CJ CGV CO., LTD.

Separate Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

Contents

Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
CJ CGV Co., Ltd.:

We have audited the accompanying separate statements of financial position of CJ CGV Co., Ltd. (the "Company") as of December 31, 2012 and 2011, and the related separate statements of comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these separate 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 plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such separate financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

As discussed in note 2 to the separate financial statements, the Company adopted the amendment to K-IFRS No. 1001, 'Presentation of Financial Statements' for the year ended December 31, 2012. The amendment requires operating profit (loss), which is calculated as revenue less: 1) cost of goods sold, and 2) selling, general and administrative expenses, to be separately presented on the statements of comprehensive income. The Company applied this change in accounting policies retrospectively, and accordingly restated the comparative information of the statement of comprehensive income for the year ended December 31, 2011.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 13, 2013

This report is effective as of March 13, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

CJ CGV CO., LTD.
Separate Statements of Financial Position

As of December 31, 2012 and 2011

(In thousands of won)	**Note**		**2012**	**2011**
Assets				
Cash and cash equivalents	*4,5,25*	₩	149,167,788	56,823,732
Trade receivables	*4,6,25*		47,172,200	43,190,654
Inventories	*7*		2,188,027	1,780,871
Other current financial assets	*4,8,25,29*		13,556,220	35,232,433
Other current assets	*9*		11,392,828	9,555,132
Current assets			223,477,063	146,582,822
Investments in subsidiaries, associates and joint ventures	*10*		220,823,060	200,325,654
Investment property	*11*		19,019,362	-
Property and equipment	*12*		347,233,307	343,006,304
Intangible assets	*13*		32,420,109	34,076,220
Other non-current financial assets	*4,8,25*		51,955,170	98,618,487
Other non-current assets	*9*		85,401,966	82,375,747
Non-current assets			756,852,974	758,402,412
Total assets		₩	980,330,037	904,985,234

See accompanying notes to the separate financial statements.

Separate Statements of Financial Position, Continued

As of December 31, 2012 and 2011

(In thousands of won)	Note		2012	2011
Liabilities				
Trade payables	*4,25,29*	₩	65,995,822	45,498,318
Other payables	*4,25,29*		77,570,208	70,578,997
Short-term borrowings	*4,16,25*		-	16,000,000
Current tax liabilities			7,104,820	6,775,813
Current portion of long-term borrowings and debentures	*4,16,25*		49,930,974	69,965,570
Other current financial liabilities	*4,14,25*		3,635,411	4,318,876
Other current liabilities	*15*		53,614,538	37,650,474
Current liabilities			257,851,773	250,788,048
Long-term debentures	*4,16,25*		169,563,674	229,266,636
Long-term borrowings	*4,16,25*		88,123,800	66,891,400
Long-term other payables	*4,25*		36,708,014	3,117,103
Employee benefits	*17*		7,898,232	5,517,655
Deferred tax liabilities	*27*		14,384,128	5,151,080
Other non-current financial liabilities	*4,14,25*		4,904,710	2,301,208
Other non-current liabilities	*15*		12,294,938	18,545,248
Non-current liabilities			333,877,496	330,790,330
Total liabilities			591,729,269	581,578,378
Stockholders' equity				
Common stock	*1,19*		10,308,729	10,308,729
Capital surplus			67,150,745	67,150,745
Retained earnings	*20*		318,734,907	254,371,948
Other capital	*21*		(7,593,613)	(8,424,566)
Total stockholders' equity			388,600,768	323,406,856
Total liabilities and stockholders' equity		₩	980,330,037	904,985,234

See accompanying notes to the separate financial statements.

CJ CGV CO., LTD.
Separate Statements of Comprehensive Income

For the years ended December 31, 2012 and 2011

(In thousands of won, except earnings per share)	**Note**		**2012**	**2011 (Restated)**
Revenue	*29*	₩	664,525,317	547,800,886
Cost of sales	*17,23,29*		(301,688,104)	(251,493,503)
Gross profit			362,837,213	296,307,383
Selling, general and administrative expenses	*17,22,23,29*		(290,588,482)	(226,692,769)
Operating profit	*2*		72,248,731	69,614,614
Finance income	*26*		13,562,874	12,689,658
Finance costs	*26*		(24,527,150)	(20,835,578)
Loss on investments in associates	*10*		(793,226)	-
Loss on investments in subsidiaries			-	(6,483,666)
Non- operating income	*24*		37,802,917	7,778,807
Non- operating expenses	*24*		(3,224,271)	(7,409,311)
Income before income taxes			95,069,875	55,354,524
Income tax expense	*27*		(22,324,928)	(16,743,554)
Net income			72,744,947	38,610,970
Other comprehensive loss				
Net changes in fair value of available-for-sale financial assets	*8,26*		1,279,161	(1,885,449)
Defined benefit plan actuarial losses	*17*		(2,898,089)	(390,155)
Income tax on other comprehensive loss			391,780	594,506
Total comprehensive income		₩	71,517,799	36,929,872
Earnings per share (in won)				
Basic earnings per share	*28*	₩	3,528	1,873
Diluted earnings per share	*28*	₩	3,528	1,873

See accompanying notes to the separate financial statements.

CJ CGV CO., LTD.
Separate Statements of Changes in Equity

For the years ended December 31, 2012 and 2011

(In thousands of won)		**Common Stock**	**Capital surplus**	**Retained earnings**	**Other capital**	**Total**
Balance at January 1, 2011	₩	10,308,729	67,150,745	221,168,504	(1,770,812)	296,857,166
Dividends		-	-	(5,154,365)	-	(5,154,365)
Net income		-	-	38,610,970	-	38,610,970
Defined benefit plan actuarial losses		-	-	(253,161)	-	(253,161)
Other capital adjustments		-	-	-	(1,358,956)	(1,358,956)
Disposal of investments in subsidiaries		-	-	-	(3,866,861)	(3,866,861)
Net changes in fair value of available-for-sale financial assets		-	-	-	(1,427,937)	(1,427,937)
Balance at December 31, 2011		10,308,729	67,150,745	254,371,948	(8,424,566)	323,406,856
Balance at January 1, 2012		10,308,729	67,150,745	254,371,948	(8,424,566)	323,406,856
Dividends		-	-	(6,185,237)	-	(6,185,237)
Net income		-	-	72,744,947	-	72,744,947
Defined benefit plan actuarial losses		-	-	(2,196,752)	-	(2,196,751)
Exercise of stock options		-	-	-	(138,650)	(138,651)
Net changes in fair value of available-for-sale financial assets		-	-	-	969,604	969,604
Balance at December 31, 2012	₩	10,308,729	67,150,745	318,734,906	(7,593,612)	388,600,768

See accompanying notes to the separate financial statements.

CJ CGV CO., LTD.
Separate Statements of Cash Flows

For the years ended December 31, 2012 and 2011

(In thousands of won)		2012	2011
Cash flows from operating activities			
Net income	₩	72,744,947	38,610,970
Adjustments for:			
Income tax expense		22,324,928	16,743,554
Bad debt expenses		44,422	(23,682)
Other bad debt expenses		683,807	2,819,198
Expenses for employee		4,622,691	4,233,329
Depreciation		35,927,812	31,311,682
Amortization		7,087,594	4,187,957
Foreign currency translation loss		97,816	5,315,480
Interest expense		18,855,456	15,050,264
Loss on disposal of inventories		13,033	-
Loss on valuation of derivative financial assets		5,556,598	-
Loss on disposal of other financial assets		51,742	-
Loss on disposal of available-for-sale financial assets		3,968	451,132
Impairment losses on investments in subsidiaries		-	6,483,666
Loss on disposal of investments in associates		793,226	-
Loss on disposal of property and equipment		945,351	1,301,096
Loss on disposal of intangible assets		8,643	-
Impairment losses on property and equipment		-	24,545
Impairment losses on intangible assets		-	1,095,098
Transfer to provision		225,274	344,818
Other expenses, net		6,778,383	6,148,952
Interest income		(7,678,887)	(7,601,966)
Dividend income		(970,532)	(834,744)
Gain on disposal of other financial assets		(26,623,686)	-
Foreign currency translation gain		(4,839,037)	(37,382)
Gain on valuation of derivative financial assets		(2,903)	(4,207,067)
Gain on transaction of derivative financial assets		(964)	-
Gain on disposal of property and equipment		(6,700)	(110,411)
Other income, net		(119,394)	(41,550)
		63,778,641	82,653,969
Changes in assets and liabilities:			
Trade receivables		(4,025,969)	(15,816,614)
Other current financial assets		4,091,335	(9,245,940)
Other current assets		(491,705)	888,358
Inventories		(420,189)	(50,162)
Other non-current assets		(618,382)	(5,001,397)
Trade payables		20,497,504	13,933,374
Other payables		(6,288,228)	17,359,157
Long-term other payables		2,568,096	1,375,586
Other current financial liabilities		346,660	1,358,494
Other non-current financial liabilities		1,930,000	-
Other current liabilities		15,672,875	8,104,053
Other non-current liabilities		(6,497,607)	1,222,943
Payment of retirement and severance benefits		(1,278,134)	(1,614,948)
Severance benefits from affiliated companies		1,137,931	560,464
Employee benefit plan assets		(5,000,000)	(2,993,483)
	₩	21,624,187	10,079,885

See accompanying notes to the separate financial statements.

CJ CGV CO., LTD.

Separate Statements of Cash Flows, Continued

For the years ended December 31, 2012 and 2011

(In thousands of won)		2012	2011
Cash generated from operating activities	₩	158,147,775	131,344,824
Interest received		2,464,303	1,346,247
Interest paid		(17,794,532)	(14,096,312)
Income taxes paid		(12,371,092)	(21,218,342)
Net cash provided by operating activities		130,446,454	97,376,417
Cash flows from investing activities			
Proceeds from disposal of available-for-sale financial assets		103,222	2,321,346
Proceeds from disposal of investments in subsidiaries		-	6,777,158
Proceeds from disposal of investments in associates		1,206,775	-
Decrease of other financial assets		158,779,522	9,383,644
Proceeds from disposal of property and equipment		703,404	1,322,227
Proceeds from disposal of intangible assets		57	3,333
Receipt of contributions for construction		900,000	-
Acquisition of available-for-sale financial assets		(16,141,935)	(6,500)
Increase of other financial assets		(17,265,889)	(14,230,024)
Acquisition of investments in subsidiaries		(22,488,338)	(141,789,483)
Acquisition of property and equipment		(64,623,859)	(55,079,517)
Acquisition of intangible assets		(2,532,558)	(1,443,628)
Net cash provided by (used in) investing activities		38,640,401	(192,741,444)
Cash flows from financing activities			
`Proceeds from issue of debentures		29,875,108	99,534,600
Proceeds from borrowings		56,000,000	77,601,800
Repayment of debentures		(100,000,000)	(20,000,000)
Repayment of borrowings		(56,000,000)	(16,000,000)
Dividends paid		(6,185,237)	(5,154,365)
Payment for cash-settled stock options		(138,650)	-
Others, net		(267,955)	(288,325)
Net cash provided by (used in) financing activities		(76,716,734)	135,693,710
Net increase in cash and cash equivalents		92,370,121	40,328,683
Cash and cash equivalents at January 1		56,823,732	16,480,429
Effect of exchange rate fluctuations on cash held		(26,065)	14,620
Cash and cash equivalents at December 31	₩	149,167,788	56,823,732

See accompanying notes to the separate financial statements.

