

# **CJ Corp.**

**Non-Consolidated Financial Statements**

**December 31, 2003 and 2002**

**CJ Corp.**  
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**December 31, 2003 and 2002**

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## Report of Independent Auditors

To the Shareholders and Board of Directors of  
CJ Corp.

We have audited the accompanying non-consolidated balance sheets of CJ Corp. (the "Company") as of December 31, 2003 and 2002, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of CJ Corp. as of December 31, 2003 and 2002, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Note 26 to the accompanying non-consolidated financial statements, the Company had sales of ₩226,252 million to, and purchases of ₩484,325 million from, subsidiaries and affiliated companies within the CJ Group during the year ended December 31, 2003. Related accounts receivable and accounts payable as of December 31, 2003 amounted to ₩46,890 million and ₩82,763 million, respectively.

# SAMIL PRICEWATERHOUSECOOPERS

As discussed in Note 2 to the accompanying non-consolidated financial statements, in accordance with SKFAS No. 4, *Revenue Recognition*, the Company adopted a change in accounting principle for revenue recognition for consignment sales and sales on commission from recognizing the gross transaction amount as revenue to recognizing the net commission as revenue. The financial statements as of and for the year ended December 31, 2002, have been retroactively restated for the effects of this change. As a result of this change, the amounts of sales and cost of sales for the years ended December 31, 2003 and 2002 are ₩39,052 million and ₩47,697 million, respectively, smaller than those which would have been reported under the previous accounting principle.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea  
February 4, 2004

This report is effective as of February 4, 2004, 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 non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**CJ Corp.**  
**Non-Consolidated Balance Sheets**  
**December 31, 2003 and 2002**

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 3)	₩ 14,726,937	₩ 18,653,553
Short-term financial instruments (Note 3)	4,220,953	10,426,526
Short-term available-for-sale securities (Note 4)	42,982,983	46
Trade accounts and notes receivable, net of allowance for doubtful accounts (Notes 5 and 26)	48,323,308	66,539,586
Other accounts and notes receivable, net of allowance for doubtful accounts (Note 5)	33,762,039	26,880,730
Inventories (Note 6)	278,635,647	236,506,452
Guarantee deposits	6,406,543	4,347,715
Short-term loans (Note 7)	39,270	100,000
Prepaid expenses and other current assets	<u>33,870,298</u>	<u>23,642,769</u>
Total current assets	462,967,978	387,097,377
Property, plant and equipment, including revalued portion, net of accumulated depreciation (Note 8)	974,895,076	1,032,164,854
Long-term available-for-sale securities (Note 12)	114,906,184	210,207,680
Equity-method investments (Note 13)	867,924,405	816,206,902
Intangible assets, net of accumulated amortization (Note 9)	9,930,867	14,043,662
Long-term financial instruments and other assets (Note 10)	102,242,587	106,835,659
Deferred income tax assets (Note 23)	<u>28,464,722</u>	<u>45,685,126</u>
Total assets	<u>₩ 2,561,331,819</u>	<u>₩ 2,612,241,260</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Trade accounts and notes payable (Note 26)	₩ 106,804,392	₩ 106,317,147
Other accounts and notes payable	100,629,821	99,279,682
Short-term borrowings (Note 14)	331,884,420	240,249,599
Current portion of long-term debt (Note 15)	136,967,474	406,629,834
Accrued expenses	49,368,276	109,239,716
Income taxes payable	6,711,137	44,118,441
Other current liabilities	<u>74,755,548</u>	<u>42,127,996</u>
Total current liabilities	807,121,068	1,047,962,415
Long-term debt, net of current maturities (Note 15)	315,408,442	244,877,985
Accrued severance benefits (Note 16)	<u>31,050,819</u>	<u>29,623,682</u>
Total liabilities	<u>₩ 1,153,580,329</u>	<u>₩ 1,322,464,082</u>

**CJ Corp.**  
**Non-Consolidated Balance Sheets**  
**December 31, 2003 and 2002**

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
Commitments and contingencies (Note 17)		
Shareholders' equity		
Capital stock (Note 1)		
Common stock	₩ 112,019,280	₩ 112,019,280
Preferred stock	26,924,185	26,924,185
Capital surplus		
Paid-in capital in excess of par value	171,219,323	171,219,323
Other capital surplus (Note 8)	635,768,266	635,768,266
Retained earnings (Note 18)	459,648,419	325,797,697
(Net income ₩168,366,871 thousand in 2003 and ₩107,270,732 thousand in 2002)		
Capital adjustments		
Treasury stock (Note 20)	(26,461,996)	(4,622,287)
Loss on valuation of available-for-sale securities, net (Notes 4 and 12)	(3,313,591)	(14,039,620)
Gain on valuation of equity-method investments, net (Note 13)	28,878,330	35,425,361
Stock option compensation (Note 21)	3,262,890	1,284,973
Loss on valuation of derivative instruments (Note 17)	(193,616)	-
Total shareholders' equity	<u>1,407,751,490</u>	<u>1,289,777,178</u>
Total liabilities and shareholders' equity	<u>₩ 2,561,331,819</u>	<u>₩ 2,612,241,260</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

