₩ 1,444,542,180
Changes in accounting policy (Note 38)	-	-	-	-	-	(1,257,972)	(1,682)	(1,259,654)
After adjustments	19,766,981	598,141,686	(604,361)	597,123,578	8,977,129	180,886,380	38,991,134	1,443,282,526
Comprehensive income:								
Profit for the year	-	-	-	-	-	215,579,327	4,888,581	220,467,908
Other comprehensive income:								
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	-	-	-	970,645	-	-	49,448	1,020,093
Exchange differences on translating foreign operations	-	-	-	28,820,965	-	-	976,399	29,797,364
Share of other comprehensive income of joint ventures and associates	-	-	-	14,341	-	-	(809)	13,532
Share of defined benefit plan actuarial gain(loss) of joint ventures	-	-	-	-	-	(5,239)	-	(5,239)
Remeasurements of net defined benefit liability	-	-	-	-	-	(3,348,526)	-	(3,348,526)
Total comprehensive income for the year	-	-	-	29,805,951	-	212,225,562	5,913,619	247,945,132
Total transactions with owners of the Company, recognized directly in equity:								
Exercise of stock options	1,085	30,506	-	-	-	-	-	31,592
Dividends paid	-	-	-	-	-	(23,715,971)	-	(23,715,971)
Addition to legal reserves	-	-	-	-	12,359,651	(12,359,651)	-	-
Transfer to discretionary reserves	-	-	-	-	51,274,006	(51,274,006)	-	-
Total transactions with owners of the Company, recognized directly in equity	1,085	30,506	-	-	63,633,657	(87,349,628)	-	(23,684,379)
Balance at December 31, 2019	₩ 19,768,066	₩ 598,172,192	₩ (604,361)	₩ 626,929,529	₩ 72,610,786	₩ 305,762,314	₩ 44,904,752	₩ 1,667,543,278

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

Orion Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

(In thousands of Korean won)

	2019	2018
Cash flows from operating activities		
Profit for the year	₩ 220,467,908	₩ 143,026,320
Adjustments for:		
Retirement benefits	10,436,720	10,995,535
Depreciation of property, plant and equipment	119,223,067	114,993,762
Amortization	3,446,282	2,744,443
Depreciation of investment property	134,808	79,943
Depreciation of right-of-use assets	9,388,098	-
Impairment loss on property, plant and equipment	1,447,965	-
Impairment losses on intangible assets	77,899	629,010
Impairment loss on right-of-use assets	480,050	-
Loss on sale of trade receivables	19,774	6,356
Bad debt expenses of trade receivables	183,786	239,058
Other bad debt allowance	385	52,528
Loss on sale of property, plant and equipment	16,255,799	2,732,430
Loss on sale of intangible assets	446	219,727
Foreign currency translation loss	199,781	339,322
Interest expense	10,920,164	16,823,708
Income tax expense	87,641,212	132,182,391
Share of gain(loss) of joint ventures	(7,494)	1,047,757
Other expenses	4,689,752	861,868
Gain on sale of property, plant and equipment	(3,111,840)	(1,366,316)
Gain on sale of intangible assets	-	(237,911)
Reversal of Impairment losses on intangible assets	-	(448,817)
Foreign currency translation gain	(99,321)	(198,116)
Interest income	(7,219,993)	(6,783,592)
Dividend income	(209,675)	-
Other income	(548,802)	(9,950)
Subtotal	253,348,863	274,903,136
Changes in:		
Trade receivables	(15,347,190)	(34,814,439)
Other receivables	5,332,340	(307,613)
Other current assets	(3,119,646)	6,009,206
Inventories	7,768,457	(7,461,485)
Other non-current assets	100,040	(2,324,422)
Trade payables	(304,009)	15,281,970
Other payables	4,983,808	54,405,558
Other current liabilities	(13,510,839)	24,090,462
Plan assets	(6,871,304)	(5,583,413)
Payment of defined benefit obligations	(7,344,351)	(7,114,612)
Subtotal	₩ (28,312,694)	₩ 42,181,212

Orion Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

<i>(In thousands of Korean won)</i>	2019	2018
Interest received	₩ 5,698,347	₩ 5,520,163
Dividend received	209,675	-
Interest paid	(10,306,593)	(16,378,286)
Income tax paid	(93,279,173)	(48,658,541)
Net cash inflow from operating activities	<u>347,826,333</u>	<u>400,594,004</u>
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	6,677,967	11,467,374
Proceeds from disposal of intangible assets	50,000	1,693,400
Increase(decrease) in financial assets at fair value through profit or loss	33,716,000	(33,280,000)
Decrease in rental deposits	340,086	859,187
Decrease in operation deposits	35,229	-
Decrease(increase) in financial deposits	(59,772,487)	46,368,609
Increase in financial assets at fair value through other comprehensive income	(18,589,948)	-
Acquisition of property, plant and equipment	(125,846,727)	(130,825,482)
Acquisition of intangible assets	(3,445,570)	(4,140,191)
Increase in rental deposits	(18,620,002)	(45,000)
Increase in operation deposits	(119,580)	-
Acquisition of investments in associates	(1,887,696)	-
Acquisition of joint ventures	-	(7,000,000)
Net cash outflow from investing activities	<u>(187,462,728)</u>	<u>(114,902,103)</u>
Cash flows from financing activities		
Increase in short-term borrowings	936,967,036	1,072,743,653
Increase in security deposits	27,000	53,000
Exercise of stock options	31,592	6,211
Redemption of short-term borrowings	(1,038,918,197)	(1,077,445,781)
Redemption of current portion of long-term borrowings	(50,060,000)	(170,882,436)
Redemption of lease liabilities	(8,713,260)	-
Decrease in security deposits	(7,000)	(2,000)
Dividends paid	(23,711,758)	(23,709,756)
Net cash outflow from financing activities	<u>(184,384,587)</u>	<u>(199,237,109)</u>
Effect of exchange rate fluctuations on cash held, and others	4,367,171	(3,441,987)
Net increase(decrease) in cash and cash equivalents	(19,653,811)	83,012,805
Cash and cash equivalents at the beginning of the period	184,619,098	101,606,293
Cash and cash equivalents at the end of the period	<u>₩ 164,965,287</u>	<u>₩ 184,619,098</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, 2019 and 2018

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, 2019, the Company's capital stock is ₩ 19,768 million. Major shareholders of the Company are Orion Holdings Co., Ltd. (37.37%) and seven other related parties (6.45%).

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 and associates.

The Company and its consolidated subsidiaries as at December 31, 2019 and 2018, are as follows:

Name	Location	Immediate controlling party	Percentage of ownership					
			2019			2018		
			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.	India	Orion Corporation	100.00%	-	100.00%	100.00%	-	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.	China	Orion Food Co., Ltd.	-	100.00%	100.00%	-	100.00%	100.00%
Orion Agro Co., Ltd.	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, 2019 and 2018

Name	Location	Immediate controlling party	Percentage of ownership					
			2019			2018		
			The Company	Subsidiary	Total	The Company	Subsidiary	Total
Orion Agro DuoLun Co., Ltd.	China	Orion Food Co., Ltd	-	100.00%	100.00%	-	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%

Orion Corporation and Subsidiaries
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Financial information of the Company and its consolidated subsidiaries as at December 31, 2019 and 2018 and for the years ended December 31, 2019 and 2018 is summarized as follows:

(In millions of Korean won)

Name	Main business	2019					
		Total assets	Total liabilities	Total equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)
Orion Corporation	Manufacturing and selling confectioneries	₩ 1,190,810	₩ 443,632	₩ 747,178	₩ 732,835	₩ 76,478	₩ 73,305
PAN ORION Corp. Limited ¹	Holding company	330,422	80	330,342	175,801	158,124	159,144
Orion International Euro LLC	Manufacturing and selling confectioneries	85,947	12,174	73,773	77,303	10,457	10,457
Orion Food VINA Co., Ltd.	Manufacturing and selling confectioneries	277,237	38,907	238,330	252,321	43,865	43,865
Orion Nutritionals Private Ltd.	Selling confectioneries	10,571	337	10,234	-	(829)	(829)
Orion Food Co., Ltd.	Manufacturing and selling confectioneries	598,873	233,249	365,624	974,426	61,153	61,153
Orion Food(Shanghai) Co., Ltd.	Manufacturing confectioneries	293,498	33,429	260,069	157,297	18,288	18,288
Orion Food Guangzhou Co., Ltd.	Manufacturing confectioneries	213,881	56,548	157,333	106,943	11,927	11,927
Orion Food (Shen Yang) Co., Ltd.	Manufacturing confectioneries	169,340	62,555	106,785	66,099	5,196	5,196
Orion(Bei Tun) Agro Processing Co., Ltd. ²	Processing the agricultural products	6,659	113	6,546	8,307	(27,504)	(27,504)
Orion Agro Co., Ltd.	Manufacturing food and beverages	8,800	953	7,847	8,401	1,242	1,242
Orion Agro DuoLun Co., Ltd.	Processing the agricultural products	3,219	219	3,000	3,271	40	40
LANGFANG IPAK Co., Ltd.	Manufacturing pulp and paper	23,154	4,647	18,507	20,951	784	784
Orion Agro BeiTun Co. Ltd	Harvesting and selling the agricultural products	137	504	(367)	3,671	(1,072)	(1,072)
Total		₩ 3,212,548	₩ 887,347	₩ 2,325,201	₩ 2,587,626	₩ 358,149	₩ 355,996

¹ Sales of PAN Orion Corp. Limited are dividends received from Orion Food Co., Ltd. in 2019.

² Due to a fire, Orion(Bei Tun) Agro Processing Co., Ltd. recognized loss of ₩ 21,538 million (Note 39)

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

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(In millions of Korean won)

Name	Main business	2018					
		Total assets	Total liabilities	Total equity	Sales	Profit (loss) for the year	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	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 ¹	Selling confectioneries	-	-	-	-	(7)	(7)
Orion Food Co., Ltd.	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 ²	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 PT. Orion Food Indonesia went through liquidation in 2018 and the amount stated above presents financial information before the liquidation.

² 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.

There are no material changes in the scope of the consolidation for the year ended December 31, 2019.

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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 5, 2020, which will be submitted for approval to the shareholders' meeting to be held on March 19, 2020.