1. Reporting Entity

CJ CGV Co., Ltd. (the "Company") was established for the purpose of being engaged in operating multiplex cinemas and screening film, and its head office is located in Sangam-dong, Mapo-gu, Seoul, Republic of Korea. On December 24, 2004, the Company was listed on the Korea Exchange. As of December 31, 2012, the Company's major shareholders are as follows:

Shareholders	The number of shares	Ownership (%)
CJ Corp.	8,257,000	40.05
National pension service	1,759,041	8.53
Korea investment trust management Co., Ltd.	1,620,130	7.86
KB Asset Management	1,088,195	5.28
Shinhan BNP Paribas ITMC Co., Ltd.	1,032,102	5.01
Others	6,860,990	33.27
	20,617,458	100.00

2. Basis of Preparation

(1) Statement of compliance

The separate financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Corporations in the Republic of Korea*.

These financial statements are separate financial statements prepared in accordance with K-IFRS No. 1027, 'Consolidated and Separate Financial Statements' presented by a parent, an investor in an associate or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

(2) Basis of measurement

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

- ✓ derivative financial instruments are measured at fair value
- ✓ available-for-sale financial assets are measured at fair value
- ✓ liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

(3) Functional and presentation currency

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

For the years ended December 31, 2012 and 2011

2. Basis of Preparation, Continued

(4) Use of estimates and judgments

The preparation of the separate financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the separate financial statements is included in the following note:

Note 11 – classification of investment property

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 17 – measurement of defined benefit obligations
Note 18 – provisions and contingencies

(5) Changes in accounting policies

1) Changes in accounting policies

(i) *Financial Instruments: Disclosures*
The Company has applied the amendments to K-IFRS No.1107, 'Financial Instruments: Disclosures' since January 1, 2012. The amendments require disclosing the nature of transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are not derecognized in their entirety. If the Company derecognizes transferred financial assets but still retains their specific risks and rewards, the amendments require additional disclosures of their risks.

(ii) *Presentation of financial statements*
The Company adopted the amendments to K-IFRS No. 1001, 'Presentation of Financial Statements' from the annual period ended December 31, 2012. The Company's operating profit is calculated as revenue less: (1) cost of goods sold, and (2) selling, general and administrative expenses, and is presented separately in the statement of comprehensive income.

2. Basis of Preparation, Continued

(5) Changes in accounting policies, continued

2) Impact of change in accounting policy

The Company retrospectively applied the amendment to K-IFRS No. 1001, for which the impact is as follows:

(In thousands of won)		**2012**	**2011**
Operating profit before adoption of the amendment	₩	107,969,917	70,647,570
Amendments:			
Other non-operating income:			
Gain on disposal of property and equipment		(6,700)	(110,411)
Gain on disposal of other financial assets		(26,623,686)	-
Commission income		(3,902,166)	(3,006,756)
Rental income		(142,237)	(52,784)
Miscellaneous income		(7,128,128)	(4,608,856)
		(37,802,917)	(7,778,807)
Other non-operating expenses:		2,081,731	6,745,851
Other bad debt expenses		683,807	2,819,198
Loss on disposal of property and equipment		945,351	1,301,096
Loss on disposal of intangible assets		8,643	-
Loss on disposal of other financial assets		51,742	-
Loss on disposal of inventories		13,033	-
Impairment losses on property and equipment		-	24,545
Impairment losses on intangible assets		-	1,095,098
Miscellaneous loss		379,155	1,505,914
		2,081,731	6,701,466
Operating profit after adoption of the amendment	₩	72,248,731	69,614,614

(6) Issue date of approval of the financial statements

The separate financial statements were authorized for issue by the Board of Directors on February 6, 2013, which will be submitted for approval to the shareholders' meeting to be held on March 22, 2013.

3. Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its separate financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements except for the changes in accounting policies as explained in Note 2. (5).

(1) Operating segment

The Company presents the disclosures related to operating segments in the consolidated financial statements in accordance with K-IFRS No. 1108. Therefore, the company does not present them separately in these separate financial statements.

(2) Subsidiaries, associates and jointly controlled entities in the separate financial statements

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027, 'Consolidated and Separate Financial Statements'. The Company applied the cost method to investments in subsidiaries, associates and jointly controlled entities in accordance with K-IFRS No. 1027. The carrying amount under previous K-GAAP on the date of transition to K-IFRS is considered to be the deemed cost of investments in subsidiaries and associates on the date of transition. Dividends from a subsidiary, associate or jointly controlled entity are recognized in profit or loss when the right to receive the dividend is established.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Also, short term commitments that are subject to an insignificant risk of changes in fair value that liquidity is very high, and readily converted to cash amounts, are classified as cash and cash equivalents. Equity instruments are excluded from the cash assets.

(4) Inventories

The cost of inventories is based on the first-in first-out principle, and includes expenditures for acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

The carrying amount of inventory is recognized as an expense in the period the revenues are recognized as a result of selling inventories. Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(5) Non-derivative financial assets

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the separate statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

3. Significant Accounting Policies, Continued

(5) Non-derivative financial assets, continued

(i) Financial assets at fair value through profit or loss
A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments
A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, are classified as held-to-maturity

investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

(v) De-recognition of financial assets
The Company 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.

In the case that the Company neither transfers nor retains all the risks and rewards of ownership of the financial asset, the Company derecognize the financial asset if the Company has not retained control and the Company continues to recognize the financial asset to the extent of its continuing involvement in the financial assets if the Company has retained control. If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities
Financial assets and financial liabilities are offset and the net amount is presented in the separate statement of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(6) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

3. Significant Accounting Policies, Continued

(6) Derivative financial instruments, including hedge accounting, continued

(i) Hedge accounting
The Company holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Company designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

① *Fair value hedge*

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the separate statement of comprehensive income.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

② *Cash flow hedge*
When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(i) Separable embedded derivatives
Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met: (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(ii) Other derivative financial instruments
Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

3. Significant Accounting Policies, Continued

(7) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidences that a financial asset has been impaired are as follows:

- significant financial difficulty of the issuer
- breach of contract such as a delay or failure of principal repayment and interest payment
- Inevitable relaxation of the initial borrowing conditions due to legal or economic related financial difficulties of the borrower
- borrower's bankruptcy or other financial restructuring are very likely
- disappearance of an active market for an asset due to financial difficulties, and
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since their initial recognition, although the decrease cannot yet be identified with the individual assets in the group

In addition, for an investment in available-for-sale financial assets, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized as below.

(i) Financial assets measured at amortized cost
An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Company can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost
The amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

3. Significant Accounting Policies, Continued

(7) Impairment of financial assets, continued

(iii) Available-for-sale financial assets
When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

(8) Property and equipment

Property and equipment are initially measured at cost. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. In addition, in the preparation of the opening K-IFRS separate statement of financial position on the date of transition to K-IFRS, the Company measures some land at fair value at the date of transition, which is deemed cost, in accordance with K-IFRS No. 1101.

Subsequent to initial recognition, property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

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

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

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss.

The estimated useful lives of the Company's property and equipment are as follows:

	Useful lives (years)
Buildings	40
Structures	10~20
Tools and equipment	4
Vehicles	4

3. Significant Accounting Policies, Continued

(8) Property and equipment, continued

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

(9) Intangible assets

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

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

	Useful lives (years)
Usage rights	12, 15
Other intangible assets	3~7

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

(i) Goodwill
As part of its transition to K-IFRS, the Company elected to restate only those business combinations which occurred on or after January 1, 2010 in accordance with K-IFRS. In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP, K-GAAP.

The Company measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognized immediately in profit or loss. Goodwill is not amortized, and recognized as the carrying amount less any accumulated impairment losses.

(ii) Subsequent expenditures
Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

3. Significant Accounting Policies, Continued

(10) Investment Property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over 40 years as estimated useful lives.

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

(11) Impairment of non-financial assets

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

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

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

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

3. Significant Accounting Policies, Continued

(12) Leases

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) Finance leases
At the commencement of the lease term, the Company recognizes as finance assets and finance liabilities in its separate statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Company reviews to determine whether the leased asset may be impaired.

(ii) Operating leases
Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease. Incentives received under operating leases are recognized over period of the lease by being deducted from payment made under operating leases.

(iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a financial lease that it is impracticable to separate the payments reliably, the Company recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest.

3. Significant Accounting Policies, Continued

(13) Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

(14) Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Company recognizes financial liabilities in the separate statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(ii) Other financial liabilities
Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability from the separate statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

3. Significant Accounting Policies, Continued

(15) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Retirement benefits: defined benefit plans
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Company recognizes the past service cost immediately.

(16) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is be treated as a separate asset.

3. Significant Accounting Policies, Continued

(16) Provisions, continued

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision shall be used only for expenditures for which the provision was originally recognized.

(17) Foreign currencies

Transactions in foreign currencies are translated to the functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on available-for-sale equity instruments and financial asset and liability designated as a cash flow hedge, which are recognized in other comprehensive income. If foreign currency differences arising on non-monetary items are recognized in other comprehensive profit or loss, related foreign exchange rate change effect are recognized in other comprehensive profit or loss. If foreign currency differences arising on non-monetary items are recognized in profit or loss, related foreign exchange rate change effect are recognized in profit or loss.

(18) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(19) Share-based payment transactions

The Company has granted shares or share options to its employees and other parties. For equity-settled share-based payment transactions, if the Company cannot reliably estimate the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

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

3. Significant Accounting Policies, Continued

(20) Revenue

(i) Recognition of revenues
Revenue from movies is recognized when the movies are screened, and revenue from sale of goods is recognized when the goods are sold, and revenue of advertisement is recognized when the advertising service is completed. Revenue from the sale of goods, rendering of services are measured at the fair value of the consideration received or receivable, and sales returns, trade discounts and volume rebates are deducted.

(ii) Customer loyalty programmes
For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits (“points”) and the other components of the sale. The Company supplies all of the awards, in respect of rendering film screening services. The amount allocated to the points is estimated by reference to the fair value of the film screening service for which they could be redeemed. The fair value of the service is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognized only when the points are redeemed and the Company has fulfilled its obligations to supply the film screening service. The amount of revenue recognized in those circumstances is based on the number of points that have been redeemed in exchange for service, relative to the total number of points that is expected to be redeemed.

(iii) Rental income
Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

(21) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company’s right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(22) Income taxes

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

(i) Current tax

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

3. Significant Accounting Policies, Continued

(22) Income taxes, continued

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

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

(23) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(24) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2012, and the Company has not early adopted them. Management believes the impact of the amendments on the Company's separate financial statements is not significant.

3. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted, continued

(i) K-IFRS No.1111, *'Joint Arrangements'*

The standard classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant K-IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method in its consolidated financial statements. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(ii) K-IFRS No.1112, *'Disclosure of Interests in Other Entities'*

The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(iii) Amendments to K-IFRS No. 1019, *'Employee Benefits'*

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Company's annual periods beginning on or after January 1, 2013.

(iv) K-IFRS No. 1113, *'Fair Value Measurement'*

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Company's annual periods beginning on or after January 1, 2013.

(v) Amendments to K-IFRS No. 1001, *'Presentation of Financial Statements'*

The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. The amendment is mandatorily effective for annual periods beginning on or after July 1, 2012.

4. Risk Management

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

- ✓ credit risk
- ✓ liquidity risk
- ✓ market risk

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

(1) Financial risk management

1) Risk management framework

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

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

2) Credit risk

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

Credit risk is not significant because the majority of Company's revenues are generated from individual customers. The Company limits credit risk by keeping most of cash and cash equivalents in banks with high credit ratings.

(i) Exposure to credit risk
The carrying amount of financial assets stands for the exposure to credit risk. Details of the Company's maximum exposure to credit risk as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		**2012**	**2011**
Cash and cash equivalents	₩	149,167,788	56,823,732
Available-for-sale financial assets		19,703,079	2,389,173
Trade receivables		47,172,200	43,190,654
Other financial assets		45,503,953	127,254,680
Derivative financial assets		304,357	4,207,067
Total	₩	261,851,377	233,865,306

4. Financial Risk Management, Continued

2) Credit risk, continued

(ii) Impairment losses

The aging and impairment losses of loans and receivables, except for cash and cash equivalent, as of December 31, 2012 and 2011 are as follows:

① December 31, 2012

(In thousands of won)		Not overdue	Overdue, but not impaired	Impaired
Not past due	₩	85,800,714	-	-
0-3 months		-	3,484,153	-
4-6 months		-	65,117	-
7-12 months		-	326,169	-
Over one year		-	3,000,000	5,711,670
	₩	85,800,714	6,875,439	5,711,670

② December 31, 2011

(In thousands of won)		Not overdue	Overdue, but not impaired	Impaired
Not past due	₩	165,487,544	-	-
0-3 months		-	1,569,492	-
4-6 months		-	109,527	-
7-12 months		-	3,270,027	2,400,000
Over one year		-	8,743	3,009,017
	₩	165,487,544	4,957,789	5,409,017

The Company records an allowance for impairment that represents its estimate of incurred losses in respect of loans and receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(iii) Guarantees

As described in note 29, the Company provides financial guarantees to subsidiaries and others. As a result, the Company is exposed to credit risk to the extent of payment guarantee.

3) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company is monitoring cash flow requirements with the extended plans and short-term strategies. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses.

The contractual maturity of financial liabilities as of December 31, 2012 and 2011 are as follows. The amounts below include estimated interest from financial liabilities scheduled to be paid, and exclude the effects under application of any set-off agreements.

4. Financial Risk Management, Continued

3) Liquidity risk, continued

① December 31, 2012

(In thousands of won)		Book value	Contractual cash outflow	Less than one year	One to five years	Over five years
Trade payables	₩	65,995,822	65,995,822	65,995,822	-	-
Other payables		77,570,208	77,570,208	77,570,208	-	-
Debentures		219,494,648	236,748,250	59,174,500	177,573,750	-
Long-term borrowings		88,123,800	95,126,774	3,672,319	91,454,455	-
Long-term other payables		33,248,927	71,367,546	6,944,000	27,371,029	37,052,517
Other current financial liabilities		3,635,411	3,680,792	3,680,792	-	-
Other non-current financial liabilities		4,904,710	5,593,255	-	5,593,255	-
	₩	492,973,526	556,082,647	217,037,641	301,992,489	37,052,517

② December 31, 2011

(In thousands of won)		Book value	Contractual cash outflow	Less than one year	One to five years	Over five years
Trade payables	₩	45,498,318	45,498,318	45,498,318	-	-
Other payables		70,578,997	70,578,997	70,578,997	-	-
Debentures		289,232,206	317,269,250	72,244,000	245,025,250	-
Short-term borrowings		16,000,000	16,674,578	16,674,578	-	-
Long-term borrowings		76,891,400	81,804,619	12,105,648	69,698,971	-
Other current financial liabilities		4,318,876	4,383,547	4,383,547	-	-
Other non-current financial liabilities		2,301,208	2,736,115	-	2,681,767	54,348
	₩	504,821,005	538,945,424	221,485,088	317,405,988	54,348

The Company doesn't expect the above cash flows to occur in significantly earlier period or to be significantly different. As described in note 29, the Company provides subsidiaries and others with payment guarantee which is exposed to liquidity risk. The payment guarantee is not included in the carrying amount or contractual cash flow.

4) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value, future cash flow of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company limits the exposure to currency risk and interest rate risk by the currency swap contract related to USD borrowings.

4) Market risk, continued

(i) Currency risk

The Company is exposed to currency risk on other receivables and borrowings that are denominated in a currency other than the functional currency of the Company. The currencies in which these transactions primarily are denominated are USD, RMB and others.

The amount of exposure to currency risk as of December 31, 2012 and 2011 are as follows.

(In thousands of won)		2012		2011	
		USD	RMB, etc.	USD	RMB, etc.
Cash and cash equivalents	₩	-	256,750	-	479,527
Other receivable		951,789	-	995,848	-
Finance lease liabilities		(924,203)	-	(1,245,472)	-
Borrowings		(62,123,800)	-	(66,891,400)	-
Total exposure		(62,096,214)	256,750	(67,141,024)	479,527
Currency swaps		62,123,800	-	66,891,400	-
Net exposure	₩	27,586	256,750	(249,624)	479,527

Significant exchange rates applied during the year are as follows.

(In won)	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
USD	1,126.88	1,117.49	1,071.10	1,153.30
RMB	178.58	171.5	171.88	182.51
VND	0.05	0.05	0.05	0.05

Assuming that other variables, such as interest rates do not change, the impact of changes in exchange rates of the won against foreign currencies has on the profit or loss for the years ended December 31, 2012 and 2011 are as follows.

(In thousands of won)			2012		2011	
			10% strengthening	10% weakening	10% strengthening	10% weakening
USD	Total exposure	₩	(6,209,621)	6,209,621	(6,714,102)	6,714,102
	Currency swaps		6,212,380	(6,212,380)	6,689,140	(6,689,140)
	Net exposure		2,759	(2,759)	(24,962)	24,962
RMB, etc.			25,675	(25,675)	47,952	(47,952)

4. Financial Risk Management, Continued

4) Market risk, continued

(ii) Interest rate risk

Carrying amount of interest-bearing financial instruments held by the Company as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Fixed rate:			
Financial assets		-	576,650
Financial liabilities		(261,667,778)	(316,477,679)
	₩	(261,667,778)	(315,901,029)
Variable rate:		146,311,708	54,543,682
Financial assets		(80,123,800)	(66,891,400)
Financial liabilities	₩	66,187,908	(12,347,718)

- Fair value sensitivity analysis for fixed rate instruments.
  The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives (currency swaps) as hedging instruments under a fair value hedge accounting model. Therefore, the change in interest rates would not affect profit or loss.

- Fair value sensitivity analysis for variable rate instruments
  Assuming that all other variables are constant, the impact of changes in interest rate on profit or loss as of December 31, 2012 and 2011 were as follows:

(In thousands of won)		2012		2011	
		0.5% Point increase	0.5% Point decrease	0.5% Point increase	0.5% Point decrease
Variable rate instruments	₩	330,940	(330,940)	(61,739)	61,739
Currency swaps		310,619	(310,619)	334,457	(334,457)
Cash flow sensitivity, net	₩	641,559	(641,559)	272,718	(272,718)

(iii) Other market price risk

Market price risk arises from available-for-sale financial assets held. Major investments within the portfolio are managed separately and the approval of the board of directors is necessary for significant acquisition or sales decision.

4. Financial Risk Management, Continued

5) Fair values

(i) The carrying amount and fair value of financial assets and liabilities as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012		2011	
		Book value	Fair value	Book value	Fair value
Financial assets recognized at fair value					
Available-for-sale financial assets	₩	19,703,079	19,703,079	2,389,173	2,389,173
Derivative financial assets (*1)		304,357	304,357	4,207,067	4,207,067
Subtotal	₩	20,007,436	20,007,436	6,596,240	6,596,240
Financial assets recognized at amortized cost (*2)					
Cash and cash equivalents		149,167,788	149,167,788	56,823,732	56,823,732
Trade receivables		47,172,200	47,172,200	43,190,654	43,190,654
Other financial assets		45,503,953	45,503,953	127,254,680	127,254,680
Subtotal		241,843,941	241,843,941	227,269,066	227,269,066
Total		261,851,377	261,851,377	233,865,306	233,865,306
Financial liabilities recognized at fair value					
Derivative financial liabilities (*1)	₩	1,349,531	1,349,531	-	-
Financial liabilities recognized at amortized cost (*2)					
Trade payables	₩	65,995,822	65,995,822	45,498,318	45,498,318
Other payables		77,570,208	77,570,208	70,578,997	70,578,997
borrowings and debentures		307,618,448	307,618,448	382,123,606	382,123,606
Long-term other payables		33,248,927	33,248,927	-	-
Other financial liabilities		7,190,590	7,190,590	6,620,084	6,620,084
Subtotal		491,623,995	491,623,995	504,821,005	504,821,005
Total	₩	492,973,526	492,973,526	504,821,005	504,821,005

(*1) Fair value of derivative financial assets is measured at discounted present value using the forward rate at reporting date.

(*2) The carrying amount of financial assets recognized at amortized cost is considered as an approximation of fair value.

(ii) Fair value hierarchy
The different levels have been defined as follows:

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

4. Financial Risk Management, Continued

5) Fair values, continued

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2012 and 2011

(In thousands of won)		Level 1	Level 2	Level 3	Total
December 31, 2012:					
Financial assets					
Available-for-sale financial assets	₩	-	28,020	19,675,059	19,703,079
Derivative financial assets		-	2,902	301,455	304,357
Financial liabilities					
Derivative financial liabilities		-	1,349,531	-	1,349,531
December 31, 2011:					
Financial assets					
Available-for-sale financial assets	₩	-	28,173	2,361,000	2,389,173
Derivative financial assets		-	4,207,067	-	4,207,067

6) Transfers of financial asset

Repurchasing amount of the leasehold deposits derecognized entirely is the fair value at the time of repurchase. The maturity analysis and undiscounted cash outflows of transferred leasehold deposits are as follows.

Type of Continuing involvement		Maturity of continuing Involvement
(In thousands of won)		1~3 years
Put-option	₩	160,094,086

7) Capital management

The Company's policy is to maintain sustainability of ongoing operation and the objective of the Company's capital management is to maximize the shareholder's profit by minimizing the cost of capital financing. The capital structure of the Company consists of net liabilities (total borrowings and debentures less cash and cash equivalents) and total equity. The company's management is periodically reviewing the capital structure.