**CJ Corp.**  
**Non-Consolidated Statements of Income**  
**Years ended December 31, 2003 and 2002**

<i>(in thousands of Korean Won, except per share amounts)</i>	<b>2003</b>	<b>2002</b>
<b>Sales (Note 26)</b>		
Domestic	₩ 2,097,211,894	₩ 1,923,677,761
Export	<u>308,296,297</u>	<u>307,903,562</u>
	2,405,508,191	2,231,581,323
<b>Cost of sales (Note 26)</b>	<u>1,611,022,581</u>	<u>1,492,169,407</u>
Gross profit	794,485,610	739,411,916
<b>Selling, general and administrative expenses (Note 22)</b>	<u>595,733,017</u>	<u>534,992,592</u>
Operating profit	<u>198,752,593</u>	<u>204,419,324</u>
<b>Non-operating income</b>		
Interest and dividend income	21,949,991	17,456,713
Foreign exchange gain	13,572,428	42,506,450
Gain on foreign currency translation (Note 25)	2,275,606	12,743,864
Gain on valuation of equity-method investments (Note 13)	42,410,970	414,742
Gain on disposal of available-for-sale securities	19,560,271	2,159,924
Gain on disposal of property, plant and equipment	33,691,933	614,211
Gain on disposal of business division	-	1,761,508
Gain on valuation of derivative instruments	7,331,581	21,793,411
Gain on settlement of derivative instruments	7,537,809	7,973,803
Others	<u>11,967,464</u>	<u>12,477,391</u>
	₩ 160,298,053	₩ 119,902,017
<b>Non-operating expenses</b>		
Interest expense	₩ 37,013,118	₩ 59,523,361
Loss on disposal of trade accounts receivable (Note 5)	9,762,248	8,533,649
Loss on valuation of inventories	994,580	903,859
Loss from inventory obsolescence	12,213,532	16,667,246
Foreign exchange loss	10,152,006	8,516,673
Loss on foreign currency translation (Note 25)	11,935,774	1,888,065
Loss on disposal of available-for-sale securities	4,954,245	682,900
Loss on impairment of available-for-sale securities	2,107,270	-
Loss on disposal of property, plant and equipment	959,797	5,349,261
Loss on valuation of derivative instruments	6,460,300	1,137,007
Loss on settlement of derivative instruments	10,027,995	5,862,621
Others (Note 17)	<u>38,647,109</u>	<u>62,364,101</u>
	<u>145,227,974</u>	<u>171,428,743</u>
Ordinary profit	213,822,672	152,892,598
Extraordinary gain	-	-
Extraordinary loss	<u>-</u>	<u>-</u>
Net income before income taxes	213,822,672	152,892,598
Income tax expense (Note 23)	<u>45,455,801</u>	<u>45,621,866</u>
Net income	<u>₩ 168,366,871</u>	<u>₩ 107,270,732</u>
Basic earnings per share (Note 24) (in Korean Won)	<u>₩ 6,216</u>	<u>₩ 3,902</u>
Diluted earnings per share (Note 24) (in Korean Won)	<u>₩ 6,047</u>	<u>₩ 3,777</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

**CJ Corp.**  
**Non-Consolidated Statements of Appropriations of Retained Earnings**  
**Years ended December 31, 2003 and 2002**  
**(Date of appropriations: February 27, 2004 and February 28, 2003**  
**for the years ended December 31, 2003 and 2002, respectively)**

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
Retained earnings before appropriations		
Unappropriated retained earnings carried over		
from the prior year	₩ 500,000	₩ 476,027
Net income	<u>168,366,871</u>	<u>107,270,732</u>
	<u>168,866,871</u>	<u>107,746,759</u>
Transfers from voluntary reserves (Note 18)		
Reserve for research and human resource development	2,600,000	2,416,667
Reserve for export loss	1,130,000	2,260,000
Reserve for overseas market development	<u>394,000</u>	<u>633,333</u>
	<u>4,124,000</u>	<u>5,310,000</u>
Appropriations (Note 18)		
Legal reserve	4,729,450	3,451,615
Reserve for losses on sale of treasury stock	6,551,913	-
Cash dividends (Note 19)	47,294,495	34,516,149
(Common stock : 35% in 2003 and 25% in 2002)		
(First series preferred stock : 36% in 2003 and 26% in 2002)		
(Second series preferred stock : 35% in 2003 and 25% in 2002)		
Reserve for research and human resource development	<u>113,915,013</u>	<u>74,588,995</u>
	<u>172,490,871</u>	<u>112,556,759</u>
Unappropriated retained earnings carried over to the subsequent year	<u>₩ 500,000</u>	<u>₩ 500,000</u>

The accompanying notes are an integral part of these non-consolidated financial statements.



**CJ Corp.**  
**Non-Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2003 and 2002**

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
<b>Cash flows from operating activities</b>		
Net income	₩ 168,366,871	₩ 107,270,732
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	106,334,235	101,631,310
Provision for severance benefits	20,800,793	24,089,320
Gain on disposal of available-for-sale securities, net	(14,606,026)	(1,477,024)
Loss on impairment of available-for-sale securities	2,107,270	-
Loss on valuation of inventories	994,580	903,859
Loss from inventory obsolescence	12,213,532	16,667,246
Loss (gain) on foreign currency translation, net	9,660,168	(10,855,799)
Gain on valuation of equity-method investments	(42,410,970)	(414,742)
(Gain) loss on disposal of property, plant and equipment, net	(32,732,136)	4,735,050
Gain on valuation of derivative instruments, net	(871,281)	(20,656,404)
Gain on disposal of business division	-	(1,761,508)
Deferred income taxes	17,220,404	(4,288,893)
Others	5,316,689	6,283,411
Changes in operating assets and liabilities		
Decrease in trade accounts and notes receivable	19,307,900	8,109,518
(Increase) decrease in other accounts and notes receivable	(5,298,946)	15,087,517
Increase in inventories	(55,421,514)	(13,189,407)
Increase in guarantee deposits	(2,058,828)	(971,893)
Increase (decrease) in trade accounts and notes payable	465,506	(1,392,723)
(Decrease) increase in other accounts and notes payable	(1,775,588)	21,818,089
(Decrease) increase in accrued expenses	(59,893,820)	51,533,631
Increase in withholdings	25,687,760	1,921,481
(Decrease) increase in income taxes payable	(37,407,304)	44,118,441
Payment of severance benefits	(21,632,020)	(25,450,629)
Others	(4,200,950)	4,444,540
Net cash provided by operating activities	<u>₩ 110,166,325</u>	<u>₩ 328,155,123</u>

