Binggrae Co., Ltd. and its subsidiaries

Consolidated financial statements
for the years ended December 31, 2016 and 2015
with independent auditors' report

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Independent auditors' report

The Shareholders and Board of Directors
Binggrae Co., Ltd.

We have audited the accompanying consolidated financial statements of Binggrae Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2016 and 2015, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Ernst & Young Han Young

March 15, 2017

This audit report is effective as at March 15, 2017, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

Binggrae Co., Ltd. and its subsidiaries

Consolidated financial statements
for the years ended December 31, 2016 and 2015

"The accompanying consolidated financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Group."

Park, Young Jun
Chief Executive Officer
Binggrae Co., Ltd.

Binggrae Co., Ltd. and its subsidiaries
Consolidated statements of financial position
as at December 31, 2016 and 2015
(Korean won in millions)

	Notes		2016		2015
Assets					
Current assets:					
Cash and cash equivalents	6,34	₩	21,132	₩	16,663
Short-term financial assets	7,34		195,569		167,854
Accounts and notes receivable, net	8,33,34		68,751		67,674
Other accounts receivable	31,33,34		716		455
Accrued income	34		944		956
Advanced payments			81		102
Prepaid expenses	8		25,329		27,452
Inventories	9		33,728		39,024
Total current assets			346,250		320,180
Non-current assets:					
Long-term financial assets	10,34		27,163		46,237
Property, plant and equipment, net	11,12,16		226,373		227,672
Intangible assets, net	13		2,644		2,515
Guarantee deposits	14,31,34		19,375		19,077
Long-term advanced payments			1,345		565
Long-term prepaid expenses			549		743
Deferred income tax assets	28		52		-
Total non-current assets			277,501		296,809
Total assets		₩	**623,751**	₩	**616,989**

(Continued)

Binggrae Co., Ltd. and its subsidiaries
Consolidated statements of financial position
as at December 31, 2016 and 2015 (cont'd)
(Korean won in millions)

	Notes		2016		2015
Liabilities					
Current liabilities:					
Accounts and notes payable	33,34	₩	40,812	₩	36,582
Other accounts payable	31,33,34		19,360		19,024
Current portion of long-term borrowings	15,16,33,34		-		118
Accrued expenses	33,34		9,669		6,343
Income taxes payable			5,954		2,288
Dividends payable	33,34		2		2
Other current liabilities	17		7,225		8,327
Total current liabilities			83,022		72,684
Non-current liabilities:					
Long-term borrowings	15,16,33,34		-		21
Defined benefit liabilities	18		6,690		9,659
Long-term guarantee deposits received	33,34		5,759		5,861
Long-term accrued expenses	33,34		3,517		3,308
Deferred income tax liabilities	28		2,977		8,262
Other non-current liabilities	19,31,33,34		30		31
Total non-current liabilities			18,973		27,142
Total liabilities			**101,995**		**99,826**
Equity					
Issued capital	20		49,756		49,756
Share premium	20		64,769		64,769
Other components of equity	21		(22,482)		(22,482)
Accumulated other comprehensive income	22		12,961		27,663
Reserves	23		383,371		369,595
Retained earnings	24		33,378		27,860
Equity attributable to owners of the parent			521,753		517,161
Non-controlling interests			3		2
Total equity			**521,756**		**517,163**
Total liabilities and equity		₩	**623,751**	₩	**616,989**

The accompanying notes are an integral part of the consolidated financial statements.

Binggrae Co., Ltd. and its subsidiaries
Consolidated statements of comprehensive income
for the years ended December 31, 2016 and 2015
(Korean won in millions)

	Notes	2016	2015
Sales	5	₩ **813,166**	₩ **799,572**
Cost of sales	25	(567,129)	(575,847)
Gross profit		**246,037**	**223,725**
Selling and administrative expenses	25,31,35	(208,802)	(192,032)
Operating profit		**37,235**	**31,693**
Finance income	26	4,911	4,228
Finance cost	26	(692)	(421)
Other operating income	27,31	1,035	1,672
Other operating expenses	27	(5,441)	(4,729)
Profit before income taxes		**37,048**	**32,443**
Income tax expense	28	(8,318)	(7,793)
Profit for the year from continuing operations		**28,730**	**24,650**
Discontinued operations			
Profit after tax for the year from discontinued operations	36	-	93
Profit for the year		₩ **28,730**	₩ **24,743**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans	18	₩ 1,615	₩ (581)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Gains (losses) on valuation of available-for-sale financial assets	22,34	₩ (14,772)	₩ 20,176
Gains (losses) on translation of foreign operations	22	71	(140)
Total comprehensive income, net of tax		₩ **15,644**	₩ **44,198**
Profit for the year attributable to:			
Equity holders of the parent		₩ 28,730	₩ 24,743
Non-controlling interests	29	-	-
Total comprehensive income attributable to:			
Equity holders of the parent		₩ 15,644	₩ 44,200
Non-controlling interests		-	(2)
Earnings per share (per share amounts in Korean won):	30		
Basic, profit for the year attributable to ordinary equity holders of the parent		₩ 3,249	₩ 2,798
Basic, profit from continuing operations attributable to ordinary equity holders of the parent		3,249	2,788
Diluted, profit for the year attributable to ordinary equity holders of the parent		3,249	2,798
Diluted, profit from continuing operations attributable to ordinary equity holders of the parent		3,249	2,788

The accompanying notes are an integral part of the consolidated financial statements.

Binggrae Co., Ltd. and its subsidiaries
Consolidated statements of changes in equity
for the years ended December 31, 2016 and 2015
(Korean won in millions)

	Attributable to the equity holders of the parent							
	Issued capital	Share premium	Other components of equity	Accumulated other comprehensive income	Reserves	Retained earnings	Non-controlling interests	Total equity
As at January 1, 2015	₩ **49,756**	₩ **64,769**	₩ **(22,482)**	₩ **7,624**	₩ **345,818**	₩ **38,527**	₩ **-**	₩ **484,012**
Profit for the year	-	-	-	-	-	24,743	-	24,743
Gain on valuation of available-for-sale financial assets	-	-	-	20,176	-	-	-	20,176
Re-measurement losses on defined benefit plans	-	-	-	-	-	(581)	-	(581)
Loss on translation of foreign operations	-	-	-	(137)	-	-	(3)	(140)
Total comprehensive income for the year	**-**	**-**	**-**	**20,039**	**-**	**24,162**	**(3)**	**44,198**
Dividends	-	-	-	-	-	(11,052)	-	(11,052)
Transfer from reserves	-	-	-	-	(3,333)	3,333	-	-
Transfer to reserves	-	-	-	-	27,110	(27,110)	-	-
Change in the subsidiaries	-	-	-	-	-	-	5	5
Transactions with owners of the Company, recognized directly in equity	**-**	**-**	**-**	**-**	**23,777**	**(34,829)**	**5**	**(11,047)**
As at December 31, 2015	₩ **49,756**	₩ **64,769**	₩ **(22,482)**	₩ **27,663**	₩ **369,595**	₩ **27,860**	₩ **2**	₩ **517,163**
As at January 1, 2016	₩ **49,756**	₩ **64,769**	₩ **(22,482)**	₩ **27,663**	₩ **369,595**	₩ **27,860**	₩ **2**	₩ **517,163**
Profit for the year	-	-	-	-	-	28,730	-	28,730
Loss on valuation of available-for-sale financial assets	-	-	-	(14,772)	-	-	-	(14,772)
Re-measurement losses on defined benefit plans	-	-	-	-	-	1,616	-	1,616
Gain from translation of foreign operations	-	-	-	70	-	-	1	71
Total comprehensive income for the year	**-**	**-**	**-**	**(14,702)**	**-**	**30,346**	**1**	**15,645**
Dividends	-	-	-	-	-	(11,052)	-	(11,052)
Transfer from reserves	-	-	-	-	(3,334)	3,334	-	-
Transfer to reserves	-	-	-	-	17,110	(17,110)	-	-
Transactions with owners of the Company, recognized directly in equity	**-**	**-**	**-**	**-**	**13,776**	**(24,828)**	**-**	**(11,052)**
As at December 31, 2016	₩ **49,756**	₩ **64,769**	₩ **(22,482)**	₩ **12,961**	₩ **383,371**	₩ **33,378**	₩ **3**	₩ **521,756**

The accompanying notes are an integral part of the consolidated financial statements.