The Company's liabilities to equity ratios at the end of the reporting periods are as follows:

(In thousands of won, except ratio)		2012	2011
Total liabilities	₩	591,729,269	581,578,378
Total equity		388,600,768	323,406,856
Cash and Cash equivalents		149,167,788	56,823,732
Borrowings and debentures		307,618,448	382,123,606
Net-debt		158,450,660	325,299,874
Liabilities to equity ratio		152%	180%
Net debt to equity ratio		41%	101%

5. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Cash on hand	₩	1,750,595	2,252,756
Demand deposits		146,311,708	54,543,682
Other cash equivalents		1,105,485	27,294
	₩	149,167,788	56,823,732

6. Trade Receivables

(1) Trade receivables as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Trade receivables	₩	47,283,311	43,257,343
Allowance for doubtful accounts		(111,111)	(66,689)
	₩	47,172,200	43,190,654

(2) Changes in allowance for doubtful accounts for the years ended December 31, 2012 and 2011 were as follows:

(In thousands of won)		2012	2011
Balance at the beginning	₩	66,689	45,986
Increase in allowance		44,422	20,703
Balance at the end	₩	111,111	66,689

Trade receivables are short-term account receivable and the difference between the carrying amount and fair value is not material.

7. Inventories

The Company has not recognized any loss on valuation or reversal of loss on valuation of inventories for the years ended December 31, 2012 and 2011. Inventories as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Merchandise	₩	440,922	425,488
Raw materials		1,747,105	1,355,383
	₩	2,188,027	1,780,871

8. Other Financial Assets

(1) Other financial assets as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012		2011	
		Current	Non-current	Current	Non-current
Other receivables	₩	12,985,608	-	16,293,125	-
Accrued revenues		546,522	-	125,916	-
Loans		-	-	-	576,650
Leasehold deposits		24,090	37,405,911	20,000,000	163,398,494
Present value discount		-	(5,469,177)	(1,186,608)	(71,963,897)
Derivative financial assets		-	304,357	-	4,207,067
Deposits for opening checking accounts		-	11,000	-	11,000
Available-for-sale financial assets		-	19,703,079	-	2,389,173
	₩	13,556,220	51,955,170	35,232,433	98,618,487

(2) Other financial assets are presented on a net basis after deducting related allowance. As of December 31, 2012 and 2011, other financial assets and allowance for doubtful accounts are as follows:

(In thousands of won)		2012		2011	
		Current	Non-current	Current	Non-current
Other financial assets	₩	18,040,488	53,071,461	39,955,564	99,237,685
Allowance for doubtful accounts :					
Other receivables		(4,466,734)	-	(4,705,597)	-
Accrued revenues		(17,534)	-	(17,534)	-
Loans		-	(1,116,291)	-	(619,198)
Subtotal of allowance for doubtful accounts :		(4,484,268)	(1,116,291)	(4,723,131)	(619,198)
Other financial assets, net	₩	13,556,220	51,955,170	35,232,433	98,618,487

(3) Changes in allowance for doubtful accounts for the years ended December 31, 2012 and 2011 were as follows:

(In thousands of won)		2012		2011	
		Current	Non-current	Current	Non-current
Balance at the beginning	₩	4,723,131	619,198	2,367,515	200,000
Increase in allowance		186,714	497,093	2,355,616	419,198
Write-off of receivables		(425,577)	-	-	-
Balance at the end	₩	4,484,268	1,116,291	4,723,131	619,198

(4) Leasehold deposit measured at present value as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	Effective interest rate(%)		Nominal values	Discounted present value	Present value discount
December 31, 2012	2.9~11.5	₩	37,430,001	31,960,824	(5,469,177)
December 31, 2011	3.7~11.5		183,398,494	110,247,989	(73,150,505)

8. Other Financial Assets, Continued

(5) Available-for-sale financial assets

① Available-for-sale financial assets as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012		2011	
		Acquisition cost	**Book value**	**Acquisition cost**	**Book value**
Beneficiary certificates	₩	248,377	28,020	248,377	28,173
Equity securities		4,000,400	3,640,714	4,000,000	2,361,000
Debt securities		16,034,345	16,034,345	-	-
	₩	20,283,122	19,703,079	4,248,377	2,389,173

② Changes in available-for-sale financial assets for the years ended December 31, 2012 and 2011 were as follows:

(In thousands of won)		**2012**	**2011**
Balance at the beginning	₩	2,389,173	7,040,600
Acquisitions		16,141,935	-
Disposals		(107,190)	(2,790,060)
Gain on valuation of available-for-sale financial assets		1,279,161	(1,861,367)
Balance at the end	₩	19,703,079	2,389,173

③ Available-for-sale financial assets, which is recorded as fair value, as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		**2012**					
			Unrealized income(loss)				
		Acquisition cost	**Beginning balance**	**Valuation**	**Realization due to disposal**	**Ending balance**	**Fair value**
Beneficiary certificates	₩	248,377	(220,204)	(153)	-	(220,357)	28,020
Equity securities		4,000,400	(1,639,000)	1,279,314	-	(359,686)	3,640,714
Debt securities		16,034,345	-	-	-	-	16,034,345
Sub-total		20,283,122	(1,859,204)	1,279,161	-	(580,043)	19,703,079
Income tax effect			449,927	(309,557)	-	140,370	

(In thousands of won)		**2011**					
			Unrealized income(loss)				
		Acquisition cost	**Beginning balance**	**Valuation**	**Realization due to disposal**	**Ending balance**	**Fair value**
Beneficiary certificates	₩	248,377	26,245	(222,367)	(24,082)	(220,204)	28,173
Equity securities		4,000,000	-	(1,639,000)	-	(1,639,000)	2,361,000
Sub-total			26,245	(1,861,367)	(24,082)	(1,859,204)	
Income tax effect			(7,585)	450,403	7,109	449,927	

9. Other Current Assets and Other Non-current Assets

Other current assets and other non-current assets as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	**2012**	**2011**

For the years ended December 31, 2012 and 2011

		Current	Non-current	Current	Non-current
Advance payments	₩	1,969,379	1,500,000	995,896	9,399,335
Allowance for doubtful accounts		(29,000)	-	(29,000)	-
Prepaid expenses		9,452,449	83,901,966	8,588,236	72,976,412
	₩	11,392,828	85,401,966	9,555,132	82,375,747

10. Investment in Subsidiaries, Associates and Joint Ventures

Investments in subsidiaries, associates and joint ventures as of December 31, 2012 and 2011 are as follows:

(In thousands of won)			2012			2011		
Company	Location	Primary business	Ownership (%)		Carrying amount	Ownership (%)		Carrying amount
Subsidiaries:								
Primus Cinema Co., Ltd.	Korea	Theater operation	100.00	₩	25,517,758	100.00	₩	25,517,758
4D Plex Co., Ltd.	Korea	Retail of equipment	92.72		34,174,997	92.72		25,830,177
CGI Holdings Ltd.(*1)	Hong Kong	Theater operation	100.00		59,421,306	100.00		48,034,506
Envoy Media Partners Ltd.	British Virgin Islands	Theater operation	94.40		80,783,758	92.00		78,027,040
CJ Theater LA Holdings.	USA	Theater operation	100.00		6,002,360	100.00		6,002,360
Associates:								
BMC Movie Expert Fund	Korea	Investment fund	35.52		10,300,000	35.52		10,300,000
CJ Venture Investment 9th (*2)	Korea	Investment fund	-		-	20.00		2,000,000
Joint ventures:								
Shanghai Shangying CGV Xinzhuang Cinema Co., Ltd.(*3)	China	Theater operation	49.00		1,820,123	49.00		1,820,123
Wuhan CJ XingXing Tiandi Cinema Co., Ltd.(*3)	China	Theater operation	49.00		1,601,700	49.00		1,601,700
D-Cinema Korea Co., Ltd.	Korea	Leasing service	50.00		-	50.00		-
Shanghai Shangying CGV Cinema Co., Ltd.	China	Theater operation	50.00		1,191,990	50.00		1,191,990
CGV EMPIRE SDN. BHD(*4)	Malaysia	Theater operation	25.00		9,068	-		-
				₩	220,823,060		₩	200,325,654

(*1) During 2012, CJ CGV Holdings, Ltd. changed its name to CGI Holdings Ltd.
(*2) During 2012, the carrying amount of CJ Venture Investment 9th was derecognized due to its resolution of dissolution and the difference amounting to ₩793 millions between the distribution amount and carrying amount was recognized as a loss on disposal of investments in associates.
(*3) These investments in equity were reclassified to joint ventures from associates.
(*4) The Company newly acquired the investment in equity of CGV Empire SDN.BHD during 2012.

11. Investment Property

(1) Investment property as of December 31, 2012 are as follows:

(In thousands of won)		Acquisition costs	Accumulated depreciation	Carrying amounts
Land	₩	3,695,705	-	3,695,705
Buildings		16,433,132	(1,109,475)	15,323,657
	₩	20,128,837	(1,109,475)	19,019,362

(2) Changes in investment property for the years ended December 31, 2012 were as follows:

(In thousands of won)		Land	Buildings	Total
Acquisition costs				
Balance at December 31, 2011	₩	-	-	-
Acquisitions		-	-	-
Others(*)		3,695,705	16,433,132	20,128,837
Balance at December 31, 2012		3,695,705	16,433,132	20,128,837
Accumulated depreciation				
Balance at December 31, 2011		-	-	-
Depreciation		-	(241,589)	(241,589)
Others(*)		-	(867,886)	(867,886)
Balance at December 31, 2012		-	(1,109,475)	(1,109,475)
Carrying amounts				
Balance at December 31, 2012	₩	3,695,705	15,323,657	19,019,362

(*) The Company reclassified buildings and lands, which were not used as owner-occupied property anymore and leased for rental income to investment property from property and equipment.