**CJ Corp.**  
**Non-Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2003 and 2002**

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
<b>Cash flows from investing activities</b>		
Proceeds from disposal of available-for-sale securities	₩ 77,661,932	₩ 64,098,225
Acquisition of available-for-sale securities	(7,279,009)	(25,822,612)
Decrease in financial instruments	202,659,603	169,960,102
Increase in financial instruments	(196,351,030)	(167,860,550)
Proceeds from disposal of property, plant and equipment	114,547,697	44,383,143
Acquisition of property, plant and equipment	(121,537,540)	(112,489,693)
Acquisition of intangible assets	(5,234,438)	(7,818,157)
Acquisition of equity-method investments	(20,471,298)	(30,587,560)
Dividends on equity-method investments	9,439,305	33,318,050
Others	<u>9,068,127</u>	<u>6,014,331</u>
Net cash provided by (used in) investing activities	<u>62,503,549</u>	<u>(26,804,721)</u>
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	548,227,681	2,559,574,923
Repayment of short-term borrowings	(463,728,670)	(2,575,970,655)
Proceeds from long-term debt	285,181,618	325,904,693
Repayment of long-term debt	(83,291,427)	(39,398,104)
Repayment of current maturities of long-term debt	(406,629,834)	(564,680,479)
Payments of dividends	(34,516,149)	(20,490,900)
Issuance of common stock through the exercise of stock warrants	-	8,491,050
Acquisition of treasury stock	<u>(21,839,709)</u>	<u>-</u>
Net cash used in financing activities	<u>(176,596,490)</u>	<u>(306,569,472)</u>
Net decrease in cash and cash equivalents	(3,926,616)	(5,219,070)
<b>Cash and cash equivalents</b>		
Beginning of the year	<u>18,653,553</u>	<u>23,872,623</u>
End of the year	<u>₩ 14,726,937</u>	<u>₩ 18,653,553</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2003 and 2002**

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**1. The Company**

CJ Corp. (the "Company") was incorporated in 1953 under the Commercial Code of the Republic of Korea to manufacture and sell refined sugar. The Company has expanded its business lines and, as of December 31, 2003, the Company is engaged in manufacturing and selling of refined sugar, wheat flour, animal feeds, food seasonings, medicines, processed meat and other household products.

The Company's stock is publicly traded and all issued and outstanding shares are listed on the Korean Stock Exchange.

Under its Articles of Incorporation, the Company is authorized to issue 100,000,000 shares of capital stock (par value per share of ₩5,000), which includes 20,000,000 shares of cumulative, participating preferred stock that are non-voting and entitled to a minimum cash dividend (9% of par value). The non-cumulative, non-voting preferred stock issued on or before February 27, 1997 is entitled to an additional cash dividend (1% of par value) over common stock. As of December 31, 2003, 22,403,856 shares of common stock and 5,384,837 shares of preferred stock were issued and outstanding.

As of December 31, 2003, the major shareholders of the Company, including preferred shareholders, and their respective shareholdings are as follows :

<b>Shareholder</b>	<b>Number of Shares Owned</b>	<b>Ownership Ratio</b>
Lee, Jay-Hyun	5,263,184	18.94%
CJ GLS Co., Ltd.	160,091	0.58%

In addition, the Company is authorized to issue convertible debentures and debentures with stock purchase options free from any preemptive rights of shareholders up to ₩500,000 million each. The Company is authorized to issue depository receipts free from any preemptive rights of shareholders up to 25% of shares of capital stock issued. Also, the Company is authorized to issue capital stock through the exercise of stock options, or general public subscription, or through the sale to domestic and foreign financial institutions for urgent fund raising. Such issuance is also free from any preemptive rights of shareholders.

As of December 31, 2003, warrants to purchase 1,568,872 shares of common stock at ₩38,448 per share, and 666,667 shares of preferred stock at ₩30,000 per share, were vested and outstanding.

**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
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The Company has a stock option plan under which options to purchase shares of common stock may be granted to key employees up to a maximum of 15% of issued shares by the approval of shareholders, of which up to 10% of issued shares may be granted by the resolution of the Board of Directors. On August 14, 2001, April 27, 2002 and March 11, 2003 stock options were granted to 56, 59 and 65 employees and directors, respectively (Note 21).

## **2. Summary of Significant Accounting Policies**

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below.

### **Basis of Financial Statement Presentation**

The Company maintains its accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations and cash flows, is not presented in the accompanying financial statements.

### **Application of the Statements of Korean Financial Accounting Standards**

The Korean Accounting Standards Board ("KASB") has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards, established by the Korean Financial and Supervisory Board. SKFAS No. 2 through No. 9 became effective for the Company on January 1, 2003, and the Company has adopted these statements in its financial statements for the year ended December 31, 2003, except that the Company opted for an early adoption of SKFAS No. 6, *Events Occurring after the Balance Sheet Date* for the year 2002. The changes in accounting policies for the year ended December 31, 2003 are summarized below.

#### *Change in Revenue Recognition*

In accordance with SKFAS No. 4, *Revenue Recognition*, the Company adopted a change in accounting principle for revenue recognition for consignment sales and sales on commission from recognizing the gross transaction amount as revenue to recognizing the net commission as revenue. The financial statements as of and for the year ended December 31, 2002, have been retroactively restated for the effects of this change. As a result of this change, the amounts of sales and cost of sales for the years ended December 31, 2003 and 2002 are ₩39,052 million and ₩47,697 million, respectively, smaller than those which would have been reported under the previous accounting principle.