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:

- Right-of-use assets / lease liabilities
- financial assets at fair value through other comprehensive income
- investments in joint ventures and associates
- 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 : Estimation of recoverable amount of Goodwill
- Note 11 : Estimation of recoverable amount of investments in Joint ventures and associates
- Note 15 : Estimation of recoverable amount of Trade and other receivables
- Note 25 : Measurement of defined benefit obligations for employees(actuarial assumptions)
- Note 26 : Measurement of provision for warranty
- Note 33 : The probability of realising of Deferred tax asset(liability)
- Note 35 : Financial commitments and contingencies (assumptions on probable outflow of resources and the amount)
- Note 38 : Changes in Accounting Policies (Korean IFRS 1116 *Lease*)

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, 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 32 : Financial Instruments by categories

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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, 2019. The significant influence of the adoption of these amendments are included in Note 38.

- Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* replaces Korean IFRS 1017 *Leases*. 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.

With implementation of Korean IFRS 1116 *Lease*, the Group has changed accounting policy. The Group has adopted Korean IFRS 1116 retrospectively, as permitted under the specific transitional provisions in the standard, and recognized the cumulative impact of initially applying the standard as at January 1, 2019, the date of initial application. The Group has not restated comparatives for the 2018 reporting period. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 38.

- Amendment to 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. The amendment does not have a significant impact on the financial statements.

- 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 amendment does not have a significant impact on the financial statements.

- 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. The amendments also clarify that Korean IFRS 1109 requirements are applied to long-term interests that form part of the entity's net investment in an associate or joint venture before applying the impairment requirements of Korean IFRS 1028. The amendment does not have a significant impact on the financial statements.

- 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. The enactment does not have a

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significant impact on the financial statements.

- 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. The amendment does not have a significant impact on the financial statements.

- 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. The amendment does not have a significant impact on the financial statements.

- 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. The amendment does not have a significant impact on the financial statements..

- 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. The amendment does not have a significant impact on the financial statements.

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

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Group.

- (a) Amendments to Korean IFRS 1001 Presentation of Financial Statements and Korean IFRS 1008 Accounting policies, changes in accounting estimates and errors – Definition of Material*

The amendments clarify the explanation of the definition of material and amended Korean IFRS 1001 and Korean IFRS 1008 in accordance with the clarified definitions. Materiality is assessed by reference to omission or misstatement of material information as well as effects of immaterial information, and to the nature of the users when determining the information to be disclosed by the Group. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- (b) Amendments to Korean IFRS 1103 Business Combination – Definition of a Business*

To consider the integration of the required activities and assets as a business, the amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and excludes economic benefits from the lower costs. An entity can

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apply a concentration test, an optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets, the assets acquired would not represent a business. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

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

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. As described in Note 6, the Group has a single confectionaries segment which is the Group's strategic operating segment unit. The strategic operating segment unit is operated separately from others because strategic operating segments provide different products and render different services and each segment requires different technology and marketing strategy.

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

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transaction.

(c) Subsidiaries

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

(d) Loss of control

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

(e) Interests in equity-method Investees

The Group's interests in equity-method investees comprise interests in associates and 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

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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.

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

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. Changes in fair value of non-designated equity investment are recognized in profit or loss.

(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

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flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset 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 34 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.

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4.8 Property, plant and equipment

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

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

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

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

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

The estimated useful lives of the Group's assets in the years ended December 31, 2019 and 2018, 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 within other income(expense).

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. 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

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be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

4.10 Intangible assets

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

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

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

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

(a) Research and development

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 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.

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Investment property except for land, are depreciated on a straight-line basis over 30 ~ 55 years as estimated useful lives.

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

4.12 Impairment of non-financial assets

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

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

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

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

4.13 Leases

As explained in Note 3 above, the Group has changed its accounting policy for leases. The impact of the new accounting policies is disclosed in Note 38.

The Group leases various offices, warehouses and cars. Lease contracts are typically made for fixed periods, but may have extension options as described in (b) below

The Group determines the lease term as the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. When the lessee and the lessor each has the right to terminate the lease without permission from the other party, the Group should consider a termination penalty in determining the period for which the contract is enforceable.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or

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

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Group (the lessee) under residual value guarantees
- The exercise price of a purchase option if the Group (the lessee) is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group (the lessee) exercising that option

Lease liability measurement also includes payments to be made in option periods if the lessee is reasonably certain to exercise an option to extend the lease.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect adjustments specific to the lease, for example term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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Payments associated with short-term leases of equipment and vehicles and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment, bidet, water purifier and small items of office furniture

(a) Variable lease payments

Variable lease payments include conditions that are linked to the usage of pallets, forklift trucks, etc. The contractual term that pays variable lease are used for a myriad of reasons following the frequent change of the number of usages. Such variable lease payments are recognized as profit or loss in periods where certain conditions cause variable lease payments.

Some property leases contain variable payment terms that are linked to sales generated from a store. Variable payment terms are used for a variety of reasons, including minimizing the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

(b) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

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.

4.15 Employee benefits

(a) Short-term employee benefits

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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 reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

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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 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 for each statement of financial position of foreign operations, whose functional currency is not the currency of a hyperinflationary economy are translated at the closing rate at the end of the reporting period. The income and expenses for each consolidated statement of profit or loss of foreign operations are translated at average exchange rate. 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 Group has granted shares or share options to its employees and other parties. For equity-settled, share-based payment transactions, the Group 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 Group cannot reliably estimate the fair value of the goods or services received, the Group 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

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instruments cannot be estimated reliably at the measurement date, the Group 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 Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group 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. Trade discounts and volume rebates are recognized as a reduction of revenue.

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.

4.21 Finance income and finance costs

Finance income comprises interest income on funds invested and dividend income. 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. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

4.22 Income taxes

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

(a) Current tax

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

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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.

Information on the Group's subsidiaries that has material non-controlling interests is summarized as follows:

Subsidiary	Location	Non-controlling interests percentage	
		2019	2018
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	₩ 4,888,581	₩ 44,904,752	₩ -

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	₩ 37,701,441	₩ 212,333,666	₩ 121,697,212	₩ 24,984,226	₩ 14,669,248
Non-current assets	292,720,220	386,538,908	171,800,887	188,896,573	154,671,220
Current liabilities	80,384	209,000,822	21,749,420	44,707,370	55,280,592
Non-current liabilities	-	24,247,926	11,679,392	11,840,244	7,274,491
Equity	330,341,277	365,623,826	260,069,287	157,333,185	106,785,385
Revenue	175,800,514	974,426,205	157,297,038	106,943,244	66,098,603
Profit(loss)	158,123,889	61,153,054	18,288,234	11,926,977	5,195,559
Total comprehensive income(loss)	159,143,982	61,153,054	18,288,234	11,926,977	5,195,559

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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)

<u>Subsidiary</u>	<u>PAN Orion Corp. Limited</u>	<u>Orion Food Co., Ltd.</u>	<u>Orion Food(Shanghai) Co., Ltd.</u>	<u>Orion Food Guangzhou Co., Ltd.</u>	<u>Orion Food (Shen Yang) Co., Ltd.</u>
Cash flows from operating activities	₩ 157,752,289	₩ 90,121,313	₩ 32,632,801	₩ 25,562,263	₩ 23,258,637
Cash flows from investing activities	(20,477,644)	65,426,553	(31,820,582)	(1,906,428)	(9,851,802)
Cash flows from financing activities	(105,789,396)	(179,056,693)	-	(23,938,360)	(13,823,560)
Effect of exchange rate fluctuations on cash held	(430,353)	1,682,963	33,600	16,755	27,696
Net increase (decrease) in cash and cash equivalents	31,054,896	(21,825,864)	845,819	(265,770)	(389,029)

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

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6. Operating Segments

The Group has a single 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 Sales for the years ended December 31, 2019 and 2018, are as follows:

(In thousands of Korean won)

	2019		
	Confectioneries	Elimination	Consolidated Total
Total segment sales	₩ 2,411,824,526	₩ (388,528,469)	₩ 2,023,296,057
Less: Inter segment sales	(388,528,469)	388,528,469	-
External sales	2,023,296,057	-	2,023,296,057
Depreciation and others (*)	131,618,007	574,248	132,192,255
Profit(loss) for the year	326,111,998	1,476,747	327,588,745

(*) Includes depreciation of property, plant and equipment and intangible assets, investment property, and the right-of-use assets.

(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 and others	117,883,987	(145,783)	117,738,204
Profit(loss) for the year	282,603,436	(428,407)	282,175,029

Segment assets and liabilities as at December 31, 2019 and 2018, are as follows:

(In thousands of Korean won)

	2019		
	Confectioneries	Elimination	Consolidated Total
Total assets	₩ 3,213,471,208	₩ (761,163,944)	₩ 2,452,307,264
Total liabilities	887,347,470	(102,583,485)	784,763,985
Investments in joint ventures and associates	32,286,796	-	32,286,796
Increase of non-current assets	(727,223)	659,739	(67,484)

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

(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

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Increase of non-current assets (17,216,330) (1,213,551) (18,429,881)

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

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

Information on regional sales for the years ended December 31, 2019 and 2018, is as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Domestic	₩ 717,473,018	₩ 698,177,026
China	976,348,901	933,317,492
Other	<u>329,474,138</u>	<u>295,453,371</u>
Total	₩ <u>2,023,296,057</u>	₩ <u>1,926,947,889</u>

Information on regional non-current assets as at December 31, 2019 and 2018 is as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Domestic	₩ 713,281,866	₩ 696,305,532
China	871,234,922	888,872,504
Other	<u>210,151,034</u>	<u>170,247,995</u>
Total	₩ <u>1,794,667,822</u>	₩ <u>1,755,426,031</u>

The detailed information on revenues of the Group for the years ended December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>			
	<u>Sale of goods</u>	<u>Royalty</u>	<u>Other</u>	<u>Total</u>
Recognized at a point in time	₩ 2,019,633,499	₩ -	₩ 3,652,017	₩ 2,023,285,516
Recognized over time	<u>-</u>	<u>10,541</u>	<u>-</u>	<u>10,541</u>
	₩ <u>2,019,633,499</u>	₩ <u>10,541</u>	₩ <u>3,652,017</u>	₩ <u>2,023,296,057</u>
<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>

There is no main customer who contributes more than 10% of the Group's revenues for the year ended December 31, 2019.