Binggrae Co., Ltd. and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2016 and 2015

(Korean won in millions)

	Notes	2016	2015
Operating activities			
Profit for the year		₩ 28,730	₩ 24,743
Non-cash adjustments to reconcile profit to net cash flows	32	39,296	38,987
Working capital adjustments	32	3,014	11,287
Income tax paid		(5,482)	(10,299)
Net cash flows provided by operating activities		**65,558**	**64,718**
Investing activities			
Interest received		3,361	4,199
Dividends received		206	117
Increase in short-term financial assets		(27,596)	(18,316)
Decrease (increase) in long-term financial assets		(286)	(3,150)
Decrease (increase) in cash due to change in the subsidiaries		-	1,890
Proceeds from disposal of property, plant and equipment		237	326
Acquisition of property, plant and equipment		(25,992)	(25,983)
Proceeds from disposal of intangible assets		40	-
Acquisition of intangible assets		(400)	(580)
Decrease in guarantee deposits		1,643	796
Increase in guarantee deposits		(1,193)	(1,175)
Net cash flows used in investing activities		**(49,980)**	**(41,876)**
Financing activities			
Interest paid		(5)	(73)
Repayment of current portion of long-term borrowings		(118)	(757)
Repayment of long-term borrowings		(21)	(1,917)
Decrease in other non-current liabilities		-	(6)
Payment of dividends		(11,052)	(11,052)
Net cash flows used in financing activities		**(11,196)**	**(13,805)**
Net increase in cash and cash equivalents		4,382	9,037
Net decrease in cash and cash equivalents denominated in foreign currencies arising from foreign exchange differences		87	(143)
Cash and cash equivalents at the beginning of the year		16,663	7,769
Cash and cash equivalents at the end of the year		₩ **21,132**	₩ **16,663**

The accompanying notes are an integral part of the consolidated financial statements.

1. Organization and business

1.1 Corporate information

Binggrae Co., Ltd. (the "Parent Company" or the "Company") was established on September 13, 1967. The Company changed its name from Daeil Co., Ltd. to Binggrae Co., Ltd. on February 25, 1982 and is primarily engaged in the production and sale of various daily products. The Company's headquarters is located at 45, Migeum-ro 65 gil, Namyangjoo-si, Gyeonggi-do and the Company's production facilities are located in Donong, Gimhae, Gwangju and Nonsan.

The Company's ordinary shares have been listed on the Korea Exchange since March 1979 and as at the end of the current reporting period, issued capital amounts to ₩49,756 million. Details of the Company's shareholders and their ownership interest are as follows:

	Number of shares	Ownership interest
Ho-Youn Kim	3,326,457	33.77%
Treasury stock	1,009,440	10.25%
Others	5,515,344	55.98%
	9,851,241	100.00%

Differences arising from the Company's issued capital and aggregate of the par value of ordinary shares issued amounting to ₩500 million represents 100,000 ordinary shares reacquired as treasury stock and subsequently retired.

1.2 Consolidated subsidiaries

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

			2016		2015		
	Location	Year end	Equity ownership	Non-controlling interests	Equity ownership	Non-controlling interests	Principal business actuary
BC F&B Brasil Ltda.	Brazil	December	99%	1%	99%	1%	Import and distribution
BC F&B Shanghai Co.,Ltd.	China	December	100%	-	100%	-	Import and distribution
BC F&B USA Corp. (*)	USA	December	100%	-	-	-	Import and distribution

(*) In 2016, BC F&B USA Corp. was established, a wholly-owned subsidiary, to improve OEM management and marketing in USA.

Summarized financial information of subsidiaries as at and for the years ended December 31, 2016 and 2015 included in consolidation are as follows (Korean won in millions):

	2016					
	Total assets	Total liabilities	Total equity	Revenue	Profit (loss) for the year	Total comprehensive income
BC F&B Brasil Ltda.	₩ 461	₩ 170	₩ 291	₩ 736	₩ (28)	₩ 35
BC F&B Shanghai Co., Ltd.	2,992	209	2,783	22,243	1,383	1,290
BC F&B USA Corp.	2,413	-	2,413	-	(54)	97

1.2 Consolidated subsidiaries (cont'd)

	2015					
	Total assets	Total liabilities	Total equity	Revenue	Profit (loss) for the year	Total comprehensive income (loss)
BC F&B Brasil Ltda.	₩ 580	₩ 324	₩ 256	₩ 570	₩ (59)	₩ (211)
BC F&B Shanghai Co., Ltd.	1,903	143	1,760	8,816	677	699

2. Basis of preparation and summary of significant accounting policies

2.1 Basis of preparation

The Group prepares statutory consolidated financial statements in the Korean language in accordance with Korean International Financial Reporting Standards (KIFRS) enacted by the *Act on External Audit of Stock Companies*. The accompanying consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments, and other assesses that have been measured at fair value. The consolidated financial statements are presented in Korean won (KRW) and all values are rounded to the nearest millions, except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2016 and 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.2 Basis of consolidation (cont'd)

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment is recognized at fair value.

2.3 Summary of significant accounting policies

2.3.1 Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.3.2 Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

	Notes
➢ Disclosure for valuation methods, significant estimates and assumptions	3, 18, 34
➢ Financial instruments (including those carried at amortized cost)	34
➢ Quantitative disclosures of fair value measurement hierarchy	34

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.3.2 Fair value measurement (cont'd)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

2.3.3 Foreign currencies

The Group's consolidated financial statements are presented in Korean won, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2.3.3 Foreign currencies (cont'd)

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into Korean won at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

2.3.4 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgments, estimates and assumptions and provisions for further information about the recorded decommissioning provision.

Property, plant and equipment transferred from customers are initially measured at fair value at the date on which control is obtained.

The estimated useful lives of the Group's property, plant and equipment for the years ended December 31, 2016 and 2015 are as follows:

	Years
Buildings	30 – 50
Structures	12 or 25
Machinery	6 – 12
Vehicles	6
Tools, furniture and fixtures	6
Other property, plant and equipment	6 – 20

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.3.5 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

2.3.6 Inventories

Inventories are valued at the lower of cost and net realizable value. Meanwhile, initial cost of inventories includes purchase cost, transfer cost and other costs incurred in bringing each product to its present location and conditions. The cost of inventories is based on the specific identification method for materials-in-transit and on the gross average method for all other inventories.

2.3.7 Financial assets

Initial recognition and measurement
Financial assets under KIFRS 1039 are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available-for-sale financial assets, as appropriate.

All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification, as described below:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by KIFRS 1039. The Group has not designated any financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss and other comprehensive income.

Loans and receivables
This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognized in the consolidated statement of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the EIR, less impairment.

Available-for-sale (AFS) financial assets
AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, AFS financial investments are subsequently measured at fair value with unrealized gains or losses recognized in OCI. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to such unquoted equity instruments and must be settled by delivery of such unquoted equity instruments are measured at cost.

2.3.7 Financial assets (cont'd)

Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

	Notes
➢ Disclosure for significant accounting judgements, estimates and assumptions	3
➢ Accounts and notes receivables and prepaid expenses	8

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statement of comprehensive income. Interest income (recorded as finance income in the consolidated statement of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of comprehensive income.

2.3.7 Financial assets (cont'd)

Available-for-sale (AFS) financial investments
For AFS financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of comprehensive income – is removed from OCI and recognized in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

2.3.8 Financial liabilities

Initial recognition and measurement
Financial liabilities under KIFRS 1039 are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include accounts and notes payable, other accounts payable and borrowings.

Subsequent measurement
The subsequent measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by KIFRS 1039. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of comprehensive income. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in KIFRS 1039 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

2.3.8 Financial liabilities (cont'd)

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of comprehensive income.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the Derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

2.3.9 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

2.3.10 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of treasury shares. Any difference between the carrying amount and the consideration, if reissued, is recognized in capital surplus.

2.3.11 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income when the asset is derecognized.

2.3.11 Intangible assets (cont'd)

A summary of the policies applied to the Group's intangible assets is, as follows:

	Amortization methods	Estimated useful lives
Industrial proprietary rights	Straight-line method	5 – 10 years
Facility usage rights	Not amortized	Indefinite
Other intangible assets	Straight-line method	5 or 15 years

2.3.12 Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant.

2.3.13 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

2.3.13 Impairment of non-financial assets (cont'd)

Such reversal is recognized in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.3.14 Pension benefits

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under 'cost of sales' and 'selling and administrative expenses; in the consolidated statement of comprehensive income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

The Group operates a defined contribution pension plan. The Group requires contributions to be made to separately administered funds. The amount of retirement benefits to be paid to employees in the future is determined by the contribution paid to the fund and the return on investment.