**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
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*Reclassification of Securities*

In accordance with SKFAS No. 8, *Securities*, the Company adopted a change in accounting principle for securities. As a result of this change, net income for the year ended December 31, 2003 is ₩26 thousand greater than that which would have been reported under the previous accounting principle.

**Accounting Estimates**

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from those estimates.

**Cash and Cash Equivalents and Short-term Financial Instruments**

Cash and cash equivalents include cash on hand and in bank accounts, with original maturities of three months or less. Investments which are readily convertible into cash within four to twelve months of purchase are classified in the balance sheet as short-term financial instruments. The cost of these investments approximates fair value.

**Allowance for Doubtful Accounts**

The Company provides an allowance for doubtful accounts and notes receivable based on historical collection experience and the aggregate estimated collectibility of the receivables.

**Inventory Valuation**

Inventories are stated at the lower of cost or market. Cost is determined using the moving-average method, except for materials in-transit, which are stated at actual cost as determined using the specific identification method. If the net realizable value of inventory is less than its cost, the carrying amount is adjusted to the net realizable value.

**Property, Plant and Equipment and Related Depreciation**

Property, plant and equipment are stated at cost, except for certain assets subject to upward revaluation in accordance with the Asset Revaluation Law of Korea. The revaluation presents production facilities and other buildings at their depreciated replacement cost, and land at the prevailing market price, as of the effective date of revaluation. The revaluation increment, net of revaluation tax, is first applied to offset accumulated deficit and deferred foreign exchange losses, if any. The remainder may be credited to other capital surplus or transferred to common stock. A new basis for calculating depreciation is established for revalued assets (Note 8).

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Depreciation is computed using the straight-line method, based on the estimated useful lives of the assets as described below.

Buildings and structures	8-30 years
Machinery and equipment	4-8 years
Vehicles	4 years
Tools, furniture and others	3-6 years
Garden	4-30 years

The Company capitalizes interest expense incurred on borrowings used to finance the cost of constructing property, plant and equipment (Note 8).

**Maintenance and Repairs**

Routine maintenance and repairs are charged to expense in the year when they are incurred. Expenditures, which enhance the value or materially extend the useful life of the related assets, are capitalized as additions to property, plant and equipment.

**Intangible Assets**

Intangible assets are stated at cost, net of amortization calculated using the straight-line method based on the estimated useful lives of the assets, as follows.

Goodwill	5 years
Intellectual property rights	5-10 years
Capitalized development costs	1 years

Research costs are charged to expense as incurred. Development costs incurred for new products or technologies, which can be clearly identified and measured and which have probable future economic benefits, are capitalized. Other development costs are recognized in the period incurred as normal development expenses. Capitalized development costs are amortized using the straight-line method within one year from the initial commercial sales of the new product or utilization of such technology.

**Securities**

In accordance with SKFAS No. 8, *Securities*, investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose (investments in business entities in which the Company has a control or the ability to exercise a significant influence over the operating and financial policies are classified as equity-method investments). Trading securities are classified as current assets, and available-for-sale securities and held-to-maturity securities are classified as long-term investments, except that those securities that mature or are certain to be disposed of within one year are classified as a part of current assets.

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Cost is measured at the market value upon acquisition, including incidental costs, and is determined using the average cost method.

Available-for-sale securities are stated at fair value, while non-marketable equity securities are stated at cost. Non-marketable debt securities are stated at fair value, as evaluated by independent credit assessment institutions. Unrealized holding gains and losses on available-for-sale securities are reported in a separate component of shareholders' equity (capital adjustments), which are to be included in current operations upon the disposal or impairment of the securities. In the case of available-for-sale debt securities, the difference between the acquisition cost after amortization using the effective interest rate method and the fair value is reported in capital adjustments.

Impairment resulting from the decline in realizable value below the acquisition cost (after amortization) are included in current operations.

**Equity-Method Investments**

In the stand-alone financial statements of the Company, investments in business entities in which the Company has a control or the ability to exercise a significant influence over the operating and financial policies are accounted for using the equity method of accounting.

Under the equity method, the original investment is recorded at cost and adjusted by the Company's share in the net book value of the investee with a corresponding charge to current operations, a separate component of shareholders' equity, or retained earnings, depending on the nature of the underlying change in the net book value. All significant unrealized profits resulting from intercompany transactions of inventories and property, plant and equipment are fully eliminated.

Differences between the investment account and corresponding capital account of the investee at the date of acquisition of the investment are recorded as part of investments and are amortized over 5 to 20 years using the straight-line method. However, differences which occur from additional investments made after the Company has control in its subsidiaries are reported in a separate component of shareholders' equity, and are not included in the determination of the results of operations.

Assets and liabilities of the Company's foreign investees are translated at current exchange rates, while income and expenses are translated at average rates for the period. Adjustments resulting from the translation process are reported in a separate component of shareholders' equity, and are not included in the determination of the results of operations.

Some of the equity-method investments are accounted for based on the unaudited or unreviewed financial statements of the investee since audit or review procedures for these investee are not yet completed as of the date of this audit report.

**Stock and Debenture Issuance Cost**

Stock issuance costs are charged directly to paid-in capital in excess of par value. Debenture issuance costs are recorded as a reduction of the proceeds from the issuance of debentures.

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**Discounts and Premiums on Debentures**

Discounts and premiums on debentures represent the difference between the issue price and par value of debentures. Discounts and premiums on debentures are amortized over the redemption period of the related debentures using the effective interest rate method. The amortization of discount on debentures is recorded as interest expense and the amortization of premiums on debentures is deducted from interest expense.

**Government Grants**

Government grants received for the development of certain technologies are recorded as accrued income, and offset against relevant development costs when incurred.