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7. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2019 and 2018, are as follows:

(In thousands of Korean won)

	2019						
	Land	Buildings	Structures	Machinery	Others	Construction in-progress	Total
Acquisition cost							
Balance at January 1, 2019	₩ 203,372,133	₩ 705,267,854	₩ 18,862,371	₩ 1,412,270,207	₩ 142,148,770	₩ 25,765,820	₩ 2,507,687,155
Additions	786,641	1,426,698	65,098	19,802,805	5,717,689	96,467,605	124,266,536
Disposals	(1,593,499)	(1,366,754)	(12,573)	(19,872,014)	(18,016,876)	-	(40,861,716)
Others	175,026	25,408,609	589,889	55,010,278	8,210,100	(69,429,584)	19,964,318
Balance at December 31, 2019	₩ <u>202,740,301</u>	₩ <u>730,736,407</u>	₩ <u>19,504,785</u>	₩ <u>1,467,211,276</u>	₩ <u>138,059,683</u>	₩ <u>52,803,841</u>	₩ <u>2,611,056,293</u>
Accumulated depreciation and impairment							
Balance at January 1, 2019	₩ -	₩ (125,859,688)	₩ (12,355,410)	₩ (631,974,706)	₩ (91,517,575)	₩ -	₩ (861,707,379)
Depreciation	-	(16,720,961)	(947,941)	(90,209,068)	(11,345,097)	-	(119,223,067)
Impairment Loss ¹	-	(949,492)	-	(496,875)	(1,598)	-	(1,447,965)
Disposals ¹	-	495,071	12,572	19,122,321	16,648,196	-	36,278,160
Others	-	(836,138)	(170,864)	(7,503,311)	(936,765)	-	(9,447,078)
Balance at December 31, 2019	₩ -	₩ <u>(143,871,208)</u>	₩ <u>(13,461,643)</u>	₩ <u>(711,061,639)</u>	₩ <u>(87,152,839)</u>	₩ -	₩ <u>(955,547,329)</u>
Book amount							
Balance at January 1, 2019	₩ 203,372,133	₩ 579,408,166	₩ 6,506,961	₩ 780,295,501	₩ 50,631,195	₩ 25,765,820	₩ 1,645,979,776
Balance at December 31, 2019	₩ <u>202,740,301</u>	₩ <u>586,865,199</u>	₩ <u>6,043,142</u>	₩ <u>756,149,637</u>	₩ <u>50,906,844</u>	₩ <u>52,803,841</u>	₩ <u>1,655,508,964</u>

¹ Due to a fire, the Group recognized loss on disposal of property, plant and equipment and impairment loss of ₩ 16,695 million.

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

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	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	-	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

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

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As at December 31, 2019 and 2018, the Group has made purchase agreements with respect to buildings, machinery and equipment and others and It is expected to spend ₩ 36,102 million (2018: ₩ 47,695 million) in the future.

Borrowing costs of ₩ 82,275 thousand and ₩ 55,495 thousand in relation to the completion of construction, were capitalized as part of the cost of qualifying assets for the years ended December 31, 2019 and 2018, respectively. The capitalization rates were 2.42% and 2.51% for the years ended December 31, 2019 and 2018, respectively.

As at December 31, 2019 and 2018, there is leasehold rights of ₩ 50 million relating deposits received on the group's property, especially the building.

As at December 31, 2019, the Group has fire and other insurance coverage on the Group's inventories, property, plant and equipment against fire and others. In addition, as at December 31, 2019, the Group maintains insurance policies covering loss and liability arising from products, burglary, gas accidents, directors' and officers' liability and automobile accidents.

As at December 31, 2019, the assets pledged as collateral for the Group's payables are as follows:

(In thousands of Korean won)

Asset	Lender	Type of borrowing	2019	
			Borrowing amount	Collateralized amount
Land and buildings	Siheung Environmental Management Center	General loan	₩ 60,000	₩ 9,027,935
				₩ 780,000

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8. Intangible Assets

Changes in intangible assets for the years ended December 31, 2019 and 2018, are as follows:

(In thousands of Korean won)

	2019			
	<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, 2019	₩ 16,277,391	₩ 20,812,719	₩ 15,735,162	₩ 52,825,272
Additions	74,716	838,283	4,784,332	5,697,331
Disposals	(50,446)	-	(156,145)	(206,591)
Others	18,070	15,827	810,040	843,937
Balance at December 31, 2019	₩ 16,319,731	₩ 21,666,829	₩ 21,173,389	₩ 59,159,949
Accumulated amortization and impairment				
Balance at January 1, 2019	₩ (3,001,792)	₩ (13,704,942)	₩ (7,148,642)	₩ (23,855,376)
Amortization	-	(1,341,580)	(2,104,703)	(3,446,283)
Impairment loss ¹	-	-	(77,899)	(77,899)
Disposals	-	-	156,145	156,145
Others	-	(11,737)	(112,112)	(123,849)
Balance at December 31, 2019	₩ (3,001,792)	₩ (15,058,259)	₩ (9,287,211)	₩ (27,347,262)
Book amount				
Balance at January 1, 2019	₩ 13,275,599	₩ 7,107,777	₩ 8,586,520	₩ 28,969,896
Balance at December 31, 2019	₩ 13,317,939	₩ 6,608,570	₩ 11,886,178	₩ 31,812,687

¹ Due to a fire, the Group recognized impairment loss of ₩ 78 million.

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

(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	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	-	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

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

As at December 31, 2019 and 2018, the Group has made purchase agreements with respect to other intangible asset and it is expected to spend ₩ 479 million (2018: ₩ 772 million) in the future.

9. Goodwill

Changes in goodwill for the years ended December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	2019	2018
Balance at beginning of year	₩ 22,697,670	₩ 22,754,334
Fluctuations due to foreign currency translation	189,730	(56,664)
Balance at end of year	₩ 22,887,400	₩ 22,697,670

Impairment tests for goodwill

<i>(In thousands of Korean won)</i>		2019	2018	Acquisitor	Description
CGUs					
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	10,552,300	10,362,570		Orion Food Co., Ltd.	Acquired in a business combination with LANGFANG IPACK Co., Ltd
	₩ 22,887,400	₩ 22,697,670			

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.

	Gross Profit Margin¹	Growth rate of sale²	Permanent growth rate³	Pre-tax rate⁴
Orion Corp.	46.22%	2.57%	1.00%	9.78%
Langfang IPAK Co., Ltd	15.34%	5.99%	1.50%	11.72%

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 permanent growth rate expected after 5 years later.

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

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10. Investment Property

Changes in investment property for the year ended December 31, 2019 are as follows:

(In thousands of Korean won)

	2019		
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Acquisition cost			
Balance at January 1, 2019	₩ -	₩ 6,505,454	₩ 6,505,454
Others	-	116,438	116,438
Balance at December 31, 2019	₩ -	₩ 6,621,892	₩ 6,621,892
Accumulated depreciation and impairment			
Balance at January 1, 2019	₩ -	₩ (214,672)	₩ (214,672)
Depreciation	-	(134,808)	(134,808)
Others	-	(1,193)	(1,193)
Balance at December 31, 2019	₩ -	₩ (350,673)	₩ (350,673)
Book amount			
Balance at January 1, 2019	₩ -	₩ 6,290,782	₩ 6,290,782
Balance at December 31, 2019	₩ -	₩ 6,271,219	₩ 6,271,219

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

(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	-	(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	-	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

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

Income or expense relates to the investment property as at December 31, 2019, and 2018, are as follows:

(In thousands of Korean won)

	<u>2019</u>	<u>2018</u>
Rental income	₩ 325,712	₩ 186,905
Rental cost ¹	134,808	79,943

¹ Rental cost includes depreciation of investment property.

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As at December 31, 2019, total fair value of investment property is ₩ 7,419 million.

11. Investments in Joint Ventures and Associates

Investments in joint ventures as at December 31, 2019 and 2018 are summarized as follows:

(In thousands of Korean won)

	Location	2019		2018	
		Percentage of ownership	Book value	Percentage of ownership	Book value
Joint venture Delfi-Orion Pte Ltd.	Singapore	50.00%	₩ 627,104	50.00%	₩ 810,431
Joint venture Orion Nonghyup Agri, inc. ¹	Domestic	49.00%	29,863,328	49.00%	29,572,883
Associate Daehan distributor Corp. ²	Domestic	35.28%	1,796,364	-	-
			₩ 32,286,796		₩ 30,383,314

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

² As at December 31, 2019, the Group acquired ₩ 1,888 million amount of shares of Daehan distributor Corp. from the Ultimate Parent Company, Orion Holdings Co., Ltd.

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, 2019.

Changes in investments in joint ventures for the years ended December 31, 2019 and 2018, are as follows:

(In thousands of Korean won)

Name	2019				
	Balance at beginning of year	Acquisition	Share of profit (loss) of joint ventures	Other ¹	Balance at end of year
Delfi-Orion Pte Ltd.	₩ 810,431	₩ -	₩ (213,541)	₩ 30,214	₩ 627,104
Orion Nonghyup Agri, inc.	29,572,883	-	295,685	(5,240)	29,863,328
Daehan distributor Corp	-	1,887,696	(74,650)	(16,682)	1,796,364
	₩ 30,383,314	₩ 1,887,696	₩ 7,494	₩ 8,292	₩ 32,286,796

¹ Others mainly include fluctuation due to foreign currency translation of foreign joint ventures and associates.

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(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 joint ventures.

Summary of financial information of joint ventures and associates is as follows:

(In thousands of Korean won)

	2019					
	Assets	Liabilities	Equity	Revenue	Gain(loss) for the year	Total comprehensive loss
Delfi-Orion Pte Ltd.	₩ 2,278,951	₩ 1,024,742	₩ 1,254,209	₩ 3,137,163	₩ (427,083)	₩ (427,083)
Orion Nonghyup Agri, inc.	69,553,753	9,660,944	59,892,809	31,218,622	623,290	612,812
Daehan distributor Corp ¹	10,018,421	4,878,921	5,139,500	-	(211,592)	(211,592)

Financial information of 2019 represents financial position as at December 31, 2019 and financial performance for the year ended December 31, 2019.

¹ Financial information Daehan distributor Corp.'s financial information represents financial position as at December 31, 2019, and financial performance for the year ended December 31, 2019, from the acquisition date.