(3) Profit and loss related to investment property for the years ended December 31, 2012 were as follows:

(In thousands of won)		2012
Rental income	₩	429,184
Rental cost (Depreciation)		241,589

12. Property and Equipment

(1) Changes in property and equipment for the years ended December 31, 2012 and 2011 were as follows:

For the years ended December 31, 2012 and 2011

(In thousands of won)		Land	Buildings	Structures	Vehicles	Tools	Construction -in-progress	Total
Acquisition costs:								
Balance at January 1, 2011	₩	84,551,899	74,480,071	165,013,196	82,496	160,128,128	11,947,560	496,203,350
Acquisitions		50,964	118,917	3,144,055	-	17,358,117	34,407,464	55,079,517
Disposals		-	-	(1,542,821)	-	(2,820,516)	(419,511)	(4,782,848)
Others		-	-	15,371,424	-	1,796,452	(30,287,796)	(13,119,920)
Balance at December 31, 2011		84,602,863	74,598,988	181,985,854	82,496	176,462,181	15,647,717	533,380,099
Acquisitions		2,763,515	7,704,344	6,830,645	-	17,982,115	29,343,240	64,623,859
Disposals		-	-	(1,102,459)	-	(1,089,486)	(511,958)	(2,703,903)
Others		(3,676,711)	(16,433,132)	33,323,277	-	2,517,948	(38,767,846)	(23,036,464)
Balance at December 31, 2012		83,689,667	65,870,200	221,037,317	82,496	195,872,758	5,711,153	572,263,591
Accumulated depreciation:								
Balance at January 1, 2011		-	(8,068,072)	(38,912,544)	(77,766)	(112,553,698)	-	(159,612,080)
Depreciation		-	(1,874,215)	(12,047,809)	(4,729)	(17,384,929)	-	(31,311,682)
Disposals		-	-	480,149	-	1,788,446	-	2,268,595
Others		-	-	63	-	-	-	63
Balance at December 31, 2011		-	(9,942,287)	(50,480,141)	(82,495)	(128,150,181)	-	(188,655,104)
Depreciation		-	(1,737,560)	(14,441,364)	-	(19,517,299)	-	(35,696,223)
Disposals		-	-	393,399	-	668,449	-	1,061,848
Others		-	867,886	-	-	-	-	867,886
Balance at December 31, 2012		-	(10,811,961)	(64,528,106)	(82,495)	(146,999,031)	-	(222,421,593)
Accumulated impairment:								
Balance at January 1, 2011		-	-	-	-	(1,695,487)	-	(1,695,487)
Impairment		-	-	-	-	(24,545)	-	(24,545)
Disposals		-	-	-	-	1,341	-	1,341
Balance at December 31, 2011		-	-	-	-	(1,718,691)	-	(1,718,691)
Impairment		-	-	-	-	-	-	-
Disposals		-	-	-	-	-	-	-
Balance at December 31, 2012		-	-	-	-	(1,718,691)	-	(1,718,691)
Contribution for construction:								
Balance at December 31, 2011		-	-	-	-	-	-	-
Acquisitions		-	-	(900,000)	-	-	-	(900,000)
Disposals		-	-	10,000	-	-	-	10,000
Balance at December 31, 2012		-	-	(890,000)	-	-	-	(890,000)
Carrying amounts:								
Balance at January 1, 2011		84,551,899	66,411,999	126,100,652	4,730	45,878,943	11,947,560	334,895,783
Balance at December 31, 2011		84,602,863	64,656,701	131,505,713	1	46,593,309	15,647,717	343,006,304
Balance at December 31, 2012	₩	83,689,667	55,058,239	155,619,211	1	47,155,036	5,711,153	347,233,307

12. Property and Equipment, Continued

(2) Construction-in-progress

During 2012, expenditure on construction-in-progress was ₩29,343 million, and the amount which was transferred from construction-in-progress to other assets was ₩ 38,768 million.

13. Intangible Assets

(1) Changes in intangible assets for the years ended December 31, 2012 and 2011 were as follows:

		Goodwill	Trademark right	Membership	Usage rights	Others(*)	Total
Acquisition costs:							
Balance at January 1, 2011	₩	6,597,180	10,963	5,096,999	11,969,820	8,822,249	32,497,211
Acquisitions		-	-	35,454	-	1,408,174	1,443,628
Disposals		-	-	-	-	(20,000)	(20,000)
Others		-	-	-	-	13,119,920	13,119,920
Balance at December 31, 2011		6,597,180	10,963	5,132,453	11,969,820	23,330,343	47,040,759
Acquisitions		-	-	503,568	-	2,028,990	2,532,558
Disposals		-	-	-	(19,387)	(13,360)	(32,747)
Others		-	-	-	327,600	2,580,026	2,907,626
Balance at December 31, 2012		6,597,180	10,963	5,636,021	12,278,033	27,925,999	52,448,196
Accumulated amortization:							
Balance at January 1, 2011		-	-	-	(5,098,399)	(2,599,752)	(7,698,151)
Amortization		-	-	-	(927,663)	(3,260,294)	(4,187,957)
Disposals		-	-	-	-	16,667	16,667
Balance at December 31, 2011		-	-	-	(6,026,062)	(5,843,379)	(11,869,441)
Amortization		-	-	-	(1,054,823)	(6,032,771)	(7,087,594)
Disposals		-	-	-	10,745	13,301	24,046
Balance at December 31, 2012		-	-	-	(7,070,140)	(11,862,849)	(18,932,989)
Accumulated impairment:							
Balance at January 1, 2011		-	-	-	-	-	-
Impairment		-	-	(689,215)	-	(405,883)	(1,095,098)
Balance at December 31, 2011		-	-	(689,215)	-	(405,883)	(1,095,098)
Impairment		-	-	-	-	-	-
Balance at December 31, 2012		-	-	(689,215)	-	(405,883)	(1,095,098)
Carrying amounts:							
Balance at January 1, 2011		6,597,180	10,963	5,096,999	6,871,421	6,222,497	24,799,060
Balance at December 31, 2011		6,597,180	10,963	4,443,238	5,943,758	17,081,081	34,076,220
Balance at December 31, 2012	₩	6,597,180	10,963	4,946,806	5,207,893	15,657,267	32,420,109

13. Intangible Assets, Continued

(2) Impairment test

Goodwill and intangible assets that have indefinite useful lives are tested for impairment annually. The Company reviews the recoverable amount of CGU for those assets. The recoverable amount is determined on basis of value in use, which is discounted amount of future cash flow arising from continuous use of assets.

Primary assumption used in calculation for value in use is determined by considering external and internal information (historical information), and reflecting the management assessment about future trend of related industry.

14. Other Financial Liabilities

(1) Other financial liabilities as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012		2011	
		Current	**Non-current**	**Current**	**Non-current**
Accrued expenses	₩	1,704,208	-	2,784,949	-
Finance lease liabilities		243,559	680,644	250,417	995,056
Leasehold deposits received		1,687,644	3,497,000	1,287,484	1,620,500
Present value discount		-	(622,465)	(3,974)	(314,348)
Derivative financial liabilities		-	1,349,531	-	-
	₩	3,635,411	4,904,710	4,318,876	2,301,208

(2) Leasehold deposits received as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	**Effective interest rate(%)**	**Nominal values**	**Discounted present value**	**Present value discount**
December 31, 2012	4.9~5.8	5,184,644	4,562,179	(622,465)
December 31, 2011	5.2~5.8	2,907,984	2,589,662	(318,322)

(3) Finance lease

① Finance lease contract
The Company makes finance lease contract with IMAX Cop. and the related assets and liabilities are recorded in the separate financial statements.

② The assets related to finance lease contract as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Acquisitions	₩	10,034,641	10,034,641
Accumulated depreciation		(5,856,507)	(4,769,865)
Carrying amount	₩	4,178,134	5,264,776

14. Other Financial Liabilities, Continued

(3) Finance leases, continued

③ The present value and future minimum lease payments in accordance with the lease contract as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012			2011		
		Future minimum lease payments	Interest	Present value	Future minimum lease payments	Interest	Present value
Less than one year	₩	288,940	(45,381)	243,559	311,114	(60,697)	250,417
One to five years		746,724	(66,080)	680,644	1,061,266	(117,810)	943,456
Over five years		-	-	-	54,348	(2,748)	51,600
Total	₩	1,035,664	(111,461)	924,203	1,426,728	(181,255)	1,245,473

15. Other Current Liabilities and Other Non-current Liabilities

(1) Other current liabilities and other non-current liabilities as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012		2011	
		Current	Non-current	Current	Non-current
Deposit received	₩	5,882,853	-	3,418,396	-
Value added tax withheld		4,560,856	-	2,477,613	-
Advance received		28,717,205	-	22,479,938	-
Unearned revenue		722,400	643,435	328,248	611,545
Liabilities for short-term employee benefits		13,731,224	-	8,946,279	-
Deferred revenues		-	10,980,903	-	17,488,377
Accrued provision		-	670,600	-	445,326
	₩	53,614,538	12,294,938	37,650,474	18,545,248

(2) Deferred revenues

The Company adopts customer loyalty program for promotion of theater business. The award credits are provided when the customers purchase the theater service and the award credit provided can be utilized for future theater service.

The fair value of award credits not utilized under the customer loyalty program as of December 31,2012 and 2011 are ₩10,981 million and ₩17,488 million respectively.

(3) Accrued provision

(In thousands of won)		2012	2011
Balance at the beginning of the year	₩	445,326	100,508
Increase		1,892,063	886,294
Utilization		(1,666,789)	(541,476)
Balance at the end of the year	₩	670,600	445,326

Accrued provision is estimated reasonably by considering the source of accumulated points, the ratio of cost of sales and utilization of concession.

16. Debt

The contractual information of interest bearing debt measured at amortized cost as of December 31, 2012 and 2011 are as follows. The detailed information of interest, exchange rate and liquidity risk are described in note 4.

(1) Debt as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Current liabilities:			
Local currency short-term borrowings	₩	-	16,000,000
Debentures		49,930,974	59,965,570
Current portion of local currency borrowings		-	10,000,000
		49,930,974	85,965,570
Non-current liabilities:			
Debentures		169,563,674	229,266,636
Local currency borrowings		26,000,000	-
Foreign currency borrowings		62,123,800	66,891,400
	₩	257,687,474	296,158,036

(2) Local currency short-term borrowings as of December 31, 2012 and 2011 are as follows:

(In thousands of won)

Lender	Purpose of borrowing	Interest rate(%)		2012	2011
Shinhan Bank	Funds for equipment	4.58	₩	-	16,000,000

(3) Debentures as of December 31, 2012 and 2011 are as follows:

Lender	Maturity date	Interest rate(%)		2012	2011
Woori Investment & Securities Co., Ltd.	2012.02.20	6.38	₩	-	30,000,000
HI Investment & Securities Co., Ltd.	2012.07.10	5.50		-	30,000,000
Daewoo Securities Co., Ltd.	2013.04.09	4.63		30,000,000	60,000,000
Shinhan Investment Corp.	2013.04.09	3.95		20,000,000	30,000,000
Daewoo Securities Co., Ltd.	2015.04.09	5.40		40,000,000	40,000,000
Shinhan Investment Corp.	2014.02.28	4.69		50,000,000	50,000,000
Daewoo Securities Co., Ltd.	2014.11.24	4.12		50,000,000	50,000,000
Daewoo Securities Co., Ltd.	2015.06.22	3.75		30,000,000	-
				220,000,000	290,000,000
Less: discount				(505,352)	(767,794)
Less: current portion of long-term debentures				(49,930,974)	(59,965,570)
			₩	169,563,674	229,266,636

16. Debt, Continued

(4) Local currency long-term borrowings as of December 31, 2012 and 2011 are as follows:

(In thousands of won)

Lender	Maturity date	Interest rate(%)		2012	2011
Korea Development Bank	2012.11.17	4.91	₩	-	10,000,000
Korea Development Bank	2015.11.19	3.90		5,000,000	-
Shinhan Bank	2015.11.09	3.97		10,000,000	-
Korea Exchange Bank	2015.11.09	3.45		8,000,000	-
Kookmin Bank	2015.11.19	3.92		3,000,000	-
				26,000,000	10,000,000
Less: current portion of long-term borrowings				-	(10,000,000)
			₩	26,000,000	-

(5) Foreign currency long-term borrowings as of December 31, 2012 and 2011 are as follows:

(In thousands of won, except foreign currency)

Lender	Maturity date	Interest rate(%)		2012	2011
Korea Exim Bank	2014.07.25	LIBOR+1.95	₩	62,123,800 (USD 58,000,000)	66,891,400 (USD 58,000,000)

As of December 31, 2012, the Company enters into a foreign currency swap contract in accordance with risk management policy, in order to control the risk being reflected by changes in interest and exchange rate related to interest and principle payment of foreign currency borrowings (USD 58,000,000).