**Accrued Severance Benefits**

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

As of December 31, 2003, approximately 58.1% of the accrued severance benefits are funded through an employee severance insurance plan with life insurance companies to guarantee the retirement grants of employees. The amounts funded under this insurance plan are classified as a deduction from accrued severance benefits liability. Subsequent accruals are to be funded at the discretion of the Company.

In accordance with the National Pension Act, a certain portion of the accrued severance benefits is deposited with the National Pension Fund and deducted from the accrued severance benefits liability. The contributed amount shall be refunded from the National Pension Fund to employees on their retirement.

**Foreign Currency Translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates prevailing at the balance sheet date (in the case of U.S. Dollars, US\$1:₩1,197.8) and resulting translation losses and gains are recognized in current operations.

**Income Tax Expense**

The Company has adopted the deferred method of accounting for income taxes. Under this method, the future tax effects of temporary differences between the financial and tax bases of assets and liabilities are reflected in the balance sheet.

**Long-Term Receivables and Payables**

Long-term receivables and payables that have no stated interest rate or whose interest rate is different from the market rate are recorded at their present values. The difference between the nominal value and present value of the long-term receivables and payables is amortized using the effective interest rate method with interest income or expenses adjusted accordingly.



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**Earnings Per Share**

Earnings per share is computed based on earnings available to common shareholders, using the weighted average number of common shares outstanding during the year.

**Derivative Instruments**

The Company utilizes derivative instruments to reduce its exposure to fluctuations in the purchase price of raw materials and foreign currency exchange rates. Rights or obligations arising from derivative instruments are recorded as assets or liabilities at fair value on an accrual basis. Gains or losses on valuation of derivative instruments are recognized in current operations. In case of cash flow hedges, unrealized holding gains and losses are recorded as capital adjustments in the balance sheet.

**3. Cash and Cash Equivalents and Short-Term Financial Instruments**

Cash and cash equivalents and short-term financial instruments as of December 31, 2003 and 2002 consist of the following:

<i>(in thousands of Korean Won)</i>	<b>Annual Interest</b>		
	<b>Rates (%)</b>	<b>2003</b>	<b>2002</b>
<b>Cash and cash equivalents</b>			
Cash on hand and in banks	-	₩ 1,000	₩ 104
Passbook accounts	0.1	14,725,937	17,653,449
Money market fund	-	-	1,000,000
		<u>₩ 14,726,937</u>	<u>₩ 18,653,553</u>
<b>Short-term financial instruments</b>			
Passbook accounts	1.0	₩ 4,120,953	₩ 2,513,079
Installment and time deposits	7.0	200,000	6,322,500
Trust deposits	-	-	1,790,947
Other financial instruments	-	<u>26,500</u>	<u>29,500</u>
		4,347,453	10,656,026
Less : Portions classified as non-current (Note 10)		<u>(126,500)</u>	<u>(229,500)</u>
		<u>₩ 4,220,953</u>	<u>₩ 10,426,526</u>

As of December 31, 2003 and 2002, bank deposits amounting to ₩4,147,453 thousand and ₩5,192,578 thousand are pledged as collateral for various bank loans and are subject to restrictions on withdrawal (Notes 14 and 15).

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**4. Short-Term Available-For-Sale Securities**

Short-term available-for-sale securities as of December 31, 2003 and 2002 consist of the following:

<i>(in thousands of Korean Won)</i>	<b>2003</b>		<b>2002</b>	
Subordinated beneficiary certificate (Note 5)	₩	42,982,759	₩	-
Government and public bonds		<u>224</u>		<u>46</u>
	<u>₩</u>	<u>42,982,983</u>	<u>₩</u>	<u>46</u>

As of December 31, 2003, losses on valuation of short-term available-for-sale securities included in capital adjustments are as follows:

<i>(in thousands of Korean Won)</i>	<b>Balance as of December 31, 2002</b>		<b>Valuation Amount</b>		<b>Amount Included in Current Operations</b>		<b>Balance as of December 31, 2003</b>	
Government and public bonds	₩	-	₩	26	₩	-	₩	26
		<u>-</u>		<u>26</u>		<u>-</u>		<u>26</u>

**5. Accounts and Notes Receivable**

Accounts and notes receivable and their allowance for doubtful accounts as of December 31, 2003 and 2002 are as follows:

<i>(in thousands of Korean Won)</i>	<b>2003</b>		<b>2002</b>	
Trade accounts and notes receivable	₩	50,198,069	₩	69,468,806
Less: Allowance for doubtful accounts		<u>1,874,761</u>		<u>2,929,220</u>
	<u>₩</u>	<u>48,323,308</u>	<u>₩</u>	<u>66,539,586</u>
Other accounts and notes receivable	₩	33,785,871	₩	27,052,413
Less : Allowance for doubtful accounts		<u>23,832</u>		<u>171,683</u>
	<u>₩</u>	<u>33,762,039</u>	<u>₩</u>	<u>26,880,730</u>

On an ongoing basis, the Company sells to several financial institutions certain accounts receivable primarily from product sales to foreign countries, subject to limited recourse. Amounts excluded from the balance sheets under these arrangements and outstanding as of December 31, 2003 and 2002 were ₩18,756 million and ₩17,770 million, respectively.

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On December 6, 2001, the Company entered into an agreement with Kookmin Bank to sell trade accounts receivable from certain selected 2,805 customers amounting to ₩172,956 million outstanding as of October 31, 2001 for asset securitization pursuant to the Asset Securitization Law in Korea. The above trade accounts receivable sold initially shall be replaced with trade accounts receivable from the above certain selected customers at every subsequent month-end on an ongoing basis through November 2004.

As of December 31, 2003, the Company has sold trade accounts receivable of ₩161,819 million from certain selected 2,765 customers, and received ₩120,000 million in cash and subordinated beneficiary certificates amounting to ₩40,201 million, which are recorded as short-term available-for-sale securities (Note 4).