(In thousands of Korean won)

	2018					
	Assets	Liabilities	Equity	Revenue	Gain(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.

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The details of investments in joint ventures as at December 31, 2019 and 2018 are as follows:

(In thousands of Korean won)

Name	2019			
	Net assets	Percentage of ownership(%)	Group's share of net assets	Book amount
Delfi-Orion Pte Ltd.	₩ 1,254,209	50.00%	₩ 627,104	₩ 627,104
Orion Nonghyup Agri, inc.	59,892,808	49.00%	29,347,476	29,863,328
Daehan distributor Corp. ¹	5,139,500	35.28%	1,813,216	1,796,364

(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

12. Financial Assets

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

(In thousands of Korean won)

	2019	2018
Current	-	-
WMP	₩ -	₩ 32,587,337

Amounts recognized in profit or loss related to financial assets at fair value through profit or loss for the years ended December 31, 2019 and 2018, are as follows:

(In thousands of Korean won)

	2019	2018
Gain (loss) from financial assets at fair value through profit or loss	₩ 708,916	₩ 573,507

Financial assets mandatorily measured at fair value through other comprehensive income include the following classes of financial assets:

(In thousands of Korean won)

	2019	2018
Listed Taokaenoi Food & Marketing Public Company stock Limited	₩ 19,610,041	₩ -

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13. Other Assets

Other assets as at December 31, 2019 and 2018, are summarized as follows:

	2019		2018	
	Current	Non-current	Current	Non-current
Prepayments	₩ 13,456,554	₩ -	₩ 8,768,733	₩ -
Prepaid expenses ¹	3,735,694	2,115,198	4,263,571	42,850,912
Others	1,318,009	1,243,403	2,130,715	951,351
	<u>₩ 18,510,257</u>	<u>₩ 3,358,601</u>	<u>₩ 15,163,019</u>	<u>₩ 43,802,263</u>

¹ ₩ 42,050 of prepaid expenses (non-current) replaced to right-of-use assets.

14. Inventories

Inventories as at December 31, 2019 and 2018 are summarized as follows:

	2019	2018
Merchandise	₩ 24,380,871	₩ 27,856,524
Finished goods	44,648,498	45,491,896
Work-in-progress	7,544,344	7,874,932
Raw materials	52,602,556	55,859,449
Supplies	2,818,736	3,490,893
Raw materials-in-transit	13,249,241	13,365,113
Others	2,360,294	2,630,237
	<u>₩ 147,604,540</u>	<u>₩ 156,569,044</u>

The amount of inventories recognized as an expense and included as part of cost of sales during 2019 is ₩ 808,167 million (2018: ₩ 758,114 million).

15. Trade and Other Receivables

Trade and other receivables as at December 31, 2019 and 2018, are summarized as follows:

	2019		2018	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 179,889,009	₩ -	₩ 161,666,782	₩ -
Less: allowance for bad debts	(1,216,096)	-	(1,974,835)	-
Other receivables	4,875,984	-	7,026,939	-
Less: allowance for bad debts	(56,817)	-	(56,817)	-
Accrued income	1,679	-	80,297	-
Guarantee deposits	1,984,140	16,409,269	1,901,930	834,214
Loans	40,103	-	129,884	-
	<u>₩ 185,518,002</u>	<u>₩ 16,409,269</u>	<u>₩ 168,774,180</u>	<u>₩ 834,214</u>

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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 34.

16. Cash and Cash Equivalents, and Restricted Deposits

Cash and cash equivalents as at December 31, 2019 and 2018, are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Cash on hand	₩ 45,583	₩ 57,521
Demand deposits	<u>164,919,704</u>	<u>184,561,577</u>
	<u>₩ 164,965,287</u>	<u>₩ 184,619,098</u>

As at December 31, 2019 and 2018, the total amount of long-term deposits are deposit for checking account, which are restricted in use.

17. Capital stock

Details of capital stock as at December 31, 2019 and 2018 are as follows:

<i>(In Korean won, except number of shares)</i>	<u>2019</u>	<u>2018</u>
Number of ordinary shares:		
- Authorized	480,000,000	480,000,000
- Issued	39,536,132	39,533,961
Capital stock	₩ 19,768,066,000	19,766,980,500
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, 2019, no preferred shares have been issued.

According to its Articles of Incorporation, 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.

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, 2019, 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, 2019 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, 2019 and 2018 are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Changes from equity transactions	₩ 624,451,038	₩ 624,451,038
Exchange differences on translating foreign operations	1,582,001	(27,238,965)
Share of other comprehensive income of joint ventures	(74,155)	(88,495)
Profit(loss) of financial assets at fair value through other comprehensive income	970,645	-
	<u>₩ 626,929,529</u>	<u>₩ 597,123,578</u>

20. Reserves

Details of reserves as at December 31, 2019 and 2018 are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Legal reserves	₩ 21,336,780	₩ 8,977,129
Discretionary reserves	51,274,006	-
	<u>₩ 72,610,786</u>	<u>₩ 8,977,129</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

(In Korean won, except share information)

	<u>2019</u>	<u>2018</u>
Profit for the year attributable to owners of the Parent Company	₩ 215,579,326,901	₩ 139,852,062,903
Weighted-average number of ordinary shares	<u>39,528,741</u>	<u>39,526,308</u>
Basic earnings per share	₩ <u>5,454</u>	₩ <u>3,538</u>

Weighted average number of ordinary shares

(In shares)

	<u>2019</u>	<u>2018</u>
Beginning balance	39,533,961	39,533,501
Treasury shares	(7,343)	(7,343)
Exercise of stock options	<u>2,123</u>	<u>150</u>
Weighted average number of ordinary shares	<u>39,528,741</u>	<u>39,526,308</u>

Diluted earnings per share

(In Korean won, except share information)

	<u>2019</u>	<u>2018</u>
Profit for the year attributable to owners of the Parent Company	₩ 215,579,326,901	₩ 139,852,062,903
Adjusted profit for the year attributable to owners of the Parent Company	215,579,326,901	139,852,062,903
Diluted weighted average number of ordinary shares	<u>39,528,787</u>	<u>39,528,206</u>
Diluted earnings per share	₩ <u>5,454</u>	₩ <u>3,538</u>

Diluted weighted average number of ordinary shares

(In shares)

	<u>2019</u>	<u>2018</u>
Basic weighted average number of ordinary shares	39,528,741	39,526,308
Effect of stock options	<u>46</u>	<u>1,898</u>
Diluted weighted average number of ordinary shares	<u>39,528,787</u>	<u>39,528,206</u>

When calculating dilution of share options, the Company's average market price of shares was based on the average market price of the ordinary shares for the year ended December 31, 2019.

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22. Share-based Payments

The initial quantity of share-based payment arrangement given by Orion Holdings Co., Ltd. as at February 27, 2009, prior to the spin-off is 4,797 shares. After the spin-off, it was divided by the equity spin-off ratio of Orion Corporation. All share options issued by the Company have been exercised therefore, there are no exercisable options as at December 31, 2019.

23. Trade and Other Payables

Trade and other payables as at December 31, 2019 and 2018 are summarized as follows:

<i>(In thousands of Korean won)</i>	2019		2018	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Trade payables	₩ 88,486,402	₩ -	₩ 82,504,984	₩ -
Other payables	95,483,462	593,195	99,476,328	579,209
Withholdings	6,819,056	-	5,490,036	-
Accrued expenses	66,957,020	-	60,741,912	-
Leasehold deposit	272,630	19,316	173,225	99,397
	<u>₩ 258,018,570</u>	<u>₩ 612,511</u>	<u>₩ 248,386,485</u>	<u>₩ 678,606</u>

24. Borrowings and Debentures

Borrowings and debentures as at December 31, 2019 and 2018 are summarized as follows:

<i>(In thousands of Korean won)</i>	2019		2018	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Non-current				
Debentures	₩ 120,000,000	₩ 160,000,000	₩ 50,000,000	₩ 280,000,000
Less discount	(54,085)	(223,005)	(13,586)	(448,412)
Long-term debts	60,000	-	60,000	60,000
Subtotal	<u>120,005,915</u>	<u>159,776,995</u>	<u>50,046,414</u>	<u>279,611,588</u>
Current				
Short-term borrowings in Korean won	1,844,225	-	1,988,399	-
Short-term borrowings in foreign currency	5,135,919	-	103,329,824	-
Subtotal	<u>6,980,144</u>	<u>-</u>	<u>105,318,223</u>	<u>-</u>
Total	<u>₩ 126,986,059</u>	<u>₩ 159,776,995</u>	<u>₩ 155,364,637</u>	<u>₩ 279,611,588</u>

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Terms and conditions of debentures as at December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	Maturity	Interest rate (%)	2019	2018
98th	2019-04-17	-	₩ -	₩ 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>280,000,000</u>	<u>330,000,000</u>
Less: current portion of debentures			<u>(120,000,000)</u>	<u>(50,000,000)</u>
			<u>₩ 160,000,000</u>	<u>₩ 280,000,000</u>

Terms and conditions of long-term debts as at December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	Maturity	Annual interest rate (%)	2019	2018
Siheung Environmental Management Center	2020-01-28	-	60,000	120,000
Less: current portion			<u>(60,000)</u>	<u>(60,000)</u>
			<u>₩ -</u>	<u>₩ 60,000</u>

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Short-term borrowings as at December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>		<u>Interest rate (%)</u>	<u>2019</u>		<u>2018</u>	
		Libor 3M+0.4%	₩	1,304,184 (USD 1,126,433)	₩	549,889 (USD 491,807)
Kookmin Bank		0.40%		2,740,172 (EUR 2,112,000)		-
		Libor 1M+1.13%		350,787 (USD 302,977)		245,699 (USD 219,747)
		0.3%		629,902 (EUR 485,500)		397,077 (EUR 310,420)
Shinhan Bank		Libor 3M+0.3%		110,874 (USD 95,763)		-
Hyundai Card		1.44%		1,844,225		1,988,399 22,447,727
Korea Development Bank		-		-		(USD 20,000,000)
		-		-		28,059,659
Woori Bank		-		-		(USD 25,000,000)
		-		-		11,223,864
		-		-		(USD 10,000,000)
		-		-		6,734,318
DBS Bank		-		-		(USD 6,000,000)
		-		-		33,671,591
		-		-		(USD 30,000,000)
			₩	<u>6,980,144</u>	₩	<u>105,318,223</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, 2019 and 2018:

(In thousands of Korean won)

<u>Asset</u>	<u>Location</u>	<u>Lender</u>	<u>Type of borrowing</u>	<u>2019</u>		
				<u>Borrowing amount</u>	<u>Book amount</u>	<u>Collateralized amount</u>
Land and buildings	Wonsi-dong, Danwon-gu,	Siheung Environmental Management Center	General loan	₩ 60,000	₩ 9,027,935	₩ 780,000

(In thousands of Korean won)