Details of currency swap contract as of December 31, 2012 are as follows:

(In thousands of won, except foreign currency)

Description	Bank	Notional amount		Agreed interest rate		Agreed exchange rate	Maturity date
Currency swap	Korea Exchange Bank	Buy	USD 58,000,000	Buy	3M LIBOR+1.95	₩1,062.10:USD 1	2014.07.25
		Sell	₩ 61,601,800	Sell	4.37%		

As the above currency swap contract does not meet the criteria for the cash flow hedge transaction, the Company does not apply the hedge accounting. Thus, the Company recognizes loss on valuation of derivative financial instrument amounting to ₩4,328 million in separate statement of comprehensive income for the year ended December 31, 2012.

17. Employee Benefits

(1) Liabilities for defined benefit obligations as of December 31, 2012 and 2011 are as follows:

For the years ended December 31, 2012 and 2011

(In thousands of won)		2012	2011
Present value of defined benefit obligations	₩	22,506,692	16,131,745
Fair value of plan assets		(14,608,460)	(10,614,090)
	₩	7,898,232	5,517,655

The calculation of liabilities for defined benefit obligations is performed by an independent actuary using the projected unit credit method.

(2) Other liabilities for employee benefits as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Liabilities for short-term employee benefits	₩	13,731,224	8,946,279

(3) Movement in present value of defined benefit obligations for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Beginning balance	₩	16,131,745	12,960,758
Benefits paid by the plan		(2,397,336)	(2,128,253)
Current service costs and interest		5,075,371	4,582,759
Actuarial losses		2,866,414	397,135
Severance benefits from affiliated companies		830,498	319,346
Ending balance	₩	22,506,692	16,131,745

(4) Details of plan assets as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Deposit for severance benefit insurance	₩	14,605,353	10,613,005
Transfer to National Pension Fund		3,107	1,085
	₩	14,608,460	10,614,090

(5) Movement in fair value of plan assets for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Beginning balance	₩	10,614,090	8,018,620
Contributions paid into the plan		5,000,000	2,993,483
Benefits paid by the plan		(1,119,202)	(513,305)
Expected return on plan assets		452,680	349,430
Actuarial gains(loss)		(31,675)	6,980
Severance benefits from affiliated companies		(307,433)	(241,118)
Ending balance	₩	14,608,460	10,614,090

17. Employee Benefits, Continued

(6) Expenses for employee benefits for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Current service costs	₩	4,189,001	4,014,234
Interest expense		886,370	568,525
Expected return on plan assets		(452,680)	(349,430)
Total	₩	4,622,691	4,233,329

The breakdowns of employee benefits expenses for the years ended December 31, 2012 and 2011 are follows:

(In thousands of won)		2012	2011
Cost of sales	₩	558,309	468,915
Selling, general and administrative expenses		4,064,382	3,764,414
Total	₩	4,622,691	4,233,329

(7) Principal actuarial assumptions as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	2012	2011
Weighted average of future salary increases	5.50%	9.00%
Discount rate	3.75%	4.75%
Expected return on plan assets	4.50%	4.50%

The Company determined the discount rate based on market returns of superior corporate bonds consistent with currencies and estimated payment terms of defined benefit obligations as of the reporting date in order to calculate present value of the defined benefit obligations.

(8) Historical information for the amounts of related to defined benefit plans recognized for the current year and previous years are as follows:

(In thousands of won)		Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Defined benefit obligations	₩	(22,506,692)	(16,131,745)	(12,960,758)	(9,454,035)
Plan assets		14,608,460	10,614,090	8,018,620	7,201,922
Surplus/(deficit)		(7,898,232)	(5,517,655)	(4,942,138)	(2,252,113)
Experience adjustments on plan liabilities		(2,866,414)	(397,135)	(1,967,105)	-
Experience adjustments on plan assets	₩	(31,675)	6,980	31,805	-

18. Commitments and Contingencies

(1) Facilities contracts with financial institutions as of December 31, 2012 are as follows:

(In thousands of won, except foreign currency)

	Korea Exchange Bank	Woori Bank	Shinhan Bank	Meritz Securities	Kookmin Bank	Korea Exim Bank	Korea Development Bank	Total
Local currency:								
Overdraft ₩	2,000,000	3,000,000	-	-	10,000,000	-	-	15,000,000
General	-	-	10,000,000	-	3,000,000	-	5,000,000	18,000,000
Credit	20,000,000	-	-	-	-	-	-	20,000,000
Bill discounting	-	13,000,000	-	30,000,000	-	-	-	43,000,000
Business purchase card	-	8,000,000	10,000,000	-	-	-	-	18,000,000
Total	22,000,000	24,000,000	20,000,000	30,000,000	13,000,000	-	5,000,000	114,000,000
Foreign currency:								
Overseas investment	-	-	-	-	-	USD 58,000,000	-	USD 58,000,000
Total	-	-	-	-	-	USD 58,000,000	-	USD 58,000,000

(2) Payment guarantee
As of December 31, 2012, Kookmin Bank provides a payment guarantee of up to ₩377 million to the Company in relation to the Company's obligation to Korea Airports Corporation regarding restoration on the interior of the rental property.

(3) The Company has made a leasehold deposit transfer commitments with Dongyang multiplex private special mutual fund 1st and transferred ₩160,094 million of leasehold deposits. Fees to be paid in the future for the use of buildings of which leasehold deposits were transferred are recognized as other payables of ₩8,675 million and long-term other payables of ₩34,010 million, respectively, as of December 31, 2012.

(4) During 2012, the Company has agreed with the private investment company (the"investor") to invest in PT Graha Layer Prima (the "PT GLP") which is a theater operator in Indonesia. As of December 31, 2012, the Company invested USD 15,250,000 in loans of PT GLP, and Investor is scheduled to invest in loans or equity of PT GLP. Disclosing the detailed information on investment may cause adversely effect on the Company under the confidentiality agreement with the investor and PT GLP. As such, the Company does not disclose the specific information on investment details and plans.

19. Stockholders' Equity

The number of authorized shares, the number of shares issued and par value per shares of the Company as of December 31, 2012 and 2011 are 100,000,000 shares, 20,617,458 shares and ₩500, respectively. There is no change in equity for the years ended December 31, 2012 and 2011.

20. Retained Earnings

(1) Retained earnings as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Legal reserve	₩	8,668,458	8,049,934
Voluntary reserve		8,410,000	8,410,000
Unappropriated retained earnings		301,656,449	237,912,014
	₩	318,734,907	254,371,948

The Korean Commercial Code requires the Company to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve can only be used for conservation of deficit or for capital transference by the resolution of general meeting of shareholders. In addition, when the total amount of legal reserve and voluntary reserve exceeds more than 1.5 times of the common stock, the Company can reduce the legal reserve and the voluntary reserve within the scope of the amount that exceeds, by the resolution of general meeting of shareholders.

(2) Changes in retained earnings for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Beginning balance	₩	254,371,948	221,168,504
Net income		72,744,947	38,610,970
Dividends		(6,185,237)	(5,154,365)
Actuarial losses		(2,196,751)	(253,161)
Ending balance	₩	318,734,907	254,371,948

(3) Separate statements of appropriation of retained earnings for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Date of appropriation		March 22, 2013	March 30, 2012
Ⅰ.Unappropriated retained earnings			
Balance at beginning of year	₩	231,108,253	199,554,205
Net income		72,744,947	38,610,970
Actuarial losses		(2,196,751)	(253,161)
Balance at end of year before appropriation		301,656,449	237,912,014
Ⅱ.Appropriation of retained earnings			
Legal reserve		(721,611)	(618,524)
Dividends:			
70% on par value at ₩350 per share in 2012 and 60% on par value at ₩300 per share in 2011		(7,216,110)	(6,185,237)
Ⅲ. Unappropriated retained earnings to be carried over to subsequent year	₩	293,718,728	231,108,253

21. Other Components of Equity

For the years ended December 31, 2012 and 2011

(1) Other components of equity as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Capital adjustment	₩	(7,153,939)	(7,015,289)
Accumulated comprehensive loss		(439,674)	(1,409,277)
	₩	(7,593,613)	(8,424,566)

(2) Capital adjustments as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Loss on disposal of treasury stock	₩	(3,335,080)	(3,335,080)
Stock option		76,479	186,652
Other capital adjustments		(3,895,338)	(3,866,861)
	₩	(7,153,939)	(7,015,289)

(3) Share based payment

The Company can offer stock options to the employees who contributed to foundation, management and oversea operation by the approval of special meeting of shareholders or board of directors' meeting. The stock options have been offered twice and details are as follows:

① Terms and condition of stock options

(In won, except for shares)

Date of grant	Method of grant	Total stock options granted		Compensation cost		Exercise price	Exercisable period
2005.06.10	Equity-settled	31,800	₩	146,852,400	₩	27,300	2007.06.10 ~ 2014.06.09
2006.03.13	Equity-settled	5,530	₩	39,799,410	₩	25,700	2008.03.13 ~ 2015.03.12

② Changes in the number of stock option and weighted average exercise price for the year ended December 31, 2012 were as follows:

(In won, except for shares)		Weighted average exercise price	The number of stock options
Beginning of the year	₩	27,063	37,330
Exercise		-	(21,400)
End of the year	₩	27,063	15,930

21. Other Components of Equity, Continued

(3) Share based payment, continued

③ The fair value at grant date are measured on the basis of Black-Scholes model, and the data used for calculating fair value at grant date are as follows:

	Phase 1	Phase 2
Approach	Fair value approach	Fair value approach
Date of grant	2005.06.10	2006.03.13
Risk-free interest rate	3.65%	4.94%
Exercisable period expected	3year	3year
Expected variation of stock price	0.2672	0.3940
Expected dividend yield ratio	3.50%	2.00%

(4) Cumulative other comprehensive income

Details of cumulative other comprehensive income as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Gain on valuation of available-for-sale financial assets	₩	-	-
Loss on valuation of available-for-sale financial assets		(439,674)	(1,409,277)

22. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Salaries	₩	72,451,837	54,548,896
Employee benefits		4,064,382	3,656,022
Other employee benefits		7,125,883	5,238,324
Supplies		5,637,171	6,865,693
Entertainment		552,412	229,940
Office supplies		370,339	247,022
Publication		1,131,495	820,664
Travel		2,790,430	2,217,609
Communications		2,211,907	2,072,327
Vehicles maintenance		412,328	317,948
Rent		53,926,269	45,110,466
Depreciation		2,745,047	2,186,634
Amortization		7,087,594	4,187,957
Bad debt expense		44,422	(23,681)
Maintenance		2,081,961	1,708,195
Insurance		761,622	918,596
Taxes and dues		1,972,981	1,961,799
Miscellaneous		1,348,842	553,610
Advertising		9,513,348	6,514,649
Sales promotion		18,379,145	6,027,320
Research		1,408,826	1,065,565
Training		1,348,247	1,090,699
Events		1,237,539	288,152
Conference		1,173,888	719,362
Maintenance expenses for buildings		40,008,996	33,762,825
Commission		50,801,571	44,406,176
Total	₩	290,588,482	226,692,769

For the years ended December 31, 2012 and 2011

23. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012			2011		
		Cost of sales	Selling, general and administrative expenses	Total	Cost of sales	Selling, general and administrative expenses	Total
Changes in inventories	₩	30,720,041	-	30,720,041	25,513,700	-	25,513,700
Film rental		219,077,467	-	219,077,467	181,815,138	-	181,815,138
Employee benefits		10,684,813	83,642,102	94,326,915	8,076,643	63,443,243	71,519,886
Depreciation		33,182,766	2,745,047	35,927,813	29,125,048	2,186,634	31,311,682
Amortization		-	7,087,594	7,087,594	-	4,187,957	4,187,957
Other expenses		8,023,017	197,113,739	205,136,756	6,962,974	156,874,935	163,837,909
Total	₩	301,688,104	290,588,482	592,276,586	251,493,503	226,692,769	478,186,272

24. Non-operating Income and Expenses

(1) Non-operating income for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Gain on disposal of property and equipment	₩	6,70	110,411
Gain on disposal of leasehold deposits		26,623,686	-
Commission income		3,902,166	3,006,756
Rental income		142,237	52,784
Miscellaneous income		7,128,128	4,608,856
	₩	37,802,917	7,778,807

(2) Non-operating expenses for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Other bad debt expenses	₩	683,807	2,819,198
Loss on disposal of property and equipment		945,351	1,301,096
Loss on disposal of intangible assets		8,643	-
Loss on disposal of other financial assets		51,742	-
Loss on disposal of inventories		13,033	-
Loss on impairment of property and equipment		-	24,545
Loss on impairment of intangible assets		-	1,095,098
Donations		1,142,540	663,460
Miscellaneous loss		379,155	1,505,914
	₩	3,224,271	7,409,311

25. Categories of Financial Instruments

Categories of financial instruments as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	Account		2012	2011
Derivative financial assets	Derivative financial assets	₩	304,357	4,207,067
Available-for-sale financial assets	Available-for-sale financial assets		19,703,079	2,389,173
Loans and receivables	Trade receivables		47,172,200	43,190,654
	Other financial assets		45,503,953	127,254,680
Derivative financial liabilities	Derivative financial liabilities		1,349,531	-
Financial liabilities recognized at amortized cost	Trade payables		65,995,822	45,498,318
	Other payables		77,570,208	70,578,997
	Borrowings and debentures		307,618,448	382,123,606
	Long-term other payables		33,248,927	-
	Other financial liabilities		7,190,590	6,620,084

26. Financial Instruments Income and Costs by Categories

(1) Financial instruments income by categories for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Net income:			
Interest income:			
Cash and cash equivalents	₩	2,807,288	1,363,872
Loans and receivables		4,871,599	6,238,094
Dividend income		970,532	834,744
Foreign currency transaction gain:			
Loans and receivables		70,551	8,499
Foreign currency translation gain:			
Loans and receivables		511	37,382
Financial liabilities recognized at amortized cost		4,838,526	-
Gain on valuation of derivative financial assets		2,903	4,207,067
Gain on transaction of derivative financial assets		964	-
	₩	13,562,874	12,689,658
Other comprehensive income:			
Gain on valuation of available-for-sale financial assets	₩	969,604	-

26. Financial Instruments Income and Costs by Categories, Continued

(2) Financial instruments costs by categories for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Net income:			
Interest expense:			
Financial liabilities recognized at amortized cost	₩	18,855,456	15,050,264
Foreign currency transaction loss:			
Loans and receivables		10,000	9,222
Financial liabilities recognized at amortized cost		3,312	9,480
Foreign currency translation loss:			
Loans and receivables		97,816	10,329
Financial liabilities recognized at amortized cost		-	5,305,151
Loss on valuation of derivative financial assets		5,556,598	-
Loss on disposal of available-for-sale financial assets		3,968	451,132
	₩	24,527,150	20,835,578
Other comprehensive income:			
Loss on valuation of available-for-sale financial assets	₩	116	1,427,937

27. Income Tax Expense

(1) The component of income tax expense for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Current tax expense	₩	13,145,314	13,150,386
Adjustment for prior periods		(445,216)	3,367,825
Origination and reversal of temporary differences		9,233,049	(369,163)
Income tax recognized in other comprehensive income		391,781	594,506
Total income tax expense	₩	22,324,928	16,743,554

(2) Income taxes recognized directly in other comprehensive income for the years ended December 31, 2012 and 2011 are as follow:

(In thousands of won)		2012		2011	
		Other comprehensive income	Deferred tax expense (benefit)	Other comprehensive income	Deferred tax expense (benefit)
Net changes in fair value of available-for-sale financial assets	₩	1,279,160	(309,557)	(1,885,448)	457,512
Defined benefit plan actuarial losses		(2,898,089)	701,338	(390,155)	136,994
	₩	(1,618,929)	391,781	(2,275,603)	594,506

27. Income Taxes, Continued

(3) Reconciliation of effective tax rate for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		**2012**	**2011**
Income before income taxes	₩	95,069,875	55,354,524
Tax rate		23.30%	24.15%
Income tax using the Company's statutory tax rate		22,146,910	13,369,396
Adjustments:			
- Tax effect for non-deductable expense		73,774	88,836
- Tax credit		-	2,200
- Current adjustments for prior periods		(445,216)	3,367,825
- Others		549,460	(84,703)
Income tax expenses	₩	22,324,928	16,743,554
Average effective tax rate		23.48%	30.25%

(4) Changes in deferred income tax assets (liabilities) for the years ended December 31, 2012 and 2011 are as follows:

		2012		
			Deferred tax assets (liabilities)	
(In thousands of won)		**Temporary differences**	**Beginning balance**	**Ending balance**
Allowance for doubtful accounts	₩	4,988,878	1,135,663	1,207,309
Accrued retirement and severance benefits		14,875,689	2,549,842	3,599,917
Provision for retirement and severance benefits		(14,875,689)	(2,549,841)	(3,599,916)
Depreciation		(2,573,312)	(628,879)	(622,741)
Amortization		(325,396)	(42,107)	(78,746)
Accrued income		(530,567)	(26,611)	(128,397)
Goodwill		(4,624,887)	(1,119,223)	(1,119,223)
Loss on impairment of property, plant and equipment		6,749	5,939	1,631
Loss on impairment of intangible assets		840,585	265,014	203,422
Provisions		765,859	125,542	185,339
Deferred revenues		10,980,903	4,232,188	2,657,378
Lands		(52,828,873)	(12,784,587)	(12,784,587)
Equity method investments		23,446,257	5,673,995	5,673,995
Bad debt		7,952,034	2,116,831	1,924,392
Losses on valuation of available-for-sale financial assets		580,045	449,927	140,370
Prepaid expenses		(76,904,333)	-	(18,610,849)
Present value discount		5,270,250	-	1,275,401
Unearned revenue		198,927	-	48,140
Other payables		40,820,741	-	9,878,619
Leasehold deposits		94,086	-	22,769
Loss on valuation of forward rate		1,227,782	-	297,123
Loss on valuation of interest rate swap		(2,903)	-	(702)
		(40,617,175)	(596,307)	(9,829,356)
Excluded from deferred tax assets(*)			(4,554,772)	(4,554,772)
Total	₩		(5,151,079)	(14,384,128)

(*) As of December 31, 2012 the amount of total temporary differences related to investments in subsidiaries and associates are ₩4,555 million for which deferred tax assets were not recognized, because it is not probable that the temporary differences will be reversed in a foreseeable future.

27. Income Taxes, Continued

2011

For the years ended December 31, 2012 and 2011

(In thousands of won)		Temporary differences	Deferred tax assets (liabilities) Beginning balance	Ending balance
Allowance for doubtful accounts	₩	4,692,822	520,825	1,135,663
Accrued retirement and severance benefits		10,536,537	1,934,128	2,549,842
Provision for retirement and severance benefits		(10,536,537)	(1,508,362)	(2,549,841)
Depreciation		(2,598,671)	(577,287)	(628,879)
Amortization		(173,997)	5,598	(42,107)
Accrued income		(109,963)	(773)	(26,611)
Goodwill		(4,624,887)	(1,017,475)	(1,119,223)
Foreign currency translation gain(loss)		-	67,907	-
Loss on impairment of property, plant and equipment		24,545	38,865	5,939
Loss on impairment of intangible assets		1,095,098	-	265,014
Provisions		518,768	(22,573)	125,542
Deferred revenues		17,488,377	3,532,724	4,232,188
Lands		(52,828,873)	(11,622,352)	(12,784,588)
Equity method investments		23,446,257	5,158,177	5,673,995
Bad debt		8,747,237	2,116,831	2,116,831
Losses on valuation of available-for-sale financial assets		1,859,205	(5,774)	449,927
		(2,464,082)	(1,379,541)	(596,308)
Excluded from deferred tax assets(*)			(4,140,702)	(4,554,772)
Total	₩		(5,520,243)	(5,151,080)

(*) As of December 31, 2011 the amount of total temporary differences related to investments of subsidiaries and associates are ₩4,555 million for which deferred tax assets were not recognized, because it is not probable that the temporary differences will be reversed in a foreseeable future.

(5) As of December 31, 2012, the tax effects of temporary difference were calculated by expected tax rate of the fiscal period when the temporary differences are reversed.

(6) The aggregate amounts of deferred tax assets and liabilities as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Deferred tax assets	₩	21,441,810	10,880,946
Deferred tax liabilities		(35,825,938)	(16,032,026)
	₩	(14,384,128)	(5,151,080)

28. Earnings Per Share

(1) Basic earnings per share

① Basic earnings per share for the years ended December 31, 2012 and 2011 are calculated as follows:

(In won, except share information)		2012	2011
Net income attributable to ordinary shares	₩	72,744,947,405	38,610,970,118
Weighted average number of ordinary shares		20,617,458	20,617,458
Basic earnings per share	₩	3,528	1,873

② Weighted average number of ordinary shares for the years ended December 31, 2012 and 2011 are 20,617,458. There was no change in weighted average number of ordinary shares.

(2) Diluted earnings per share

① Diluted earnings per share for the years ended December 31, 2012 and 2011 are calculated as follows:

(In won, except share information)		2012	2011
Adjusted net income attributable to ordinary shares	₩	72,744,947,405	38,610,970,118
Diluted weighted average number of ordinary shares		20,618,515	20,617,715
Diluted earnings per share	₩	3,528	1,873

② Diluted weighted average number of ordinary shares for the years ended December 31, 2012 and 2011 are as follows:

(In shares)	2012	2011
Weighted average number of ordinary shares	20,617,458	20,617,458
Effect of stock options	1,057	257
Diluted weighted average number of ordinary shares	20,618,515	20,617,715

Average market price for calculation of diluted effect of stock option is calculated on the basis of closing price at the date of period.