As a result of the above asset securitization, the Company recorded ₩8,816 million of loss on disposal of trade accounts receivable as non-operating expenses for the year ended December 31, 2003.

On December 31, 2003 the Company entered into a trust agreement with Woori Bank to trust trade accounts receivable amounting to ₩80,254 million outstanding as of December 20, 2003 for asset securitization and sold trade accounts receivable of ₩76,000 million, and received cash and subordinated beneficiary certificates.

As of December 31, 2003, trade accounts receivable trusted with Woori Bank and outstanding were ₩52,575 million and subordinated beneficiary certificates owned by the Company, which were recorded as short-term available-for-sale securities (Note 4), were ₩2,781 million.

As a result of the above asset securitization, the Company recorded ₩946 million of loss on disposal of trade accounts receivable as non-operating expense for the year ended December 31, 2003.

**6. Inventories**

Inventories as of December 31, 2003 and 2002 consist of the following:

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
Finished goods and merchandise	₩ 102,720,947	₩ 92,143,498
Semi-finished goods and work in-process	21,995,919	15,146,291
Raw materials and supplies	77,799,143	56,952,195
Materials in-transit	<u>76,119,638</u>	<u>72,264,468</u>
	<u>₩ 278,635,647</u>	<u>₩ 236,506,452</u>

Inventories are insured against fire and other casualty losses up to ₩187,050 million as of December 31, 2003.

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**7. Long-Term Loans**

Long-term loans as of December 31, 2003 and 2002 consist of the following :

<i>(in thousands of Korean Won)</i>	<b>Annual</b>		<b>2002</b>
	<b>Interest Rates (%)</b>		
	<b>2003</b>	<b>2003</b>	
Loans to employee stock ownership association	-	₩ 38,859,987	₩ 38,766,278
Others	0.0 - 8.0	<u>2,011,678</u>	<u>2,394,236</u>
		40,871,665	41,160,514
Current portion of long-term loans		<u>(39,270)</u>	<u>(100,000)</u>
		<u>₩ 40,832,395</u>	<u>₩ 41,060,514</u>

**8. Property, Plant and Equipment**

Property, plant and equipment as of December 31, 2003 and 2002, and the changes in the account for the years then ended, consist of the following:

<i>(in thousands of Korean Won)</i>	<b>2003</b>				
	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery</b>	<b>Vehicles</b>
Balance at December 31, 2002	₩531,902,410	₩257,741,690	₩29,660,620	₩101,568,925	₩ 1,047,629
Acquisition	1,032,778	1,406,030	499,878	3,015,179	944,800
Transfer	16,363,405	29,503,901	1,884,988	54,899,136	80,687
Disposal	(70,265,715)	(6,230,719)	(1,395,092)	(3,127,918)	(3,260)
Depreciation	-	(18,904,345)	(3,338,508)	(39,804,162)	(713,371)
Balance at December 31, 2003	<u>₩479,032,878</u>	<u>₩263,516,557</u>	<u>₩27,311,886</u>	<u>₩116,551,160</u>	<u>₩ 1,356,485</u>

<i>(in thousands of Korean Won)</i>	<b>2003</b>				
	<b>Equipment</b>	<b>Garden</b>	<b>Construction in-progress</b>	<b>Machinery in transit</b>	<b>Total</b>
Balance at December 31, 2002	₩ 78,694,595	₩ 2,804,125	₩ 28,274,905	₩ 469,955	₩1,032,164,854
Acquisition	15,615,034	151,519	98,817,221	55,101	121,537,540
Transfer	12,052,141	201,815	(114,461,017)	(525,056)	-
Disposal	(698,360)	(94,497)	-	-	(81,815,561)
Depreciation	(34,031,018)	(200,353)	-	-	(96,991,757)
Balance at December 31, 2003	<u>₩ 71,632,392</u>	<u>₩ 2,862,609</u>	<u>₩ 12,631,109</u>	<u>₩ -</u>	<u>₩ 974,895,076</u>

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<i>(in thousands of Korean Won)</i>	<b>2002</b>				
	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery</b>	<b>Vehicles</b>
Balance at December 31, 2001	₩554,894,606	₩254,439,065	₩30,446,912	₩111,188,705	₩ 1,449,601
Acquisition	211,416	1,638,943	750,913	732,524	180,933
Transfer	5,012,787	37,986,951	2,012,751	33,303,101	83,138
Disposal	(28,216,399)	(18,190,477)	(332,319)	(1,765,282)	(56,617)
Depreciation	-	(18,132,792)	(3,217,637)	(41,890,123)	(609,426)
Balance at December 31, 2002	<u>₩531,902,410</u>	<u>₩257,741,690</u>	<u>₩29,660,620</u>	<u>₩101,568,925</u>	<u>₩ 1,047,629</u>

<i>(in thousands of Korean Won)</i>	<b>2002</b>				
	<b>Equipment</b>	<b>Garden</b>	<b>Construction in-progress</b>	<b>Machinery in transit</b>	<b>Total</b>
Balance at December 31, 2001	₩ 73,845,437	₩ 2,993,482	₩33,879,684	₩ 132,331	₩1,063,269,823
Acquisition	19,739,715	244,771	88,652,694	337,784	112,489,693
Transfer	15,858,905	-	(94,257,473)	(160)	-
Disposal	(927,141)	(238,486)	-	-	(49,726,721)
Depreciation	(29,822,321)	(195,642)	-	-	(93,867,941)
Balance at December 31, 2002	<u>₩ 78,694,595</u>	<u>₩ 2,804,125</u>	<u>₩28,274,905</u>	<u>₩ 469,955</u>	<u>₩1,032,164,854</u>

The Company sold the properties belonging to its factory in Busan (including ₩69,614 million of land, ₩6,018 million of buildings and ₩1,226 million of structures) to Fiesta Co., Ltd. resulting in a gain on disposal of property, plant and equipment amounting to ₩33,142 million, which is reported in non-operating income.