<u>Asset</u>	<u>Location</u>	<u>Lender</u>	<u>Type of borrowing</u>	<u>2018</u>		
				<u>Borrowing amount</u>	<u>Book amount</u>	<u>Collateralized amount</u>
Land and buildings	Wonsi-dong, Danwon-gu, Ansan-si	Siheung Environmental Management Center	General loan	₩ 120,000	₩ 9,027,456	₩ 780,000

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Book amount and fair value of borrowings as at December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	2019		2018	
	<u>Book amount</u>	<u>Fair value¹</u>	<u>Book amount</u>	<u>Fair value¹</u>
Short-term borrowings	₩ 126,986,059	₩ 126,986,059	₩ 155,364,637	₩ 155,364,637
Long-term borrowings	<u>159,776,995</u>	<u>160,009,253</u>	<u>279,611,588</u>	<u>280,024,573</u>
	<u>₩ 286,763,054</u>	<u>₩ 286,995,312</u>	<u>₩ 434,976,225</u>	<u>₩ 435,389,210</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 2.51% (2018: 2.47%) 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 years ended December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Contributions to defined contribution plans	₩ 1,094,089	₩ 1,025,690
Expenses related to post-employment defined benefit plans	<u>10,436,720</u>	<u>10,995,535</u>
	<u>₩ 11,530,809</u>	<u>₩ 12,021,225</u>

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Changes in net defined benefit liability (asset) for the years ended December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability(asset)	
	2019	2018	2019	2018	2019	2018
Beginning balance	₩ 79,086,087	₩ 69,364,957	₩ (79,448,915)	₩ (69,553,493)	₩ (362,828)	₩ (188,536)
Included in profit or loss:						
Current service costs	10,454,596	11,009,123	-	-	10,454,596	11,009,123
Interest costs (income)	1,727,086	1,928,765	(1,744,962)	(1,942,353)	(17,876)	(13,588)
	<u>12,181,682</u>	<u>12,937,888</u>	<u>(1,744,962)</u>	<u>(1,942,353)</u>	<u>10,436,720</u>	<u>10,995,535</u>
Included in other comprehensive income:						
Remeasurements loss (gain)						
- Actuarial loss (gain) arising from:						
Experience adjustment	2,550,567	(660,293)	-	-	2,550,567	(660,293)
Demographic assumptions	113,492	935,612	-	-	113,492	935,612
Financial assumptions	1,528,215	593,560	-	-	1,528,215	593,560
- Return on plan assets excluding interest income	-	-	225,305	655,207	225,305	655,207
	<u>4,192,274</u>	<u>868,879</u>	<u>225,305</u>	<u>655,207</u>	<u>4,417,579</u>	<u>1,524,086</u>
Others:						
Contributions paid by the employer	-	-	(14,200,000)	(12,640,000)	(14,200,000)	(12,640,000)
Transferred from a related party	3,421,079	4,949,072	(2,008,592)	(4,949,072)	1,412,487	-
Transferred to a related party	(1,433,878)	(1,924,209)	1,433,878	1,924,209	-	-
Benefits paid	(7,344,351)	(7,114,612)	7,328,696	7,056,587	(15,655)	(58,025)
Exchange differences on translating foreign operations	6,567	4,112	-	-	6,567	4,112
	<u>(5,350,583)</u>	<u>(4,085,637)</u>	<u>(7,446,018)</u>	<u>(8,608,276)</u>	<u>(12,796,601)</u>	<u>(12,693,913)</u>
Ending balance	₩ <u>90,109,460</u>	₩ <u>79,086,087</u>	₩ <u>(88,414,590)</u>	₩ <u>(79,448,915)</u>	₩ <u>1,694,870</u>	₩ <u>(362,828)</u>

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The components of plan assets as at December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Equity securities	₩ 24,799,632	₩ 13,223,421
Debt securities	40,721,523	16,400,123
Others	<u>22,893,435</u>	<u>49,825,371</u>
	<u>₩ 88,414,590</u>	<u>₩ 79,448,915</u>

The principal actuarial assumptions as at December 31, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	2.20%	2.53%
Future salary growth	6.32%	6.37%

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>2019</u>	
	<u>1% increase</u>	<u>1% decrease</u>
Discount rate	₩ (5,064,337)	₩ 5,710,310
Future salary growth	5,566,544	(5,041,806)

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

The weighted average duration of the defined benefit obligations is 6.32 years as at December 31, 2019.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2019, is as follows:

<i>(In thousands of Korean won)</i>	<u>Less than 1 year</u>		<u>Between 1-2 years</u>		<u>Between 2-5 years</u>		<u>Over 5 years</u>		<u>Total</u>
Pension benefits	₩ 9,892,358	₩ 14,838,992	₩ 32,460,468	₩ 163,937,833	₩ 221,129,651				

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26. Other Liabilities

Other liabilities as at December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	2019		2018	
	Current	Non-current	Current	Non-current
Advances received	₩ 46,889,112	₩ -	₩ 58,738,794	₩ -
Unearned revenue	4,968	676	3,588	3,574
Provision for warranty	2,853,606	-	2,779,745	-
Others	760,631	-	1,317,709	-
	<u>₩ 50,508,317</u>	<u>₩ 676</u>	<u>₩ 62,839,836</u>	<u>₩ 3,574</u>

27. Sales and Cost of Sales

Sales and cost of sales for the years ended December 31, 2019 and 2018, are as follows:

(a) Revenue from contracts with customers

<i>(In thousands of Korean won)</i>	2019	2018
Revenue from contracts with customers	₩ 2,023,296,057	₩ 1,926,947,889
	<u>₩ 2,023,296,057</u>	<u>₩ 1,926,947,889</u>

Details of revenue from contracts with customers for the years ended December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	2019			
	Sale of goods	Royalty	Other	Total
Recognized at a point in time	₩ 2,019,633,499	₩ -	₩ 3,652,017	₩ 2,023,285,516
Recognized over time	-	10,541	-	10,541
	<u>₩ 2,019,633,499</u>	<u>₩ 10,541</u>	<u>₩ 3,652,017</u>	<u>₩ 2,023,296,057</u>

<i>(In thousands of Korean won)</i>	2018			
	Sale of goods	Royalty	Other	Total
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>

(b) Cost of sales

<i>(In thousands of Korean won)</i>	2019	2018
Sale of goods	₩ 1,108,223,922	₩ 1,048,099,318
Others	1,855,988	1,875,808
	<u>₩ 1,110,079,910</u>	<u>₩ 1,049,975,126</u>

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28. Selling Expenses and General and Administrative Expenses

Details of selling expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Salaries	₩ 163,320,257	₩ 165,252,235
Retirement benefits	4,881,803	4,641,195
Employee welfare	15,519,947	14,952,425
Travel expenses	6,417,938	6,548,825
Taxes and dues	15,957,200	17,746,733
Rental expenses	13,875,108	16,202,732
Depreciation	5,909,093	6,473,395
Amortization	1,539,900	1,322,273
Advertising expenses	38,180,104	52,576,393
Ordinary development expense	1,166,988	1,131,566
Freight and custody	87,472,590	79,471,274
Commissions	60,996,218	64,255,781
Promotion	18,306,780	17,399,032
Bad debt expenses (reversal)	183,786	239,380
Depreciation of right-of-use assets	2,360,979	-
Others	21,842,163	22,111,191
	<u>₩ 457,930,854</u>	<u>₩ 470,324,430</u>

Details of general and administrative expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Salaries	₩ 54,165,167	₩ 52,589,578
Retirement benefits	5,047,251	4,932,883
Employee welfare	9,375,306	9,136,629
Travel expenses	2,127,438	1,831,988
Taxes and dues	2,177,068	4,186,494
Rental expenses	2,850,157	8,811,076
Depreciation	7,281,122	7,516,169
Amortization	1,906,381	1,289,263
Commissions	27,370,135	25,041,430
Depreciation of right-of-use assets	6,761,478	-
Others	8,635,045	9,137,793
	<u>₩ 127,696,548</u>	<u>₩ 124,473,303</u>

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29. Other Income and Other Expenses

Details of other income and other expenses for the years ended December 31, 2019 and 2018 are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Other income		
Foreign currency transaction gain	₩ 548,561	₩ 363,609
Foreign currency translation gain	56,491	19,001
Gain on sale of property, plant and equipment	3,111,840	1,366,316
Gain on sale of intangible assets	-	237,911
Reversal of impairment loss on intangible assets	-	448,817
Reversal of bad debt allowance	-	323
Insurance income ¹	-	8,020,658
Others	4,923,390	2,103,321
	<u>8,640,282</u>	<u>12,559,956</u>
Other expenses		
Foreign currency transaction loss	(230,239)	(335,960)
Foreign currency translation loss	(65,315)	(84,132)
Loss on sale of property, plant and equipment ²	(16,255,799)	(2,732,430)
Loss on sale of intangible assets	(446)	(219,727)
Impairment loss on property, plant and equipment ²	(1,447,966)	-
Impairment loss on intangible assets ²	(77,900)	(629,010)
Donation	(1,582,801)	(802,418)
Loss on sale of trade receivables	(19,774)	(6,356)
Impairment loss on right-of-use assets ²	(480,050)	-
Others ²	(5,830,812)	(1,559,580)
	<u>(25,991,102)</u>	<u>(6,369,613)</u>
Net other income	<u>₩ (17,350,820)</u>	<u>₩ 6,190,343</u>

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

² Due to a fire, the Group recognized loss of ₩ 21,539 million (Note 39).