2.3.15 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) 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. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

2.3.16 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognized.

2.3.16 Revenue recognition (cont'd)

Sale of goods
Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the EIR. The EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

Dividends
Revenue is recognized when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

2.3.17 Taxes

Current income tax
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill; or
- An asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

2.3.17 Taxes (cont'd)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

2.3.18 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

2.3.19 New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2016. The nature and the impact of each new standard and amendment is described below:

2.3.19 New and amended standards and interpretations (cont'd)

Amendments to KIFRS 1001 *Disclosure Initiative*
The amendments to KIFRS 1001 clarify, rather than significantly change, existing KIFRS 1001 requirements. The amendments clarify:

- That the materiality requirements in KIFRS 1001
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

	Notes
Financial risk management and policies	33
Sensitivity analysis and disclosure	18, 33

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets
The Group assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually, or when circumstances indicate that the carrying value may be impaired. Other non-financial assets are tested for impairment when circumstances indicate htat its carrying amount may not be recoverable. In determining a value in use, management estimates future cash flows to be derived from the asset of CGU, and applies the appropriate discount rate to those future cash flows.

Defined benefit plans (pension benefits)
The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Fair value measurement of financial instruments
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

KIFRS 1109 *Financial Instruments*
The KASB issued the final version of KIFRS 1109 Financial Instruments that replaces KIFRS 1039 Financial Instruments: Recognition and Measurement and all previous versions. KIFRS 1109 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. KIFRS 1109 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date.

The Group has not made changes to its internal control procedures or the accounting system related to the adoption of the standard, and did not analyze the effect of the standard on its consolidated financial statements; however, the general effects of the standard, by major items, on the financial statements are as follows.

1) Classification and measurement of financial assets
The new KIFRS 1109 requires the Group to classify financial instruments as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL), on the basis of the holder's business model and instrument's contractual cash flow characteristics as shown below. Hybrid contracts with hosts that are assets, are classified in their entirely instead of bifurcating the embedded derivatives.

	Contractual cash flow characteristics	
Business model	**Composed solely of principal and interest**	**Other**
Purpose of collecting contractual cash flows	Amortized cost measurement (*1)	FVTPL measurement (*2)
Purpose of collecting and selling contractual cash flows	FVOCI measurement (*1)	
Purpose of selling, etc.	FVTPL measurement	

(*1) An entity may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or reduces an accounting mismatch

(*2) An entity may make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading.

The requirements for classifying the financial assets as measured at amortized cost or FVOCI under KIFRS 1109 are more stringent than the requirements of the current KIFRS 1039; as a result, the increase in the proportion of financial assets subject to FVTPL measurement may increase the volatility in profit or loss upon adoption of KIFRS 1109.

As at December 31, 2016, the Group has loans and receivables of ₩ 275,016 million, held-to-maturity financial assets of ₩ 27 million, available-for-sale financial assets of ₩26,488 million and financial assets at fair value through profit or loss of ₩ 32,119 million.

According to KIFRS 1109, the contractual terms of the debt instruments give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and the standard requires debt instruments held to collect contractual cash flows to be measured at amortized cost. As at December 31, 2016, the Group measures loans and receivables of ₩ 275,016 million and held-to-maturity financial assets of ₩ 27 million at amortized cost.

4. Standards issued but not yet effective (cont'd)

According to KIFRS 1109, the contractual terms of the debt instruments give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and the standard requires debt instruments held to collect and sell contractual cash flows to be measured at FVOCI. As at December 31, 2016, the Group holds debt instruments of ₩3,130 million classified as available-for-sale financial instruments.

According to KIFRS 1109, an entity may make an irrevocable election to present an investment in an equity instrument that is not held for trading as FVOCI. Items of comprehensive income are not subsequently recycled to profit or loss. As at December 31, 2016, the Group holds equity instruments of ₩23,358 million, classified as available-for-sale financial instruments.

In accordance with KIFRS 1109, the Group measures the following instruments at FVTPL: 1) cash flows that do not represent solely payments of principal and interest on the principal amount outstanding; or 2) debt instruments held for the purpose of trading; and 3) equity instruments that are not designated as measured at FVOCI. The Group has debt instruments of ₩32,119 million classified as financial assets measured at FVTPL as at December 31, 2016.

2) Classification and measurement of financial liabilities
Based on KIFRS 1109, changes in the fair value of a financial liability designated as measured at FVTPL that arise from changes in the liability's credit risk, are presented in other comprehensive income, instead of profit or loss. Other comprehensive income items are not subsequently recycled to profit or loss; however, this applies unless the treatment would create or enlarge an accounting mismatch, in which case all changes in fair value are presented in profit or loss.

Some of the changes in the fair value of financial liabilities designated as measured at FVTPL, which were recognized in profit or loss under the current KIFRS 1039, are presented in other comprehensive income; therefore, gains and losses on valuation of financial liabilities may decrease.

The Group does not hold financial liabilities designated as measured at FVTPL as at December 31, 2016.

3) Impairment: financial assets and contract assets
Under the current KIFRS 1039, impairment losses are recognized when there is objective evidence of impairment based on an incurred loss model; however, under KIFRS 1109, impairment losses are recognized for debt instruments, lease receivables, contract assets, loan commitment, and financial guarantee contracts that were accounted for at amortized cost, or FVOCI, based on an expected credit loss impairment model.

KIFRS 1109 outlines a three-stage model for 12-month expected credit losses, or lifetime expected credit losses based on changes in credit risk since initial recognition of financial assets; as a result, credit losses can be recognized earlier than the current KIFRS 1039.

Classification (*1)		Loss allowance
Stage 1	The credit risk on a financial instrument has not increased significantly since initial recognition (*2)	12-month expected credit losses: The expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
Stage 2	The credit risk on a financial instrument has increased significantly since initial recognition	Lifetime expected credit losses: The expected credit losses that result from all possible default events over the expected life of a financial instrument.
Stage 3	Credit-impaired	

4. Standards issued but not yet effective (cont'd)

(*1) For trade receivables or contract assets in accordance with KIFRS 1115 *Revenue from Contracts with Customers*, which does not contain a significant financing component, the Group is to measure the loss allowance at an amount equal to lifetime expected credit losses; however, if it contains a significant financial component, the Group can choose as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. For lease receivables, the Group may choose as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses.

(*2) For financial instruments with low credit risk at the reporting date, it may be considered that the credit risk did not increase significantly.

Under KIFRS 1109, the Group is to recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for a financial asset that is considered credit-impaired at initial recognition.

As at December 31, 2016, the Group holds debt instruments, loans and receivables, of ₩275,016 million (before deducting a loss allowance, and differences between instruments' carrying amounts and its discounted present values) designated as measured at amortized cost, and recognized a loss allowance of ₩1,049 million for the instrument.

KIFRS 1115 *Revenue from Contracts with Customers*
KIFRS 1115 establishes a five-step model to account for revenue arising from contracts with customers. Under KIFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under KIFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Group performed a preliminary assessment of KIFRS 1115, which is subject to changes arising from a more detailed ongoing analysis.

As at December 31, 2016, the Group has not made changes to its internal control procedures or the accounting system related to the adoption of KIFRS 1115, and did not analyze the effect of KIFRS 1115 on its consolidated financial statements. As at January 1, 2017, the Group plans to apply a practical expedient for completed contracts, under which the Group does not restate its financial statements.

Amendments to KIFRS 1110 and KIFRS 1028 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
The amendments address the conflict between KIFRS 1110 and KIFRS 1028 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in KIFRS 1103, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

Amendments to KIFRS 1007 *Statement of Cash Flows: Disclosure Initiative*
The amendments to KIFRS 1007 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of the amendments will result in additional disclosures provided by the Group.

4. Standards issued but not yet effective (cont'd)

Amendments to KIFRS 1012 *Recognition of Deferred Tax Assets for Unrealised Losses*
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

5. Operating segment information

As the sale of Self Storage Inc. was completed on November 24, 2015, the Group has only one reporting segment as at December 31, 2015.

The sales of the Group are attributable to a single operating segment for the years ended December 31, 2016. The following table summarizes the financial performance results including sales of the Group by operating segment for the years ended December 31, 2015 (Korean won in millions):

	2015				
	Dairy	Segment total	Elimination	Discontinued operations	Consolidated
Total sales	₩ 804,823	₩ 804,823	₩ (5,252)	₩ 994	₩ 800,565
Inter-segment sales	5,252	5,252	(5,252)	-	-
Sales to external customers	799,571	799,571	-	994	800,565
Operating profit	31,693	31,693	-	109	31,802
Profit for the year	24,933	24,933	(282)	92	24,743

There is no significant overseas sales by operating segment for the years ended December31, 2016 and 2015.