29. Related Parties

(1) Parent company and subsidiaries
The Company's ultimate parent company is CJ Corp. and the Company's subsidiaries as of December 31, 2012 are as follows:

Location	Subsidiaries	
Korea	Primus Cinema Co., Ltd.	
Korea	4D Plex Co., Ltd.	
United States	CJ Theater LA Holdings Inc.	CJ CGV America LA LLC.
Hong Kong/China	CGI Holdings Ltd.	Shanghai CJ CGV Media Consulting Co., Ltd. UVD Enterprise Ltd. CJ CGV(Panjin) Film Investment Management Co., Ltd. CGV (Shang Hai) Film Culture Consulting Co., Ltd. CJ CGV (Shenyang) International Cinema Co., Ltd. CJ CGV (Harbin) International Cinema Co., Ltd. Vietnam Cinema 1 Company Ltd. ShangHai C Media Co.,Ltd. CGV(Changsha) Cinema Co.,Ltd. YANTAI CGV CINEMA CO.,LTD. CGV(BEIJING) INTERNATIONAL CINEMA CO.,LTD.
British Virgin Islands/Vietnam	Envoy Media Partners Ltd.	Megastar Media Company

(2) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2012 and 2011 are summarized as follows:

(in thousands of won)

Relationship	Name	Transaction		2012	2011
Parent	CJ Corp.	Sales	₩	396,480	561,686
		Purchases		2,595,669	2,648,144
Subsidiary	Primus Cinema Co., Ltd.	Sales		2,295,416	1,223,780
		Purchases		7,004,881	119,046
	4D Plex Co., Ltd.	Sales		16,767	1,361,682
		Purchases		2,797,519	327,531
	CGI Holdings Ltd.	Sales		42,441	14,292
Joint venture	D-Cinema Korea Co., Ltd.	Sales		-	34,882
		Purchases		382,420	616,620
Other related parties	CJ E&M Corp.	Sales		5,796,168	5,608,922
		Purchases		66,589,451	74,266,556
	CJ O Shopping Co., Ltd.	Sales		3,122,962	2,219,202
		Purchases		579,045	579,557
	CJ Systems Co., Ltd.	Sales		39,352	47,284
		Purchases		21,296,212	22,625,909
	CJ GLS Co., Ltd.	Sales		228,053	256,620
		Purchases		2,836	109,813
	CJ Worldis Co., Ltd.	Sales		1,225	961
		Purchases		545	705
	CJ N City Co., Ltd.	Sales		48,709	14,658
		Purchases		458,347	1,179,750
	CJ Olive Young Co., Ltd.	Sales		1,503,965	972,276
		Purchases		126,271	86,035
	CJ Powercast Inc.	Sales		560,837	617,999
		Purchases		2,337,772	2,024,786

For the years ended December 31, 2012 and 2011

(in thousands of won)

Relationship	Name	Transaction		2012	2011
Other related parties	CJ Foodvill Co., Ltd.	Sales	₩	3,215,929	2,997,537
		Purchases		7,594,476	5,610,196
	CJ Freshway Corporation	Sales		317,436	258,828
		Purchases		18,162,548	14,428,687
	JS Communications Co., Ltd.	Sales		56,856,750	51,609,904
		Purchases		521,357	488,218
	CJ Construction Co., Ltd.	Sales		59,230	62,402
		Purchases		4,357,232	185,697
	CNI Leisure Co., Ltd.	Sales		3,908	2,413
		Purchases		646,007	1,349,621
	Joy Rent a Car Co., Ltd.	Purchases		214,640	202,290
	CJ Mooter Inc.	Sales		-	350,750
		Purchases		86,000	-
	CJ Hellovision Co., Ltd.	Sales		247,915	229,532
		Purchases		6,022	3,384
	CJ Cheiljedang Corp.	Sales		2,157,505	2,923,760
		Purchases		3,342,624	2,980,652
	CJ Sea Food Co., Ltd.	Sales		-	95
	Art service Co. Ltd.	Purchases		38,734	43,297
	CJ Telenix Co., Ltd.	Sales		1,194	1,257
		Purchases		1,450,657	1,131,266
	Clip Service Co., Ltd.	Sales		-	100,997
		Purchases		203,721	851,445
	CJ Culture Foundation	Sales		-	6,900
	Orion Cinema Network Co., Ltd.	Sales		284,215	83,800
		Purchases		913,640	29,400
	KGTCR Co., Ltd.	Sales		-	2,348
	Mbaro INC.	Sales		1,707	2,824
	CJ Hellovision Haewoonde Co., Ltd.	Purchases		-	160
	Cinema Service Co., Ltd.	Sales		9,843	818
	Superrace Co., Ltd.	Sales		-	2,348
	Korea Express Co., Ltd.	Sales		338,654	152
		Purchases		3,224	-
	Anipark.co.ltd	Sales		38,841	-
	Inernational Media Genius	Purchases		50,000	-
	Korea badook television.inc	Purchases		100,000	-
	On Game Network Inc.	Purchases		140,000	-
	CJNGC KOREA	Purchases		50,000	-
Total sales			₩	77,585,502	71,568,561
Total purchases			₩	142,051,850	131,888,765

29. Related Parties, Continued

(3) Account balances with related companies as of December 31, 2012 and 2011 are as follows:

(In thousands of won)			2012		2011	
Relationship	**Name**		**Trade receivables**	**Trade payables**	**Trade receivables**	**Trade payables**
Parent	CJ Corp.	₩	101,221	293,765	266,311	380,961
Subsidiary	Primus Cinema Co., Ltd.		300,713	7,426,007	178,976	360,700
	4D Plex Co., Ltd.		2,842	431,293	1,497,489	116,614
Joint venture	D-Cinema Korea Co., Ltd.		-	1,408	-	90,039
Other related parties	CJ E&M Corp.		2,061,902	34,295,524	2,137,631	23,865,458
	CJ Cheiljedang Corp.		1,489,277	670,386	2,691,172	406,754
	CJ Freshway Corporation		86,777	7,097,904	78,924	5,219,144
	CJ Foodvill Co., Ltd.		1,053,239	4,249,355	1,954,115	2,166,191
	CJ O Shopping Co., Ltd.		851,004	3,066,868	656,862	2,421,852
	CJ Worldis Co., Ltd.		-	14,788	-	8,011
	CJ Hellovision Co., Ltd.		61,069	19,972	81,026	369,330
	CJ Telenix Co., Ltd.		344	191,878	837	120,255
	CJ GLS Co., Ltd.		66,672	7,400	98,631	-
	CJ Olive Young Co., Ltd.		868,642	447,426	916,607	215,519
	CJ Powercast Inc.		187,550	439,455	167,857	581,251
	Art service Co. Ltd.		-	2,742	-	33,038
	Clip Service Co., Ltd.		342,632	35,707	227,237	44,140
	CJ Systems Co., Ltd.		14,163,662	6,938,282	8,404,848	7,739,485
	CJ Construction Co., Ltd.		14,915	1,530,795	26,383	4,234
	CJ N City Co., Ltd.		206	41,898	9,302	52,921
	CJ Sea Food Co., Ltd.		-	-	2,361	-
	Joy Rent a Car Co., Ltd.		-	23,348	-	20
	JS Communications Co., Ltd.		16,260,391	179,786	22,107,769	158,458
	CJ Mooter Inc.		-	19,800	-	26
	CNI Leisure Co., Ltd.		534	2,440	-	126
	Korea Express Co., Ltd.		130,255	3,086	-	-
	Anipark.co.ltd		4,284	-	-	-
	Orion Cinema Network Co., Ltd.		12,568	682,000	-	-
	CJ MD1 Corp.		20,894	-	-	-
Total		₩	38,081,593	68,113,313	41,504,338	44,354,527

For the years ended December 31, 2012 and 2011

29. Related Parties, Continued

(4) Key management personnel compensation in total and for each of the following categories for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Short-term employee benefits	₩	3,300,451	1,983,075
Costs related to defined benefit plan		238,997	290,026
Long-term employee benefits		117,538	650,818

The Company defines key management personnel as officers that perform key management roles in planning, operating, and controlling with significant rights and obligations in each business unit.

(5) Details of guarantees which the Company had provided for related companies as of December 31, 2012 are as follows:

(In thousands of won, except USD, HKD,RMB)

Related companies	Guarantee recipient		Guarantees	Guarantee type	Beneficiary
Subsidiary	CGI Holdings Ltd.		USD 15,000,000 HKD 91,650,000 RMB 70,000,000	Credit line Guarantees	Woori Bank Hong Kong KEB Hong Kong HSBC
	CJ CGV America LA LLC.		-	Guarantee on lease contracts	MADANG, LLC.
Joint venture	D-Cinema Korea Co., Ltd.		-	Performance guarantee	20th Century Fox
Executives and staff members	Executives and staff members	₩ ₩	349,966 2,724,141	Guarantee on loans of employees	Hana Bank Shinhan Bank

30. Subsequent Events

The Company additionally acquired 325,070 common shares and 33,160 preferred shares of Simuline Inc. in January 2013. As a result, the ownership of the Company increased from 10.83% to 46.05%.

Independnt Auditors' Review Report on Internal Accounting Control System

English Translation of a Report Originally Issued in Korean

To the President of
CJ CGV Co., Ltd.

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of CJ CGV Co., Ltd. (the "Company") as of December 31, 2012. The Company's management is responsible for designing and maintaining an effective IACS and for its assessment of the effectiveness of the IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of the IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2012, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. A review consists principally of obtaining an understanding of the Company's IACS, inquiries of the Company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of separate financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that the Report on the Operations of Internal Accounting Control System as of December 31, 2012 is not prepared, in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2012. We did not review the Company's IACS subsequent to December 31, 2012. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

Seoul, Korea

March 13, 2013

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2012 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Report on the Operations of Internal Accounting Control System

English Translation of a Report Originally Issued in Korean

To the Board of Directors and Audit Committee of
CJ CGV Co., Ltd.

I, as the Internal Control over Financial Reporting ("ICFR") Officer of CJ CGV Co., Ltd. ("the Company"), assessed the effectiveness of the design and operation of the Company's Internal Accounting Control System ("IACS") as of ending December 31, 2012.

The Company's management, including myself, is responsible for designing and operating an ICFR. I assessed the design and is operation effectiveness of the ICFR in the prevention and detection of an error or fraud which may cause a misstatement in the preparation and disclosure of reliable separate financial statements. I followed the IACS standard to evaluate the effectiveness of the ICFR design and operation.

Based on the assessment results, I believe that the Company's ICFR, as of December 31, 2012, is effectively designed and operating, in all material respects, in conformity with the IACS standards.

March 7, 2013

Lim, Sang yeop, ICFR Officer

Seo, Jeong, Chief Executive Officer