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30. Finance income and costs

Details of finance income and costs for the years ended December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>		<u>2018</u>	
Finance income				
Interest income	₩	7,219,993	₩	6,783,592
Foreign currency transaction gain		2,243,701		2,299,467
Foreign currency translation gain		42,830		179,114
Dividend income		209,675		-
Gain on derivatives transaction		-		7,480
		<u>9,716,199</u>		<u>9,269,653</u>
Finance cost				
Interest expense		(10,920,164)		(16,823,708)
Foreign currency transaction loss		(797,869)		(4,299,660)
Foreign currency translation loss		(134,466)		(255,190)
		<u>(11,852,499)</u>		<u>(21,378,558)</u>
Net finance cost	₩	<u>(2,136,300)</u>	₩	<u>(12,108,905)</u>

31. Nature of expenses

Details of nature of expenses for the years ended December 31, 2019 and 2018 are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>			<u>2018</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	₩ 769,980,860	₩ -	₩ 769,980,860	₩ 749,482,718	₩ -	₩ 749,482,718
Purchasing merchandise	34,752,383	-	34,752,383	18,494,572	-	18,494,572
Changes in inventories of finished goods and merchandise	3,433,560	-	3,433,560	(9,862,822)	-	(9,862,822)
Employee benefits expense	75,550,016	227,414,478	302,964,494	81,435,418	227,415,891	308,851,309
Taxes and Dues	2,050,178	18,134,268	20,184,446	2,022,424	21,933,227	23,955,651
Rental Expenses	1,075,567	16,725,265	17,800,832	476,467	25,013,807	25,490,274
Depreciation and amortization	106,167,660	16,636,496	122,804,156	101,217,048	16,601,099	117,818,147
Depreciation of right-of-use assets	265,641	9,122,457	9,388,098	-	-	-
Advertising expenses	-	38,180,104	38,180,104	-	52,576,393	52,576,393
Freight and custody	1,037,729	87,472,590	88,510,319	1,239,501	79,471,274	80,710,775
Maintenance cost of vehicles	147,166	4,273,251	4,420,417	177,610	5,187,402	5,365,012
Commission	27,834,232	88,366,353	116,200,585	25,310,974	89,297,211	114,608,185
Others	87,784,918	79,302,140	167,087,058	79,981,216	77,301,430	157,282,646
	<u>₩ 1,110,079,910</u>	<u>₩ 585,627,402</u>	<u>₩ 1,695,707,312</u>	<u>₩ 1,049,975,126</u>	<u>₩ 594,797,734</u>	<u>₩ 1,644,772,860</u>

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32. Financial Instruments by Categories

Finance income and cost by categories for the years ended December 31, 2019 and 2018, are as follows:

(In thousands of Korean won)	2019				
	Finance income	Finance cost	Net income	Other comprehensive income (before income tax)	Total comprehensive income (loss)
Financial assets					
Financial assets at amortized cost	₩ 8,707,889	₩ -	₩ 8,707,889	₩ -	₩ 8,707,889
Financial assets at fair value through profit or loss	708,916	-	708,916	-	708,916
Financial assets at fair value through other comprehensive income	209,675	-	209,675	1,020,093	1,229,768
	9,626,480	-	9,626,480	1,020,093	10,646,573
Financial liabilities					
Financial liabilities measured at amortized cost	89,718	(10,862,959)	(10,773,241)	-	(10,773,241)
Lease liabilities	-	(989,539)	(989,539)	-	(989,539)
	89,718	(11,852,498)	(11,762,780)	-	(11,762,780)
	₩ 9,716,198	₩ (11,852,498)	₩ (2,136,300)	₩ 1,020,093	₩ (1,116,207)

(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
	9,232,363	(468)	9,231,895	-	9,231,895
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
	37,290	(21,378,090)	(21,340,800)	-	(21,340,800)
	₩ 9,269,653	₩ (21,378,558)	₩ (12,108,905)	₩ -	₩ (12,108,905)

The book amount and the fair value of financial instruments as at December 31, 2019 and 2018, are summarized as follows:

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<i>(In thousands of Korean won)</i>	2019		2018	
	Book value	Fair value	Book value	Fair value
Financial assets				
Financial assets at amortized cost	₩ 437,968,550	₩ 437,968,550	₩ 365,351,969	₩ 365,351,969
Financial assets at fair value through profit or loss	-	-	32,587,337	32,587,337
Financial assets at fair value through other comprehensive income	19,610,041	19,610,041	-	-
Financial liabilities				
Financial liabilities measured at amortized cost	531,373,739	531,373,739	672,724,432	673,166,675
Lease liabilities	24,444,408	24,444,408	-	-

The Group estimates the book amounts of financial assets, other than long-term borrowings and Financial assets at fair value through other comprehensive income, 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, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	Level 1	Level 2	Level 3	Total
December 31, 2019				
Financial assets at fair value through other comprehensive income	₩ 19,610,041	₩ -	₩ -	₩ 19,610,041
December 31, 2018				
Financial assets at fair value through profit or loss	₩ -	₩ 32,587,337	₩ -	₩ 32,587,337

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33. Income Taxes

Income tax expense (benefit) for the years ended December 31, 2019 and 2018, consists of:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Current income tax expense	₩ 68,643,566	₩ 66,275,741
Adjustments to income tax of prior periods	2,289,368	-
Origination and reversal of temporary differences	15,297,987	65,537,821
Total income tax effect	86,230,922	131,813,562
Income taxes related to items recognized outside profit or loss	1,410,291	368,829
Total income tax expense	<u>₩ 87,641,212</u>	<u>₩ 132,182,391</u>

Origination and reversal of temporary differences for the years ended December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Deferred tax liabilities net, ending balance	₩ (138,698,465)	₩ (123,400,478)
Deferred tax liabilities net, beginning balance	(123,400,478)	(57,862,657)
Origination and reversal of temporary differences	<u>₩ (15,297,988)</u>	<u>₩ (65,537,821)</u>

Income taxes related to items recognized outside profit or loss for the years ended December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Remeasurements of the defined benefit liability	₩ 1,069,054	₩ 368,829
Changes in accounting policy	341,237	-
Income tax expense recognized other than in profit or loss	<u>₩ 1,410,291</u>	<u>₩ 368,829</u>

Reconciliation between profit before income tax and income tax expense for the years ended December 31, 2019 and 2018, is as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Profit before income tax	₩ 308,109,119	₩ 275,208,711
Income tax using the Group's statutory tax rate	88,200,273	77,999,069
Adjustments :		
Non-deductible expense	418,208	111,812
Tax credits	(2,753,385)	(1,545,308)
Adjustments to income tax of prior periods	2,289,368	-
Income tax effect on temporary differences for unrecognized deferred tax	(1,627,055)	55,235,906
Others	1,113,803	380,912
Income tax expense	<u>₩ 87,641,211</u>	<u>₩ 132,182,391</u>
Effective tax rate	28.44%	48.03%

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

Changes in deferred tax assets and liabilities for the years ended December 31, 2019 and 2018, are as follows:

		2019			
<i>(In thousands of Korean won)</i>		Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Bad debt expense	₩	287,355	₩ (175,638)	₩ -	₩ 111,717
Provision for warranty		672,698	17,874	-	690,572
Accumulated depreciation		(73,463,020)	(10,170,648)	-	(83,633,668)
Defined benefit liability		905,240	(1,963,190)	1,069,054	11,104
Land		(11,589,839)	316,011	-	(11,273,828)
Investments in subsidiaries		(54,856,768)	1,118,682	-	(53,738,086)
Others		14,643,856	(5,851,370)	341,237	9,133,723
	₩	<u>(123,400,478)</u>	₩ <u>(16,708,279)</u>	₩ <u>1,410,291</u>	₩ <u>(138,698,466)</u>
		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>

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The amount of deductible temporary differences for which deferred tax assets are not recognized as at December 31, 2019 and 2018 are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Investments in subsidiaries and joint ventures	₩ 92,686,289	₩ 92,686,289
Other	468,519	267,736

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, 2019 and 2018 are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</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, 2019 and 2018 before offsetting are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Income taxes payable	₩ 21,614,263	₩ 40,735,049
Prepaid income taxes	(8,583,387)	(7,338,772)
Income taxes payable, net	<u>₩ 13,030,876</u>	<u>₩ 33,396,277</u>

The analysis of deferred tax assets and liabilities as at December 31, 2019 and 2018, is as follows:

<i>(in thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 24,847,922	₩ 18,265,332
Deferred tax asset to be recovered within 12 months	8,341,632	14,391,633
	<u>33,189,554</u>	<u>32,656,965</u>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(171,888,008)	(156,039,958)
Deferred tax liability to be recovered within 12 months	(11)	(17,485)
	<u>₩ (171,888,019)</u>	<u>₩ (156,057,443)</u>
Deferred tax asset (liabilities), net	<u>(138,698,465)</u>	<u>(123,400,478)</u>

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34. 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.

The carrying amount of financial assets is maximum exposure to credit risk. The maximum exposure to credit risk as at December 31, 2019 and 2018 is as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Short-term and long-term deposits	₩ 71,142,408	₩ 11,190,240
Trade and other receivables	201,927,271	169,608,394
Cash equivalents ¹	164,919,704	184,561,577
	<u>₩ 437,989,383</u>	<u>₩ 365,360,211</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.

Besides above, As at December 31, 2019, the Group is obligated to repay spin-off debt(KRW 521 million) in solidarity with Orion Holdings Corporation (formerly, Orion Corporation) as of the spin-off date (June 1,

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2017) by the Commercial Law Article 530-9 (1) in Republic of Korea. Above liability is allocated to the earliest period in which the Group is 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, 2019, 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, 2019 and 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, 2019					
Expected loss rate	0.72%	0.02%	0.05%	26.92%	0.68%
Gross carrying amount	₩ 122,813,853	₩ 45,317,233	₩ 10,588,962	₩ 1,168,961	₩ 179,889,009
Loss allowance provision	886,098	9,726	5,622	314,650	1,216,096
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, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Beginning balance	₩ 1,974,835	₩ 2,056,661
Increase in loss allowance recognized in profit or loss during the year	183,786	239,058
Receivables written off during the year as uncollectible	(984,095)	(281,927)
Others	41,570	(38,957)
Ending balance	₩ 1,216,096	₩ 1,974,835

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 on trade receivables are presented as impairment losses on trade receivables in the consolidated statement of comprehensive income. 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 years ended December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018¹</u>
Beginning balance	₩ 56,817	₩ 74,900
Increase in loss allowance recognized in profit or loss during the year	385	52,528
Receivables written off during the year as uncollectible	(385)	(66,814)
Others	-	(3,797)
Ending balance	<u>₩ 56,817</u>	<u>₩ 56,817</u>

As at December 31, 2019, 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 management manages liquidity risk by setting both short-term and long-term fund management plan, and immunizing the maturity of financial assets and financial liabilities by reviewing and analyzing cash out flow forecasts and realized cash outflows consistently. The Group's management believes that the Group has sufficient liquid resources from operating cash flows and financial assets to meet finance charges and principal repayments on its debt instruments. Meanwhile, in order to manage the Group's liquidity risks, the group have entered into an overdraft protection provided by Shinhanbank and etc.