The assets and liabilities of the Group as at December 31, 2016 and 2015 are attributable to a single reporting segment.

6. Cash and cash equivalents

Cash and cash equivalents as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Cash on hand	₩ 62	₩ 97
Deposits	21,070	16,566
	₩ 21,132	₩ 16,663

7. Short-term financial assets

Short-term financial assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Short-term financial instuments	₩ 195,569	₩ 167,854

8. Accounts and notes receivable and prepaid expenses

Accounts and notes receivable and prepaid expenses are presented as net of allowances for impairment. Gross amount and related allowances as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Accounts and notes receivable	₩ 69,598	₩ 68,653
Prepaid expenses	25,531	27,817
	95,129	96,470
Allowance for doubtful accounts:		
Accounts and notes receivable	(847)	(979)
Prepaid expenses	(202)	(365)
	(1,049)	(1,344)
Book value:		
Accounts and notes receivable	68,751	67,674
Prepaid expenses	25,329	27,452
	₩ 94,080	₩ 95,126

Changes in allowance for doubtful accounts for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
As at January 1,	₩ 1,344	₩ 1,681
Bad debt expense	223	250
Write-off	(518)	(587)
As at December 31,	₩ 1,049	₩ 1,344

As at December 31, 2016 and 2015, the aging analysis of accounts and notes receivable is as follows (Korean won in millions):

	2016		2015	
	Accounts and notes receivable	Allowance for doubtful accounts	Accounts and notes receivable	Allowance for doubtful accounts
< 180 days	₩ 68,554	₩ (275)	₩ 67,129	₩ (462)
181~365 days	445	(197)	976	(277)
> 365 days	599	(375)	548	(240)
	₩ 69,598	₩ (847)	₩ 68,653	₩ (979)

9. Inventories

Inventories as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Merchandise	₩ 3,911	₩ 5,249
Finished goods	7,711	8,559
Work-in-process	3,780	10,112
Raw materials	12,374	13,533
Materials in-transit	5,952	1,571
	₩ 33,728	₩ 39,024

10. Long-term financial assets

Long-term financial assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Long-term deposits	₩ 9	₩ 9
Available-for-sale financial assets	26,488	45,849
Held-to-maturity financial assets	27	27
Long-term loans	639	352
	₩ 27,163	₩ 46,237

Restricted deposits as at December 31, 2016 and 2015 consist of the following (Korean won in millions):

	Financial institution	2016	2015	Description
Long-term deposits	Shinhan Bank	₩ 3	₩ 3	Deposits for checking accounts
	Kookmin Bank	3	3	
	Korea Development Bank	3	3	
		₩ 9	₩ 9	

Available-for-sale financial assets as at December 31, 2016 and 2015 are summarized as follows (Korean won in millions):

	2016	2015
Marketable securities:		
Korea Telecom Corporation	₩ 146	₩ 141
Shinhan Financial Group Co., Ltd.	1,982	1,733
Crown Confectionery Co., Ltd.	21,216	40,921
	23,344	42,795
Marketable beneficiary certificate:		
Mirae Asset Global Dynamic Bond Fund	3,130	2,990
	3,130	2,990
Non-marketable securities:		
The Korea Economic Daily	13	13
Newcore Co., Ltd.	1	1
Il Nanum Co., Ltd.	-	25
Cheonan Delivery Service Co., Ltd.	-	25
	14	64
	₩ 26,488	₩ 45,849

10. Long-term financial assets (cont'd)

The fair value of listed available-for-sale equity instruments and beneficiary certificate are based on quoted prices in an active market. The unlisted available-for-sale equity instruments that do not have a market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Changes in available-for-sale financial assets for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
As at January 1,	₩	45,849	₩	16,499
Increase		-		3,000
Gain (loss) on valuation of available-for-sale financial assets (before tax)		(19,311)		26,375
Impairment		(50)		(25)
As at December 31,	₩	26,488	₩	45,849

Held-to-maturity financial assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Local development bonds	₩	27	₩	27

11. Property, plant and equipment

Changes in the book value of property, plant and equipment for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016											
		Land		Buildings and structures		Machinery and vehicles (*)		Tools, furniture and other		Construction-in-progress		Total
Acquisition cost:												
As at Jan. 1	₩	42,823	₩	83,281	₩	228,388	₩	79,480	₩	6,112	₩	440,084
Additions		29		19		2,843		4,835		18,266		25,992
Disposals		(15)		(341)		(4,245)		(6,071)		(1,423)		(12,095)
Other		-		78		8,309		134		(8,521)		-
As at Dec. 31		42,837		83,037		235,295		78,378		14,434		453,981
Accumulated depreciation and impairment:												
As at Jan. 1		-		(35,788)		(119,172)		(57,452)		-		(212,412)
Disposals		-		277		3,817		6,070		-		10,164
Depreciation		-		(1,981)		(16,225)		(7,154)		-		(25,360)
As at Dec. 31		-		(37,492)		(131,580)		(58,536)		-		(227,608)
Net book value:												
As at Jan. 1	₩	42,823	₩	47,493	₩	109,216	₩	22,028	₩	6,112	₩	227,672
As at Dec. 31	₩	42,837	₩	45,545	₩	103,715	₩	19,842	₩	14,434	₩	226,373

11. Property, plant and equipment (cont'd)

	2015					
	Land	Buildings and structures	Machinery and vehicles (*)	Tools, furniture and other	Construction-in-progress	Total
Acquisition cost:						
As at Jan. 1	₩ 42,823	₩ 83,340	₩ 224,296	₩ 78,064	₩ 2,257	₩ 430,780
Additions	-	116	5,717	6,306	13,620	25,759
Disposals	-	(175)	(10,519)	(3,979)	-	(14,673)
Other	-	-	9,054	506	(9,560)	-
Change in the subsidiaries	-	-	(160)	(1,417)	(205)	(1,782)
As at Dec. 31	42,823	83,281	228,388	79,480	6,112	440,084
Accumulated depreciation and impairment:						
As at Jan. 1	-	(33,932)	(112,562)	(54,577)	-	(201,071)
Disposals	-	123	9,536	3,961	-	13,620
Depreciation	-	(1,979)	(16,225)	(7,645)	-	(25,849)
Change in the subsidiaries	-	-	79	(809)	-	888
As at Dec. 31	-	(35,788)	(119,172)	(57,452)	-	(212,412)
Net book value:						
As at Jan. 1	₩ 42,823	₩ 49,408	₩ 111,734	₩ 23,487	₩ 2,257	₩ 229,709
As at Dec. 31	₩ 42,823	₩ 47,493	₩ 109,216	₩ 22,028	₩ 6,112	₩ 227,672

(*) Amounts are net of government grants

12. Government grants

The Company entered into an agreement with Sunda Korea Co., Ltd., an agent of with the Korea Energy Management Corporation ("KEMCO") in connect with a the solar collector development project on December 28, 2007, and received government grants in the amount of ₩271 million. The Company acquired machinery with the grant received from KEMCO and accounted for the grant as a deduction from the cost of acquired assets. Government grants of ₩23 million were offset against the depreciation expenses for the years ended December 31, 2016 and 2015, respectively. The accumulated government grants that were offset with depreciation expenses of the acquired assets amounted to ₩207 million as at December 31, 2016 and ₩184 million as at December 31, 2015.