The maturity analysis of non-derivative financial liabilities as at December 31, 2019 and 2018 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>Over 2 years</u>
December 31, 2019						
Borrowings	₩ 286,763,054	₩ 299,398,544	₩ 80,420,894	₩ 52,641,900	₩ 3,969,300	₩ 162,366,450
Trade and other payables	244,610,685	244,656,460	239,141,394	4,858,149	20,000	636,917
Lease liabilities	<u>24,444,408</u>	<u>32,580,165</u>	<u>4,144,027</u>	<u>3,236,681</u>	<u>4,618,703</u>	<u>20,580,754</u>
	<u>₩ 555,818,147</u>	<u>₩ 576,635,169</u>	<u>₩ 323,706,315</u>	<u>₩ 60,736,730</u>	<u>₩ 8,608,003</u>	<u>₩ 183,584,121</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>

Besides above As at December 31, 2019, the Group is obligated to repay spin-off debt(KRW 521 million) in solidarity with Orion Holdings Corporation (formerly, Orion Corporation) as of the spin-off date (June 1, 2017) by the Commercial Law Article 530-9 (1) in Republic of Korea. Above liability is allocated to the earliest period in which the Group is 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>
December 31, 2019					
Cash and cash equivalents	₩ 285,905	₩ 55,012	₩ -	₩ 1,657	-
Trade and other receivables	3,709,992	1,035,283	-	2,311,975	-
Trade and other payables	(403,134)	(127,933)	-	(34,457)	-
Borrowings	(1,765,845)	-	(3,370,074)	-	-
	<u>₩ 1,826,918</u>	<u>₩ 962,362</u>	<u>₩ (3,370,074)</u>	<u>₩ 2,279,175</u>	<u>₩ -</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>

The exchange rates as at December 31, 2019 and 2018 are as follows:

(In thousands of Korean won)

	<u>2019</u>	<u>2018</u>
USD	₩ 1,157.80	₩ 1,118.10
JPY	10.63	10.13
EUR	1,297.43	1,279.16
CNY	165.74	162.76
HKD	148.66	142.77

As at December 31, 2019 and 2018, 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>2019</u>		<u>2018</u>	
	<u>10% strengthening</u>	<u>10% weakening</u>	<u>10% strengthening</u>	<u>10% weakening</u>
USD	₩ 182,692	₩ (182,692)	₩ (9,710,253)	₩ 9,710,253
JPY	96,236	(96,236)	121,760	(121,760)
EUR	(337,007)	337,007	(67,934)	67,934
CNY	227,918	(227,918)	216,204	(216,204)
HKD	-	-	(455)	455
	<u>₩ 169,838</u>	<u>₩ (169,838)</u>	<u>₩ (9,440,678)</u>	<u>₩ 9,440,678</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>2019</u>	<u>2018</u>
Short-term borrowings	₩ <u> </u> - ₩ <u> </u>	₩ <u>102,137,159</u>
	₩ <u> </u> - ₩ <u> </u>	₩ <u>102,137,159</u>

As at December 31, 2019 and 2018, 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>2019</u>		<u>2018</u>	
	<u>10% increase</u>	<u>10% decrease</u>	<u>10% increase</u>	<u>10% decrease</u>
Net finance cost	₩ <u> </u>	- ₩ <u> </u>	- ₩ <u>(1,021,372)</u>	₩ <u>1,021,372</u>

Since the Group operates financial deposits for the purpose of obtaining interest income at December 31, 2019, the size of interest income may be affected by changes in the market interest rates applied when depositing financial instruments.

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, 2019 and 2018, the Group's net debt-to-equity ratio as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Net debt:		
Debts and borrowings	₩ 286,763,054	₩ 434,976,225
Less: Cash and cash equivalents	<u>(164,965,287)</u>	<u>(184,619,098)</u>
	121,797,767	250,357,127
Equity	<u>1,668,466,276</u>	<u>1,444,542,180</u>
Net debt-to-equity ratio	<u>7.30%</u>	<u>17.33%</u>

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35. Financial Commitments and Contingencies

Financial commitments to financial institutions as at December 31, 2019 and 2018 are as follows:

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

Contract Company	Lender	Type of commitment	Currency	2019	2018
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	5,900,000	15,900,000
	KEB Hana Bank	Purchase loan	KRW	30,000,000	30,000,000
	Sumitomo Mitsui Banking Corporation	Credit loan	KRW	-	20,000,000
	DBS Bank	Credit loan	KRW	20,000,000	-
	Hyundai Card	Group purchase card	KRW	12,000,000	12,000,000
Orion Food Co., Ltd.	Korea Development Bank	Usance	USD	-	-
			5,000,000	-	
Orion Food (Shanghai) Co., Ltd.	Industrial and Commercial Bank of China	General loan	EUR	2,000,000	-
			CNY	140,000,000	150,000,000
Orion Food VINA Co., Ltd.	Korea Development Bank	Usance	USD	5,000,000	5,000,000
			USD	-	10,000,000
Total			KRW	87,000,000	87,000,000
			USD	25,900,000	40,900,000
			CNY	140,000,000	150,000,000
			EUR	2,000,000	-

As at December 31, 2019, 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, 2019 and 2018, the Group provides guarantees to the customers with the maximum amount of ₩ 12,000 million in relation to the Corporate purchase card of Hyundai Card.

As at December 31, 2019 and 2018, guarantees of ₩ 1,380 million (2018: ₩ 568 million) are provided to the Group by Seoul Guarantee Insurance Company etc. for the performance of contracts.

As at December 31, 2018, the Group received payment guarantee from Orion Holdings Corporation in relation to the credit limits of KEB Hana Bank.

As at December 31, 2019, the Group is obligated to repay spin-off debt(KRW 521 million) in solidarity with Orion Holdings Corporation (formerly, Orion Corporation) as of the spin-off date (June 1, 2017) by the Commercial Law Article 530-9 (1) in Republic of Korea. Above liability is allocated to the earliest period in which the Group is required to pay.

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Details of lawsuit pending as at December 31, 2019 are summarized as follows.

(In thousands of Korean won)

Plaintiff	Defendant	Contents	Amounts	Progress
Orion Corp.	Head of the Central Labor Relations Committee	Retrial adjudication revocation for relief of unfair personnel appointments	50,000	Third trial in progress
Studio A&D	Orion Corp.	Order of construction receivables	255,100	First trial in progress
All of the employees	Orion Food Co., Ltd.	Claim for wages	1,506,112	First trial in progress
Orion Food Co., Ltd.	All of the employees	Claim for wages	108,276	First trial in progress

36. Related Party Transactions

Related parties as at December 31, 2019, are as follows, excluding subsidiaries:

Relationship	Related Party
Parent	Orion Holdings Corp.
Joint ventures	Delfi-Orion Pte Ltd, Orion Nonghyup Agri, inc.
Associate ¹	Daehan distributor Corp.
Parent's subsidiaries ²	Reon A&D Corp, Showbox Corp., Megamark International, Supreme Star Investment Corp. Limited, Orion JeJu Yongam Soo Corp, Highland D&C Corp., Misoin Corp., Orion Consulting Co., Ltd., Beijing Megamedia Co., Ltd., SHOWBOX Inc., Orion Investment Development Corp.
Others ³	Beijing Zhongguan Megabox Cinema Co., Ltd., Orion Institute

¹ In 2019, the Group bought all the stakes of Orion Holdings Corp.

² In 2019, JuJu Yongam Soo Corp changed its name to Orion JeJu Yongam Soo Corp.

³ In 2019, Michigan Global Contents Investment Fund #4 and S.M.Contents Investment Fund No.5 went through liquidation.

Significant transactions which occurred in the normal course of business with related parties for the year ended December 31, 2019 and 2018, are summarized as follows:

Sales etc.

(In thousands of Korean won)

Relationship	Related party	Transaction	2019	2018
Parents	Orion Holdings Corp.	Other income etc.	₩ 283,406	₩ 276,149
Parents' subsidiaries	Showbox Corp.	Sales	62,118	55,118
		Sale of intangible assets	-	1,100,000
	JeJu Yongam Soo Corp.	Sales	14,522	-
		Other income etc.	311,245	174,581
Joint ventures	Delfi-Orion Pte Ltd	Sales	2,405,638	1,794,058
	Orion Nonghyup Agri, inc.	Sales	5,084	1,745
		Other income etc.	995	162,464

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		Sale of property, plant and equipment	30,000	6,064,000
Others	Major shareholders	Disposal of property, plant and equipment	-	998,000
		Other income	-	210
	Orion Institute	Sales	288,345	-
			<u>₩ 3,401,353</u>	<u>₩ 10,626,325</u>

Purchase etc.

(In thousands of Korean won)

Relationship	Related party	Transaction	2019	2018
Parents	Orion Holdings Corp.	Other expense	₩ 11,386,747	₩ 14,528,907
Parents' subsidiaries	JeJu Yongam Soo Corp.	Purchase	1,152,677	-
	Megamark International	Other expense	656	-
Joint ventures	Orion Nonghyup Agri, inc.	Purchase	26,002,559	12,091,389
Others	Orion Institute	Other expense	1,000,000	-
			<u>₩ 39,542,639</u>	<u>₩ 26,620,296</u>

Accounts receivable and accounts payable balances with related parties as at December 31, 2019 and 2018 are as follows:

(In thousands of Korean won)

Relationship	Related party	2019				
		Receivables			Payables	
		Trade receivables	Other receivables	Leasehold deposits	Trade payables	Other payables ¹
Parents	Orion Holdings Corp.	₩ -	₩ 91,100	₩ 18,310,000	₩ -	₩ 3,178,914
Parents' subsidiaries	JeJu Yongam Soo Corp.	402	96,440	-	1,297,029	-
	Showbox Corp.	1,500	3,541	-	-	-
	Megamark International	-	-	-	-	241
Joint ventures	Delfi-Orion Pte Ltd	499,840	-	-	-	-
	Orion Nonghyup Agri, inc.	-	529,953	-	4,773,729	10,999
		<u>₩ 501,742</u>	<u>₩ 721,034</u>	<u>₩ 18,310,000</u>	<u>₩ 6,070,758</u>	<u>₩ 3,190,154</u>

¹ As at December 31, 2019, other payables include the recognized lease liabilities of ₩ 13,646 million, including ₩ 164 million that will be paid in January, related to lease transactions with Orion Holdings Corp.

(In thousands of Korean won)

Relationship	Related party	2018			
		Receivables		Payables	
		Trade receivables	Other receivables	Trade payables	Other payables
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	-
		<u>₩ 408,433</u>	<u>₩ 339,592</u>	<u>₩ 3,430,206</u>	<u>₩ 2,863,747</u>

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Investments transactions with related parties as at December 31, 2019 and 2018 are as follows:

(In thousands of Korean won)

Relationship	Related party	Transaction	2019	2018
Parents	Orion Holdings Corp.	Payment of dividends	₩ (8,865,083)	₩ (8,865,083)
		Redemption of lease liabilities	(2,081,178)	-
		Acquisition of investments in associates	(1,887,696)	-
Joint ventures	Orion Nonghyup Agri, inc.	Cash investments	-	(7,000,000)
Others	Major shareholders	Payment of dividends	(1,524,991)	(1,890,060)

Details of key management personnel (executive directors and controlling interest holder) compensation for the years ended December 31, 2019 and 2018, are as follows:

(In thousands of Korean won)

	2019	2018
Short-term employee benefits	₩ 7,895,156	₩ 7,128,863
Post-employment benefits	1,880,222	1,190,548
	<u>₩ 9,775,378</u>	<u>₩ 8,319,411</u>

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

As at December 31, 2019, the Group is obligated to repay spin-off debt(KRW 521 million) in solidarity with Orion Holdings Corporation (formerly, Orion Corporation) as of the spin-off date (June 1, 2017) by the Commercial Law Article 530-9 (1) in Republic of Korea. Above liability is allocated to the earliest period in which the Group is required to pay.

As at December 31, 2019, the Group has recognized ₩ 15,623 million of right-of-use assets, ₩ 13,646 million of lease liabilities with related parties, and recognized ₩ 2,880 million of depreciation of right-of-use assets and ₩ 340 million of interest expense during the year.

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37. Cash flows

The principal non-cash transactions for the years ended December 31, 2019 and 2018, are as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>	<u>2018</u>
Reclassification from construction in progress to property, plant and equipment	₩ 73,020,817	₩ 142,233,757
Reclassification from property, plant and equipment to investment property	-	6,511,413
Other payables regarding the acquisition of property, plant and equipment	(1,580,191)	10,743,707
Other payables regarding the acquisition of intangible assets	2,251,761	-
Reclassification from long-term borrowings to short-term borrowings	119,984,739	50,023,765
Reclassification from long-term prepaid expenses to short-term prepaid expenses	683,954	1,148,411
Reclassification from long-term rental deposits to short-term rental deposits	820,708	215,258
Reclassification from long-term leasehold deposits to short-term leasehold deposits	107,654	29,490
Write-off of trade receivables and others	984,480	348,740
Increase of right-of-use assets from adjustment for changes in accounting policy	(80,001,918)	-
Increase of lease liabilities from adjustment for changes in accounting policy	40,830,416	-
Decrease of right-of-use assets from changes in lease agreement conditions	9,815,278	-
Decrease of lease liabilities from changes in lease agreement conditions	(13,103,448)	-
Increase of right-of-use assets from new lease contracts	(3,781,906)	-
Increase of lease liabilities from new lease contracts	3,622,652	-
Reclassification from lease liabilities to current portion	6,779,189	-
Substitution to vehicles from lease deposits	108,200	-

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Changes in liabilities arising from financial activities for the years ended December 31, 2019 and 2018, are as follows:

	2019							
	Beginning Balance	Effects of changes in accounting policy	Cash flows from financing activities	Non cashflow activities				Ending balance
				Depreciated on etc	Effects on foreign currency change	Reclassification	Others	
Short-term borrowings	₩ 105,318,223	₩ -	₩ (101,951,161)	₩ -	₩ 3,613,081	₩ -	₩ -	₩ 6,980,143
Current portion of long-term borrowings	50,046,414	-	(50,060,000)	34,763	-	119,984,739	-	120,005,916
Long-term borrowings	279,611,588	-	-	150,145	-	(119,984,739)	-	159,776,994
Current Leasehold deposits received	173,225	-	(7,000)	(1,249)	-	107,654	-	272,630
Leasehold deposits received	99,397	-	27,000	1,439	-	(107,654)	(866)	19,316
Current lease liabilities	-	9,228,114	(8,713,260)	339,563	235,818	6,779,189	(535,233)	7,334,191
Non-current lease liabilities	-	31,602,302	-	649,977	582,692	(6,779,189)	(8,945,563)	17,110,219
	₩ 435,248,847	₩ 40,830,416	₩ (160,704,421)	₩ 1,174,638	₩ 4,431,591	₩ -	₩ (9,481,662)	₩ 311,499,409

	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
	₩ 599,966,527	₩ (175,533,564)	₩ 211,437	₩ 10,604,447	₩ -	₩ 435,248,847

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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38. Changes in Accounting Policies (Korean IFRS 1116 Lease)

As explained in Note 3, the Group has adopted Korean IFRS 1116, retrospectively, from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are, therefore, recognized in the consolidated statement of financial position on January 1, 2019. Details of adjustments recognized on adoption of Korean IFRS 1116 *Lease* are as follows:

<i>(In thousands of Korean won)</i>	December 31, 2018	Adjustments	January 1, 2019 calculated under Korean IFRS 1116
Assets			
Right-of-use assets	₩ -	₩ 80,001,918	₩ 80,001,918
Other non-current assets	43,802,263	(40,692,643)	3,109,620
Total Non-current assets	1,782,126,460	39,309,275	1,821,435,735
Other current assets	15,163,019	(464,108)	14,698,911
Total Current assets	569,224,202	(464,108)	568,760,094
Total assets	<u>2,351,350,662</u>	<u>38,845,167</u>	<u>2,390,195,829</u>
Equity			
Retained earnings	182,144,352	(1,257,973)	180,886,379
Equity attributable to owners of the Parent Company	1,405,549,364	(1,257,973)	1,404,291,391
Non-controlling interest	<u>38,992,816</u>	<u>(1,682)</u>	<u>38,991,134</u>
Total equity	<u>1,444,542,180</u>	<u>(1,259,655)</u>	<u>1,443,282,525</u>
Liabilities			
Non-current lease liabilities	-	31,602,302	31,602,302
Deferred tax liabilities	126,204,195	(341,237)	125,862,958
Total Non-current liabilities	406,497,963	31,261,065	437,759,028
Current lease liabilities	-	9,228,114	9,228,114
Trade and other payables	248,386,485	(384,357)	248,002,128
Total Current liabilities	<u>500,310,519</u>	<u>8,843,757</u>	<u>509,154,276</u>
Total liabilities	<u>906,808,482</u>	<u>40,104,822</u>	<u>946,913,304</u>
Total equity and liabilities	₩ <u>2,351,350,662</u>	<u>38,845,167</u>	<u>2,390,195,829</u>

Measurement of lease liabilities

On adoption of Korean IFRS 1116, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of Korean IFRS 1017. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at January 1, 2019. The lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 1.91 ~ 11.27%.

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(in thousands of Korean won)

2019

Operating lease commitments disclosed as at December 31, 2018	₩	28,829,938
Discounted using the lessee's incremental borrowing rate of at the date of initial application		27,342,250
Add: adjustments as a result of a different treatment of extension and termination options		15,730,962
Less: short-term leases recognized through straight-line method		(2,242,796)
Lease liability recognized as at January 1, 2019		40,830,416
Of which are:		
Current lease liabilities		9,228,114
Non-current lease liabilities		31,602,302
	₩	40,830,416

Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Movements in carrying amounts of right-of-use assets for the year ended December 31, 2019 are as follows:

(In thousands of Korean won)	2019							
	Beginning balance	Effects of changes in accounting policy	Increase	Decrease	Depreciation	Impairment	Others	Ending balance
Property ¹	₩ -	₩ 78,926,621	₩ 2,815,459	₩ (9,767,152)	₩ (8,681,086)	₩ (480,050)	₩ 1,328,097	₩ 64,141,889
Vehicles	-	1,075,297	966,447	(48,126)	(707,012)	-	1,059	1,287,665
	₩ -	₩ 80,001,918	₩ 3,781,906	₩ (9,815,278)	₩ (9,388,098)	₩ (480,050)	₩ 1,329,156	₩ 65,429,554

¹Due to a fire, the Group recognized impairment loss on right-of-use assets of ₩ 480 million.

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

Movements in carrying amounts of lease liabilities for the year ended December 31, 2019, are as follows:

(In thousands of Korean won)	2019						
	Beginning balance	Effects of changes in accounting policy	Increase	Decrease	Interest expense	Others	Ending balance
Lease liabilities	₩ -	₩ 40,830,416	₩ 3,622,652	₩ (21,816,708)	₩ 989,539	₩ 818,509	₩ 24,444,408

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

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Amounts recognized in the consolidated statement of profit or loss relating to lease for the year ended December 31, 2019 are as follows :

<i>(In thousands of Korean won)</i>	<u>2019</u>
Depreciation of right-of-use assets	₩
Properties	8,681,086
Vehicles	<u>707,012</u>
	₩ <u>9,388,098</u>
Interest expense relating to lease liabilities (included in finance cost)	₩ 989,539
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	11,597,279
Expense relating to leases of low-value assets that are not short-term leases (included in administrative expenses)	443,779
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)	1,850,279

The total cash outflow for leases in 2019, is as follows:

<i>(In thousands of Korean won)</i>	<u>2019</u>
Cash outflow incurred by lease liabilities	₩ (8,713,260)
Expesne relating to short-term leases	(11,597,279)
Expesne relating to low value assets	(443,779)
Expense relating to variable lease payments not included in lease assets and liabilities	<u>(1,850,279)</u>
	₩ <u>(22,604,597)</u>

Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of the adoption of Korean IFRS 1116.

39. Unusual Items

Depending on the contents, size, or frequency of occurrence, significant unusual items are consolidated as related accounts on the income statement. The following information and amounts about the unusal items provide useful information to predict the Company's business performance.

Amounts recognized in the statement of profit or loss relating to the unusual items for the year ended December 31, 2019 are as follows :

<i>(in thousands of Korean won)</i>	2019
Loss on disposal of property, plant and equipment and impairment loss ¹	₩ 16,694,847
Impairment loss of intangible assets ¹	77,899
Impairment loss of right-of-use assets ¹	480,050

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Miscellaneous expense ²	<u>4,286,184</u>
	<u>₩ 21,538,980</u>

¹ Due to a fire of a subsidiary, Orion(Bei Tun) Agro Processing Co., Ltd, impairment loss and other losses are recognized.

² Miscellaneous expense is the amount of loss on disposal of inventory due to a fire of a subsidiary, Orion(Bei Tun) Agro Procession Co., Ltd.