13. Intangible assets

Changes in the book value of intangible assets for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016			
	Industrial proprietary rights	Facility usage rights	Other intangible assets	Total
Acquisition cost:				
As at Jan. 1	₩ 2,708	₩ 1,972	₩ 690	₩ 5,370
Additions	400	-	-	400
Disposals	-	(40)	-	(40)
As at Dec. 31	3,108	1,932	690	5,730
Accumulated amortization and impairment:				
As at Jan. 1	(2,165)	-	(690)	(2,855)
Amortization	(231)	-	-	(231)
As at Dec. 31	(2,396)	-	(690)	(3,086)
Net book value:				
As at Jan. 1	₩ 543	₩ 1,972	₩ -	₩ 2,515
As at Dec. 31	₩ 712	₩ 1,932	₩ -	₩ 2,644

	2015			
	Industrial proprietary rights	Facility usage rights	Other intangible assets	Total
Acquisition cost:				
As at Jan. 1	₩ 2,480	₩ 1,620	₩ 696	₩ 4,796
Additions	228	352	-	580
Change in the subsidiaries	-	-	(6)	(6)
As at Dec. 31	2,708	1,972	690	5,370
Accumulated amortization and impairment:				
As at Jan. 1	(1,953)	-	(693)	(2,646)
Amortization	(212)	-	(1)	(213)
Change in the subsidiaries	-	-	4	4
As at Dec. 31	(2,165)	-	(690)	(2,855)
Net book value:				
As at Jan. 1	₩ 527	₩ 1,620	₩ 3	₩ 2,150
As at Dec. 31	₩ 543	₩ 1,972	₩ -	₩ 2,515

Research and development expenditures incurred and recognized in profit or loss for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Cost of sales	₩ 1,668	₩ 1,549
Selling and administrative expenses	5,810	6,578
	₩ 7,478	₩ 8,127

14. Guarantee deposits

Details of guarantee deposits that are measured at amortized cost as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		2015	
	Effective interest rate	Book value	Effective interest rate	Book value
Guarantee deposits	1.47% ~ 5.60%	₩ 19,375	1.71% ~ 4.10%	₩ 19,077

15. Long-term borrowings

Long-term borrowings as at December 31, 2016 and 2015 are as follows (Korean won in millions):

			2016		2015	
	Description	Annual interest rate	Current	Non-current	Current	Non-current
Korea Development Bank	Facility loans	-	-	-	118	21
			₩ -	₩ -	₩ 118	₩ 21

16. Pledged assets

Details of assets pledged for the Company's borrowings as at December 31, 2016 are as follows: (Korean won in millions):

	Collateralized assets	Borrowing	Collateralized amount
Korea Development Bank	Land, buildings, machinery, tools, furniture and fixtures (Donong factory)	₩ -	₩ 21,000

17. Other current liabilities

Other current liabilities as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Advance received	₩ 6,160	₩ 6,163
Withholdings	1,059	2,158
Deposits received for guarantees	6	5
	₩ 7,225	₩ 8,326

18. Employee benefits

Defined benefit liabilities as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Present value of the defined benefit obligation	₩ 49,471	₩ 49,766
Fair value of plan assets	(42,781)	(40,107)
Defined benefit liabilities recognized in the consolidated statement of financial position	₩ 6,690	₩ 9,659

18. Employee benefits (cont'd)

Changes in the defined benefit obligation for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Beginning balance	₩	49,766	₩	48,379
Current service cost		6,638		6,962
Interest expense		1,372		1,635
Re-measurement gain (loss):				
Actuarial changes arising from changes in demographic assumptions		(198)		(46)
Experience adjustments		(2,305)		383
Benefits paid		(5,802)		(7,453)
Change in the subsidiaries		-		(94)
Ending balance	₩	49,471	₩	49,766

Changes in the fair value of plan assets for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Beginning balance	₩	40,107	₩	40,198
Expected return on plan assets		1,102		1,356
Re-measurement losses in OCI:				
Re-measurement loss		(391)		(423)
Contributions by employer		8,014		8,100
Benefits paid		(6,051)		(9,124)
Ending balance	₩	42,781	₩	40,107

Expenses recorded in relation to the defined benefit pension plan for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Current service cost	₩	6,638	₩	6,962
Net interest cost		270		279
	₩	6,908	₩	7,241

Expenses recorded in relation to the defined contribution pension plan for the years ended December 31, 2016 and 2015 are ₩249 million and ₩35 million, respectively.

The major categories of the fair value of total plan assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Short-term trading financial assets	₩	12,515	₩	14,539
Available-for-sale financial assets		30,266		25,568
	₩	42,781	₩	40,107

18. Employee benefits (cont'd)

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

	2016	2015
Discount rate	2.93%	2.88%
Future salary increases	4.91%	4.90%

The following table demonstrates a sensitivity analysis on the effect of changes in the principal assumptions used in actuarial calculation on the present value of defined benefit liabilities as at December 31, 2015 (Korean won in millions):

	2016			
	+ 1% Bp		- 1% Bp	
Effect of changes in the discount rate	₩	(3,680)	₩	4,232
Effect of changes in future salary increase rate		4,204		(3,726)

	2015			
	+ 1% Bp		- 1% Bp	
Effect of changes in the discount rate	₩	(3,704)	₩	4,260
Effect of changes in future salary increase rate		4,230		(3,749)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on defined benefit liabilities as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

19. Other non-current liabilities

Other non-current liabilities as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		2015	
Leasehold deposits received	₩	30	₩	30

20. Common stock

Common stock as at December 31, 2016 and 2015 are as follows (Korean won, except number of shares):

	2016		2015	
Authorized shares	₩	24,000,000	₩	24,000,000
Value per share		5,000		5,000
Number of shares issued		9,851,241		9,851,241
Common stock	₩	49,756,205,000	₩	49,756,205,000

Differences arising from the Company's issued capital and aggregate of the par value of ordinary shares issued amounting to ₩500 million represents 100,000 ordinary shares reacquired as treasury stock and subsequently retired.

Capital surplus as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		2015	
Additional paid-in capital	₩	27,910	₩	27,910
Gain on disposal of treasury stock		2,386		2,386
Revaluation surplus		34,473		34,473
	₩	64,769	₩	64,769

21. Other components of equity

Other components of equity as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Treasury stock	₩ 22,482	₩ 22,482

22. Accumulated other comprehensive income

Accumulated other comprehensive income as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Changes in the fair value of available-for-sale financial assets	₩ 13,057	₩ 27,830
Loss on foreign currency translations from foreign operations	(96)	(166)
	₩ 12,961	₩ 27,664

Changes in the fair value of available-for-sale financial assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Changes in the fair value of available-for-sale financial assets before taxes	₩ 17,069	₩ 36,379
Tax effect	(4,012)	(8,549)
	₩ 13,057	₩ 27,830

23. Reserves

Reserves as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Legal reserve	₩ 15,185	₩ 14,075
Voluntary reserve	368,186	355,520
	₩ 383,371	₩ 369,595

Legal reserve
In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of issued capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to issued capital.

Voluntary reserves as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Reserve for business rationalization	₩ 71,505	₩ 69,505
Reserve for improvement of capital structure	18,681	18,681
Reserve for research and human resource development	5,000	8,334
Reserve for overseas market development	111,000	107,000
Reserve for facility investment	162,000	152,000
	₩ 368,186	₩ 355,520

24. Retained earnings

Changes in retained earnings for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
As at January 1,	₩	27,860	₩	38,527
Transfer from reserve for research and human resource development		3,334		3,333
Appropriation to legal reserve		(1,110)		(1,110)
Appropriation to reserve for business rationalization		(2,000)		(6,000)
Appropriation to reserve for overseas market development		(4,000)		(8,000)
Appropriation to reserve for facility investment		(10,000)		(12,000)
Dividends		(11,052)		(11,052)
Profit for the year		28,731		24,743
Less: Profit (loss) attributable to non-controlling interests		-		1
Re-measurement losses on defined benefit plans		1,616		(581)
Change in the subsidiaries		-		(1)
As at December 31,	₩	33,379	₩	27,860

Dividends
The following dividends were declared and paid by the Group during 2016 and 2015. (Korean won in millions):

		2016		2015
₩1,250 per qualifying ordinary share (2015: ₩1,250)	₩	11,052	₩	11,052

25. Expenses classified by nature of expense

Expenses classified by nature of expense for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016					
		Selling and administrative expenses		Cost of sales (manufacture)		Total
Change in inventories	₩	-	₩	(42,918)	₩	(42,918)
Purchase of inventories		-		465,644		465,644
Employee benefits expense		46,831		42,943		89,774
Depreciation and amortization		8,620		16,971		25,591
Other expenses		153,351		84,489		237,840
	₩	208,802	₩	567,129	₩	775,931

25. Expenses classified by nature of expense (cont'd)

	2015		
	Selling and administrative expenses	Cost of sales (manufacture)	Total
Change in inventories	₩ -	₩ (46,101)	₩ (46,101)
Purchase of inventories	-	491,827	491,827
Employee benefits expense	40,579	42,737	83,316
Depreciation and amortization	8,838	17,076	25,914
Other expenses	142,615	70,308	212,923
	₩ 192,032	₩ 575,847	₩ 767,879

Administrative expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Salaries	₩ 40,441	₩ 36,893
Provision for pension benefits	3,568	3,686
Employee benefits	10,759	8,753
Travel	3,773	3,960
Taxes and dues	2,582	2,396
Service fee	14,022	11,584
Rents	2,047	1,808
Depreciation	8,390	8,626
Amortization	230	212
Research and development	5,810	6,582
Advertisement	40,205	34,578
Sales commission	17,322	15,681
Bad debt expenses	223	250
Transportation	45,317	43,199
Other	14,113	13,824
	₩ 208,802	₩ 192,032

26. Net finance income

Net finance for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Finance income:		
Interest income	₩ 3,756	₩ 3,297
Gain on foreign currency transactions	206	806
Gain on foreign currency translation	928	8
Dividend income	21	117
	4,911	4,228
Finance costs:		
Interest expense	(5)	(44)
Loss on foreign currency transactions	(637)	(341)
Loss on foreign currency translation	-	(11)
Loss on sale of available-for-sale financial assets	(50)	(25)
	(692)	(421)
Net finance income	₩ 4,219	₩ 3,807

26. Net finance income (cont'd)

Interest income for the years ended December 31, 2016 and 2015 are as follows: (Korean won in millions):

		2016		2015
Deposits	₩	3,390	₩	2,972
Short-term financial instuments		119		91
Guarantee deposits		247		234
	₩	3,756	₩	3,297

Interest expense for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Borrowings	₩	5	₩	44

27. Other operating income and operating expenses

Other operating income for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Gain on disposal of property, plant and equipment	₩	175	₩	321
Rental income		143		143
Miscellaneous income		717		1,208
	₩	1,035	₩	1,672

Other operating expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Donations	₩	2,391	₩	3,014
Loss on disposal of property, plant and equipment		1,867		1,046
Maintenance		35		36
Loss on disposal of investment in subsidiaries		-		59
Miscellaneous loss		1,148		574
	₩	5,441	₩	4,729

28. Income tax

The major components of income tax expense for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Current income tax	₩	9,538	₩	7,172
Adjustment for prior years		55		285
Origination and reversal of temporary differences		(5,317)		6,355
Income taxes recognized in other comprehensive income		4,042		(6,019)
Income tax expense	₩	8,318	₩	7,793

28. Income tax (cont'd)

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

	2016	2015
Current income tax:		
Remeasurements losses on defined benefit plans	₩ (496)	₩ 178
Deferred income tax:		
Gain (loss) on valuation of available-for-sale financial assets	4,538	(6,197)
Income taxes recognized directly in other comprehensive income	₩ 4,042	₩ (6,019)

Income taxes related to remeasurements losses on defined benefit plans and gain (loss) on valuation of available-for-sale securities are recognized in other comprehensive income.

A reconciliation of provision for income taxes applicable to income before income taxes at the Korea statutory tax rate to provision for income taxes at the effective tax rate of the Group is summarized as follows (Korean won in millions):

	2016	2015
Profit before income taxes	₩ 37,048	₩ 32,443
Statutory income tax rate	24.2%	24.2%
Taxes at the statutory income tax rate	8,504	7,389
Adjustments:		
Tax effects of permanent differences	65	111
Tax credits	(290)	(17)
Adjustments for prior years	55	286
Other	(16)	24
Income tax expense	₩ 8,318	₩ 7,793
Effective income tax rate	22.5%	24.0%

As at December 31, 2016 and 2015, tax effects of temporary differences are calculated by expected tax rate of 23.5% of the fiscal year when the temporary differences are expected to be reversed.

The Group sets off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

Significant changes in cumulative temporary differences and deferred income tax assets and liabilities for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016			
	January 1	Recognized in profit or loss	Recognized directly in equity	December 31
Available-for-sale financial assets	₩ (8,549)	₩ -	₩ 4,538	₩ (4,011)
Other employee benefits	1,719	91	-	1,810
Accumulated depreciation	486	-	-	486
Reserve for research and human resource development	(1,176)	627	-	(549)
Allowance for temporary depreciation	(850)	62	-	(788)
Investment in subsidiaries	-	(63)	-	(63)
Other	108	82	-	190
	₩ (8,262)	₩ 799	₩ 4,538	₩ (2,925)

28. Income tax (cont'd)

	2015							
	January 1		Recognized in profit or loss		Recognized directly in equity		December 31	
Available-for-sale financial assets	₩	(2,351)	₩	-	₩	(6,198)	₩	(8,549)
Defined benefit liabilities		20		(20)		-		-
Other employee benefits		1,992		(273)		-		1,719
Accumulated depreciation		456		30		-		486
Reserve for research and human resource development		(1,959)		783		-		(1,176)
Allowance for temporary depreciation		(912)		62		-		(850)
Other		866		(758)		-		108
	₩	(1,888)	₩	(176)	₩	(6,198)	₩	(8,262)

As at December 31, 2016 and 2015, the amounts of total temporary differences related to investment in associates for which deferred tax assets were not recognized, amount to ₩1,703 million and ₩1,703million, respectively.

29. Profit attributable to non-controlling interests

Details of profit attributable to non-controlling interests for the year ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016				
	Minority ownership	Loss for the year		Loss attributable to non-controlling interests	
BC F&B Brasil Ltda.	1.00%	₩	(28)	₩	-

	2015				
	Minority ownership	Loss for the year		Loss attributable to non-controlling interests	
BC F&B Brasil Ltda.	1.00%	₩	(59)	₩	(1)

30. Per share amounts

The Company's basic earnings per share for the years ended December 31, 2016 and 2015 are computed as follows (Korean won, except number of shares):

	2016		2015	
Profit attributable to ordinary equity holders ofthe parent:				
Continuing operations	₩	28,731,036,099	₩	24,650,709,172
Discontinued operations		-		92,474,193
Weighted-average number of shares of ordinary stock outstanding (*)		8,841,801		8,841,801
Basic earnings per share:				
Profit from continuing operations attributable to ordinary equity holders of the parent	₩	3,249	₩	2,788
Profit from discontinued operations attributable to ordinary equity holders of the parent		-		10
Profit for the year attributable to ordinary equity holders	₩	3,249	₩	2,798

(*) Weighted-average number of shares of ordinary stock outstanding is calculated as follows:

30. Per share amounts (cont'd)

	2016	2015
Beginning weighted-average number of shares of ordinary stock	9,851,241	9,851,241
Treasury stock	(1,009,440)	(1,009,440)
Weighted-average number of shares of ordinary stock outstanding	8,841,801	8,841,801

There is no difference between basic earnings per share and diluted earnings per share because there is no potential dilutive instrument.

31. Related party disclosure

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

	2016	2015
Other related party	Jette Co., Ltd(*)	Jette Co., Ltd

(*) The name of KNL Logistics Co., Ltd, other related party, was changed to Jette Co., Ltd on January 28, 2016.

Transactions with related party for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		
	Company	Rental revenue and other revenue	Transportation Expense and other expense
Other related party	Jette Co., Ltd	₩ 166	₩ 40,910

	2015			
	Company	Rental revenue and other revenue	Transportation expense and other expense	Sale of equity interests
Other related party	Jette Co., Ltd	₩ 144	₩ 37,074	₩ 2,000

Balances of receivables and payables resulted from transactions among the Company and its related party as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	Company	Accounts	2016	2015
Other related party	Jette Co., Ltd	Receivables:		
		Other accounts receivable	₩ 25	₩ 13
		Guarantee deposits	973	550
			₩ 998	₩ 563
		Payables:		
		Other accounts payable	₩ 3,822	₩ 2,627
		Leasehold deposits received	30	30
			₩ 3,852	₩ 2,657

Key management personnel compensations in total and for each of the following categories for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Short-term salaries	₩ 2,586	₩ 2,470
Provision for pension benefits	402	496
	₩ 2,988	₩ 2,966

32. Supplementary consolidated cash flow information

Cash flows from operating activities prepared using the indirect method for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Profit for the year	₩ 28,731	₩ 24,743
Non-cash adjustments to reconcile profit for the year to net cash flows:		
Provision for pension benefits	7,157	7,241
Depriciation	25,360	25,849
Amortization	231	213
Bad debt expense	223	260
Interest income	(3,513)	(3,135)
Dividend income	(206)	(117)
Interest expense	5	44
Gain on foreign currency translation	(21)	(8)
Loss on foreign currency translation	-	11
Loss on sale of available-for-sale financial assets	50	25
Gain on disposal of property, plant and equipment	(175)	(321)
Loss on disposal of property, plant and equipment	1,867	1,046
Loss on disposal of investment in subsidiaries	-	59
Income tax expense	8,318	7,820
	39,296	38,987
Working capital adjustments:		
Accounts and notes receivable	(1,118)	(1,546)
Other accounts receivable	(160)	271
Advance payments	20	339
Prepaid expenses	2,123	2,785
Inventories	5,296	15,213
Guarantee deposits	(744)	(1,967)
Long-term advance payments	(779)	608
Long-term prepaid expsenes	193	(242)
Accounts and notes payable	4,063	(1,483)
Other accounts payable	52	1,682
Accrued expenses	2,864	(73)
Other current liabilities	(1,101)	3,265
Benefit paid	(7,802)	(6,429)
Long-term guarantee deposits received	(102)	(277)
Long-term accrued expenses	209	(859)
	3,014	11,287
Income taxes paid	(5,482)	(10,299)
Cash from operating activities	₩ 65,559	₩ 64,718

Cash and cash equivalents on the consolidated statements of cash flows consists entirely of cash and cash equivalents on the consolidated statements of financial position.

32. Supplementary consolidated cash flow information (cont'd)

For the years ended December 31, 2016 and 2015, significant transactions not involves cash inflow are as follows (Korean won in millions):

	2016	2015
Transfers to machinery from construction-in-progress	₩ 8,522	₩ 9,559

33. Financial risk management objectives and policies

The Group's principal financial liabilities, comprise borrowings, accounts and notes payable and other accounts payable. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. Also the Group has various financial assets including accounts and notes receivable, and cash and short-term deposits that arrive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's management reviews risk management process of each risk and whether it follows the Group's policies as follows. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

33.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk.

The sensitivity analyses in the following sections relate to the position as at December 31, 2016 and 2015.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is no significant effect on cash flows or the fair value of financial liabilities from the interest rate fluctuation.

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As the Group carries few monetary assets and liabilities denominated in foreign currency as at December 31, 2016 and 2015, the effect of exchange rate risk is not material.

Other price risk
Other price risk is the rick that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price other than interest rate risk or foreign currency risk.

The Group's marketable available-for-sale equity securities are susceptible to market price risk arising from the fluctuation in the price of the securities. The following table demonstrates a sensitivity analysis of a reasonably possible change in the price of marketable equity securities on the financial statements of the Group as at December 31, 2016 and 2015 (Korean won in millions):

	2016	
	+ 5%	- 5%
Other comprehensive income before tax	₩ 1,167	₩ (1,167)
Income tax	(274)	274
Other comprehensive income after tax	₩ 893	₩ (893)

33.1 Market risk (cont'd)

	2015			
	+ 5%		- 5%	
Other comprehensive income before tax	₩	2,140	₩	(2,140)
Income tax		(503)		503
Other comprehensive income after tax	₩	1,637	₩	(1,637)

33.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss of the Group. The Group is exposed to credit risk from its operating activities and from its financing activities.

Accounts and notes receivable and other accounts receivable
Customer credit risk is managed by the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance. The maximum exposure to credit risk at the reporting date is as follows (Korean won in millions):

	2016		2015	
Accounts and notes receivable	₩	68,751	₩	67,674
Other accounts receivable		716		455

The Group evaluates impairment on accounts and notes receivable and other accounts receivable at every reporting date on individual and collectively.

Other assets
Credit risks associated with the Group's other assets which consist of cash, short-term deposits and long-term loans arise from default of counterparties. Maximum exposure to credit risks will be the book value of the related other assets. The Group deposits its surplus funds in Woori Bank and other financial institutions whose credit ratings are high, therefore credit risk related to financial institutions is considered limited.

33.3 Liquidity risk

Liquidity risk refers to the risk that the Group may default on the contractual obligations that become due.

The Group manages its risk to a shortage of funds using a recurring liquidity planning tool. The Group matches the financial liabilities with the financial assets taking into account the maturity dates and cash flow from operating activities of those financial assets. The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (Korean won in millions):

	2016							
	Less than 1 year		1 to 5 years		More than 5 years		Total	
Accounts and notes payable	₩	40,812	₩	-	₩	-	₩	40,812
Other accounts payable		19,360		-		-		19,360
Accrued expenses		9,669		-		-		9,669
Dividends payable		2		-		-		2
Long-term guarantee deposits received		-		5,759		-		5,759
Long-term accrued expense		-		852		2,665		3,517
Other non-current liabilites		-		30		-		30
	₩	69,843	₩	6,641	₩	2,665	₩	79,149

33.3 Liquidity risk (cont'd)

	2015			
	Less than 1 year	1 to 5 years	More than 5 years	Total
Accounts and notes payable	₩ 36,582	₩ -	₩ -	₩ 36,582
Other accounts payable	19,024	-	-	19,024
Current portion of long-term borrowings	118	-	-	118
Accrued expenses	6,343	-	-	6,343
Dividends payable	2	-	-	2
Long-term borrowings	-	21	-	21
Long-term guarantee deposits received	-	5,861	-	5,861
Long-term accrued expense	-	992	2,316	3,308
Other non-current liabilites	-	30	-	30
	₩ 62,069	₩ 6,904	₩ 2,316	₩ 71,289

Cash flow on the above financial liabilities by maturities represent nominal and undiscounted amounts.

33.4 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain the sound capital structure, the Group may aquire treasury shares or adjust the dividend payment to shareholders, etc. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2016 and 2015.

The Group monitors a gearing ratio, which is net debt divided by equity. Net debt refers to interest bearing loans and bonds, less cash and cash equivalents and short-term financial assets.

Gearing ratio as at the reporting date is computed as follows (Korean won in millions):

	2016	2015
Net debt:		
Borrowings	₩ -	₩ 139
Less:		
Cash and cash equivalent	21,132	16,663
Short-term financial assets	195,569	167,854
Net debt	(216,701)	(184,378)
Equity	521,756	517,163
Gearing ratio	-	-

34. Fair value

Details of book values and fair values of financial assets and liabilities as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		2015	
	Book value	Fair value	Book value	Fair value
Fanancial assets				
Financial assets that are measured at fair value:				
Short-term financial assets	₩ 32,119	₩ 32,119	₩ 15,091	₩ 15,091
Long-term financial assets (marketable available-for-sale financial assets)	26,474	26,474	45,785	45,785
	58,593	58,593	60,876	60,876
Financial assets that are measured at amortized cost:				
Cash and cash equivalents	21,132	21,132	16,663	16,663
Short-term financial assets	163,450	163,450	152,763	152,763
Accounts and notes receivable	68,751	68,751	67,674	67,674
Other accounts receivable	716	716	455	455
Accrued income	944	944	956	956
Long-term financial assets (except marketable available-for-sale financial assets)	689	689	452	452
Guarantee deposits	19,375	19,375	19,077	19,077
	275,057	275,057	258,040	258,040
	₩ 333,650	₩ 333,650	₩ 318,916	₩ 318,916
Financial liabilities				
Amortised cost of financial liabilities:				
Accounts and notes payable	₩ 40,812	₩ 40,812	₩ 36,582	₩ 36,582
Other accounts payable	19,360	19,360	19,024	19,024
Current portion of long-term borrowings	-	-	118	118
Accrued expenses	9,669	9,669	6,343	6,343
Dividends payable	2	2	2	2
Long-term borrowings	-	-	21	21
Long-term guarantee deposits received	5,759	5,759	5,861	5,861
Long-term accrued expenses	3,517	3,517	3,308	3,308
Other non-current liabilities	30	30	30	30
	₩ 79,149	₩ 79,149	₩ 71,289	₩ 71,289

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Methods and presumptions used for fair value estimates are as follows:

- As cash, short-term deposits, accounts and notes receivable, other current assets, accounts and notes payable and other current liabilities are short-term, their fair value approximate book value.
- Fair value of long-term financial assets (except marketable available-for-sale financial assets), guarantee deposits, long-term borrowings and other long-term liabilities are computed for disclosure. Cash flow of interest or principal payments are discounted to their present value using market rates to calculate their fair values.
- The fair value of long-term financial assets (marketable available-for-sale financial aseets) is based on quoted prices in an active market. The unlisted available-for-sale equity instruments that do not have a market price in an active market and whose fair value cannot be reliably measured are measured at cost.

34. Fair value (cont'd)

Fair value measurement

Hierarchy and measurment method of fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurment is estimating the price that would be received to sell an asset or pair to transfer a liability in an orderly transaction between market participants at the measurment date, considering current market's situation. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Level 1: Fair values of financial assets and liabilities measured at quoted (unadjusted) market prices in active markets are classified as level 1.
Level 2: When assets or liabilities are measured through valuation techniques, if all inputs to the valuation techiniques are observable in market, the asset or liability is classified as level 2.
Level 3: When assets or liabilities are measured through valuation techniques, if one ore more inputs to the valuation techniques are un-observable in market, the asset or liability is classified as level 3.

As at December 31, 2016 and 2015, the Group held the following assets and liabilities carried at fair value on the statement of financial position (Korean won in millions):

	2016			
	Level 1	Level 2	Level 3	Total
Fanancial assets				
Assets that are measured at fair value:				
Short-term financial assets	₩ -	₩ 32,119	₩ -	₩ 32,119
Long-term financial assets (marketable available-for-sale financial assets)	26,474	-	-	26,474
	26,474	32,119	-	58,593
Assets for which the fair value have been disclosed:				
Cash and cash equivalents	62	21,070	-	21,132
Short-term financial assets	-	163,450	-	163,450
Accounts and notes receivable	-	-	68,751	68,751
Other accounts receivable	-	-	716	716
Accrued income	-	-	944	944
Long-term financial assets (except marketable available-for-sale financial assets)	-	36	653	689
Guarantee deposits	-	-	19,375	19,375
	62	184,556	90,439	275,057
	₩ 26,536	₩ 216,675	₩ 90,439	₩ 333,650
Financial liabilities				
Financial liabilities for which the fair value have been disclosed:				
Accounts and notes payable	₩ -	₩ -	₩ 40,812	₩ 40,812
Other accounts payable	-	-	19,360	19,360
Accrued expenses	-	-	9,669	9,669
Dividends payable	-	-	2	2
Long-term guarantee deposits received	-	-	5,759	5,759
Long-term accrued expenses	-	-	3,517	3,517
Other non-current liabilities	-	-	30	30
	₩ -	₩ -	₩ 79,149	₩ 79,149

34. Fair value (cont'd)

	2015			
	Level 1	Level 2	Level 3	Total
Fanancial assets				
Assets that are measured at fair value:				
Short-term financial assets	₩ -	₩ 15,091	₩ -	₩ 15,091
Long-term financial assets (marketable available-for-sale financial assets)	45,785	-	-	45,785
	45,785	15,091	-	60,876
Assets for which the fair value have been disclosed:				
Cash and cash equivalents	97	16,566	-	16,663
Short-term financial assets	-	152,763	-	152,763
Accounts and notes receivable	-	-	67,674	67,674
Other accounts receivable	-	-	455	455
Accrued income	-	-	956	956
Lont-term financial assets (except marketable available-for-sale financial assets)	-	36	416	452
Guarantee deposits	-	-	19,077	19,077
	97	169,365	88,578	258,040
	₩ 45,882	₩ 184,456	₩ 88,578	₩ 318,916
Financial liabilities				
Financial liabilities for which the fair value have been disclosed:				
Accounts and notes payable	₩ -	₩ -	₩ 36,582	₩ 36,582
Other accounts payable	-	-	19,024	19,024
Current portion of long-term borrowings	-	118	-	118
Accrued expenses	-	-	6,343	6,343
Dividends payable	-	-	2	2
Long-term borrowings	-	21	-	21
Long-term guarantee deposits received	-	-	5,861	5,861
Long-term accrued expenses	-	-	3,308	3,308
Other non-current liabilities	-	-	30	30
	₩ -	₩ 139	₩ 71,150	₩ 71,289

34. Fair value (cont'd)

Details of financial assets by categories for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016					
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Other financial liabilities	Total
Financial assets:						
Cash and cash equivalents	₩ -	₩ 21,132	₩ -	₩ -	₩ -	₩ 21,132
Short-term financial assets	32,119	163,450	-	-	-	195,569
Accounts and notes receivable	-	68,751	-	-	-	68,751
Other accounts receivable	-	716	-	-	-	716
Accrued income	-	944	-	-	-	944
Lont-term financial assets	-	648	26,488	27	-	27,163
Guarantee deposits	-	19,375	-	-	-	19,375
	₩ 32,119	₩ 275,016	₩ 26,488	₩ 27	₩ -	₩ 333,650
Financial liabilities:						
Accounts and notes payable	₩ -	₩ -	₩ -	₩ -	₩ 40,812	₩ 40,812
Other accounts payable	-	-	-	-	19,360	19,360
Accrued expenses	-	-	-	-	9,669	9,669
Dividends payable	-	-	-	-	2	2
Long-term guarantee deposits received	-	-	-	-	5,759	5,759
Long-term accrued expenses	-	-	-	-	3,517	3,517
Other non-current liabilities	-	-	-	-	30	30
	₩ -	₩ -	₩ -	₩ -	₩ 79,149	₩ 79,149

34. Fair value (cont'd)

	2015					
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Other financial liabilities	Total
Financial assets:						
Cash and cash equivalents	₩ -	₩ 16,663	₩ -	₩ -	₩ -	₩ 16,663
Short-term financial assets	15,091	152,763	-	-	-	167,854
Accounts and notes receivable	-	67,674	-	-	-	67,674
Other accounts receivable	-	455	-	-	-	455
Accrued income	-	956	-	-	-	956
Lont-term financial assets	-	361	45,849	27	-	46,237
Guarantee deposits	-	19,077	-	-	-	19,077
	₩ 15,091	₩ 257,949	₩ 45,849	₩ 27	₩ -	₩ 318,916
Financial liabilities:						
Accounts and notes payable	₩ -	₩ -	₩ -	₩ -	₩ 36,582	₩ 36,582
Other accounts payable	-	-	-	-	19,024	19,024
Current portion of long term borrowings	-	-	-	-	118	118
Accrued expenses	-	-	-	-	6,343	6,343
Dividends payable	-	-	-	-	2	2
Long-term borrowings	-	-	-	-	21	21
Long-term guarantee deposits received	-	-	-	-	5,861	5,861
Long-term accrued expenses	-	-	-	-	3,308	3,308
Other non-current liabilities	-	-	-	-	30	30
	₩ -	₩ -	₩ -	₩ -	₩ 71,289	₩ 71,289

Details of gains and losses arising from financial insturments by categories for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Financial assets at fair value through profit or loss:		
Interest income	₩ 119	₩ 91
Available-for-sale financial assets:		
Other comprehensive income	(14,772)	20,176
Dividend income	206	117
Loans and receivables:		
Interest income on deposits in financial institutions	3,390	3,063
Interest income on guarantee institutions	247	234
Foreign currency difference on foreign demand deposits	21	(3)
Bad debt expenses of accounts and notes receivable	(223)	(310)
Financial liabilities:		
Interest expenses on other financial liabilities	(5)	(44)
Foreign currency difference on foreign debt	290	466

35. Commitments and Contingencies

As at December 31, 2016, the Group provided a promissory note with a face value of ₩5,014 million to Korea Dairy Committee as performance guarantees for the supply of raw materials to the Company.

The Group entered into a technology transfer agreement with Sodima S.A.S, a French corporation. Sodima S.A.S is to provide technical assistance to the Company in producing and distributing certain products and the Company is committed to paying Sodima S.A.S royalties based net sales. Royalty fees paid by the Company amounted to ₩3,369 million and ₩3,922 million for the years ended December 31, 2016 and 2015, respectively.

As at December 31, 2016, the Group is not accused as a defendant.

36. Discontinued operations

On November 23, 2015, the Group publicly announced the decision of its Board of Directors to distribute the shares of Self Storage Inc., a wholly owned subsidiary, to shareholders of the Company to improve management efficiency through sale of a non-core businesses and concentration on core businesses.

The distribution of Self Storage Inc. was completed on November 24, 2015 when the Group received purchase consideration from a buyer and transferred its rights to the assets of Self Storage Inc. to the buyer.

Discontinued operations were excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statements of comprehensive income.
Details of profit/(loss) after tax for the year from discontinued operations ended December 31, 2015 are as follows (Korean won in millions):

		2015
Sales	₩	994
Cost of sales		(649)
Gross profit		345
Selling and administrative expenses		(236)
Operating profit		109
Finance income		10
Profit before income taxes		119
Income tax expense		(27)
Profit after tax for the year from discontinued operations	₩	92

The net cash flows incurred by discontinued operations in 2015 are as follows (Korean won in millions):

		2015
Cash flows from operating activities	₩	281
Cash flows from investing activities		(242)
Net cash flows	₩	39