As of December 31, 2003, certain portions of the Company's property, plant and equipment are pledged as collateral for various bank loans up to a maximum of ₩53,000 million (Notes 14 and 15).

As of December 31, 2003, depreciable assets are insured against fire and other casualty losses, and business interruption losses up to ₩1,066,402 million and ₩149,976 million, respectively.

As of December 31, 2003 and 2002, the value of land based on the posted price issued by the Korean tax authority amounted to ₩475,345 million and ₩473,823 million, respectively.

In accordance with the Asset Revaluation Law (Note 2), effective January 1, 1978, 1980, 1982, 1995 and October 1, 1998, the Company revalued a substantial portion of its property, plant and equipment. As of December 31, 2003, the remaining revaluation increment of ₩615,877 million, net of revaluation tax, credits to deferred foreign currency translation losses and transfer to capital stock, was credited to other capital surplus, a component of shareholders' equity.

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**9. Intangible Assets**

The details of the changes in intangible assets for the years ended December 31, 2003 and 2002 are as follows:

<i>(in thousands of Korean Won)</i>	<b>2003</b>				
	<b>Goodwill</b>	<b>Intellectual Property Rights</b>	<b>Development Costs</b>	<b>Total</b>	
Balance at December 31, 2002	₩ 1,590,832	₩ 3,068,572	₩ 9,384,258	₩ 14,043,662	
Acquisition	503,000	477,893	4,253,545	5,234,438	
Disposal	-	(4,755)	-	(4,755)	
Amortization	<u>(540,139)</u>	<u>(841,592)</u>	<u>(7,960,747)</u>	<u>(9,342,478)</u>	
Balance at December 31, 2003	<u>₩ 1,553,693</u>	<u>₩ 2,700,118</u>	<u>₩ 5,677,056</u>	<u>₩ 9,930,867</u>	

  

<i>(in thousands of Korean Won)</i>	<b>2002</b>				
	<b>Goodwill</b>	<b>Intellectual Property Rights</b>	<b>Development Costs</b>	<b>Others</b>	<b>Total</b>
Balance at December 31, 2001	₩ 2,030,221	₩ 3,518,238	₩ 8,440,148	₩ 267	₩ 13,988,874
Acquisition	70,000	411,648	7,336,509	-	7,818,157
Disposal	-	-	-	-	-
Amortization	<u>(509,389)</u>	<u>(861,314)</u>	<u>(6,392,399)</u>	<u>(267)</u>	<u>(7,763,369)</u>
Balance at December 31, 2002	<u>₩ 1,590,832</u>	<u>₩ 3,068,572</u>	<u>9,384,258</u>	<u>₩ -</u>	<u>₩ 14,043,662</u>

The amortization expense of intangible assets for the years ended December 31, 2003 and 2002 is allocated to the following accounts:

<b>Account</b>	<b>2003</b>	<b>2002</b>
<i>(in thousands of Korean Won)</i>		
Cost of production	₩ -	₩ 267
Selling, general and administrative expenses	<u>9,342,478</u>	<u>7,763,102</u>
	<u>₩ 9,342,478</u>	<u>₩ 7,763,369</u>

The Company expensed research and development costs of ₩39,254 thousand and ₩26,557 thousand for the years ended December 31, 2003 and 2002, respectively.

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**10. Long-Term Financial Instruments and Other Assets**

Long-term financial instruments and other assets as of December 31, 2003 and 2002 consist of the following:

<i>(in thousands of Korean Won)</i>	<b>2003</b>		<b>2002</b>	
Long-term financial instruments (Note 3)	₩	126,500	₩	229,500
Long-term trade receivables (Note 11)		385,428		398,880
Long-term loans (Note 7)		40,832,395		41,060,514
Long-term guarantee deposits		42,161,683		35,544,524
Long-term purchased option (Note 17)		18,806,554		29,682,316
Less: Allowance for doubtful accounts		<u>(69,973)</u>		<u>(80,075)</u>
	₩	<u>102,242,587</u>	₩	<u>106,835,659</u>

**11. Long-Term Receivables and Payables, and Valuation at Present Value**

As of December 31, 2003, accounts, including current maturities, which are valued at present value under rescheduled payment plans and long-term installment transactions are as follows:

<i>(in thousands of Korean Won)</i>	<b>Accounts</b>	<b>Face value</b>	<b>Discount</b>	<b>Present value</b>
Rescheduled payment plans	Long-term trade receivables (Note 10)	<u>₩ 420,732</u>	<u>₩ 35,304</u>	<u>₩ 385,428</u>

**12. Long-Term Available-For-Sale Securities**

Long-term available-for-sale securities as of December 31, 2003 and 2002 consist of the following:

<i>(in thousands of Korean Won)</i>		<b>Detail</b>	<b>2003</b>		<b>2002</b>	
			<b>Acquisition Cost</b>	<b>Market Value or Net Book Value</b>	<b>Recorded Book Value</b>	<b>Recorded Book Value</b>
Marketable investments	(1)	₩ 14,374,010	₩ 11,404,872	₩ 11,404,872	₩ 26,037,827	
Non-marketable investments	(2)	35,433,448	925,342,107	32,498,018	41,525,430	
Other investments	(3)	<u>87,278,769</u>	<u>72,089,287</u>	<u>71,003,294</u>	<u>142,644,423</u>	
		<u>₩ 137,086,227</u>	<u>₩1,008,836,266</u>	<u>₩114,906,184</u>	<u>₩210,207,680</u>	

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(1) Marketable investments

Marketable investments as of December 31, 2003 and 2002 consist of the following:

<i>(in thousands of Korean Won)</i>	2003			2002		
	Number of Shares Owned	Percentage of Ownership	Acquisition Cost	Market Value or Net book Value	Recorded Book Value	Recorded Book Value
Samsung Corporation	1,124,280	0.70	₩13,944,006	₩11,130,372	₩11,130,372	₩11,259,392
Samsung Electro- Mechanics Co., Ltd.	-	-	-	-	-	3,269,852
Samsung Techwin Co., Ltd.	-	-	-	-	-	2,952,554
Samsung Heavy Industries Co., Ltd.	-	-	-	-	-	1,154,732
Hotel Shilla Co., Ltd.	50,000	0.13	430,004	274,500	274,500	3,259,056
Samsung Fine Chemicals Co., Ltd.	-	-	-	-	-	1,273,402
Haitai Stores Co., Ltd.	-	-	-	-	-	6,516
Hanshin Construction Co., Ltd.	-	-	-	-	-	1,052
Ures Corp.	-	-	-	-	-	2,490
Samsung Engineering Co., Ltd.	-	-	-	-	-	2,858,781
			<u>₩14,374,010</u>	<u>11,404,872</u>	<u>₩11,404,872</u>	<u>₩26,037,827</u>

The differences between the acquisition cost and fair value of long-term available-for-sale securities are recognized as unrealized valuation gains or losses on available-for-sale securities in capital adjustments.

As of December 31, 2003, unrealized holding losses on marketable investments amounted to ₩2,969 million, and as of December 31, 2002, unrealized holding gains and losses on marketable investments amounted to ₩2,112 million and ₩16,151 million, respectively, which were recorded as gain (loss) on valuation of available-for-sale securities in capital adjustments, a separate component of shareholders' equity.

As of December 31, 2003, 60,000 shares of Samsung Corporation were provided as collateral for the guarantee of the fulfillment of certain construction contracts.



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(2) Non-marketable investments

Non-marketable investments as of December 31, 2003 and 2002 consist of the following:

<i>(in thousands of Korean Won)</i>	2003			2002		
	Number of Shares Owned	Percentage of Ownership	Acquisition Cost	Market Value or Net book Value	Recorded Book Value	Recorded Book Value
Samsung Petrochemical Co., Ltd.	-	-	₩ -	₩ -	₩ -	₩ 9,646,746
Samsung Everland Co., Ltd.	58,823	2.35	5,180,472	43,902,575	5,180,472	4,887,692
Samsung Life Insurance Co., Ltd.	1,902,800	9.51	1,540,386	854,332,041	1,540,386	1,540,386
Samsung Lions Co., Ltd.	29,999	15.00	149,995	-	-	-
JoongAng Ilbo	382,519	14.71	12,152,182	14,682,378	12,152,182	12,152,182
Unicham Co., Ltd.	140,000	10.00	1,400,000	1,033,105	1,033,105	1,400,000
Enbiogenesis Co., Ltd.	31,840	15.86	159,200	154,369	159,200	159,200
A Brain Co., Ltd.	179,290	14.29	1,237,500	926,230	926,230	1,237,500
Julynet Co., Ltd.	28,014	15.30	1,333,350	-	-	1,333,350
Dream Life Co., Ltd.	26,341	11.29	199,935	-	-	199,935
Bioholdings Co., Ltd. (*)	9,286	3.57	250,000	68,073	250,000	500,000
Naturobiotech Co., Ltd. (*)	24,537	8.71	144,004	64,299	144,004	144,004
Dream CIS Co., Ltd.	3,120	4.05	100,050	-	-	100,050
Pharmtechholdings Co., Ltd.	68,640	1.99	200,000	35,998	35,998	200,000
Ligen Biotech Inc. (Eugen Bio Inc.)	46,726	0.78	200,001	27,062	27,062	200,001
Ginseng Science Inc.	1,990	0.49	9,950	24,886	9,950	9,950
Ace Biotech Inc. (*)	5,652	1.23	100,000	48,782	100,000	100,000
Ezmedicom Inc. (Ezhospital Inc.) (*)	80,000	0.38	200,000	13,264	200,000	200,000
Gen Exel Inc. (*)	165,000	1.63	495,000	99,662	495,000	495,000
Korea CATV Yong- Dong Broadcast (*)	95,500	2.82	1,671,250	498,936	1,671,250	1,671,250
e-Farm Co., Ltd.	5,161	1.99	150,000	13,006	13,006	150,000

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<i>(in thousands of Korean Won)</i>	2003				2002	
	Number of Shares Owned	Percentage of Ownership	Acquisition Cost	Market Value or Net book Value	Recorded Book Value	Recorded Book Value
Incheon Development Co., Ltd.	685	2.85	₩ 14,800	₩ 16,000	₩ 14,800	₩ 14,800
The Korea Economic Daily Co., Ltd. (*)	5,744	0.05	40,600	19,229	40,600	40,600
Jebun Industry Co., Ltd.	39,792	18.88	227,215	520,160	227,215	227,215
Korea Alcohol Sales Co., Ltd.	2,172	0.60	11,553	17,795	11,553	11,553
PPI Co., Ltd. (Pyong-hwa Plastic Industrial Co., Ltd.)	2	-	1,889	1,889	1,889	-
MDI Co., Ltd.	-	-	-	-	-	200,000
Myanmar Cheil Jedang Co., Ltd.	10,640	100.00	2,415,408	2,665,446	2,415,408	2,415,408
CJ Entertainment, Ltd.	400	100.00	258,100	216,902	258,100	258,100
CJ Pacific Corp.	5	100.00	56,620	750,133	56,620	56,620
CJ Japan Corp.	4,000	100.00	405,048	344,407	405,048	405,048
CJ Chengdu Feed	-	100.00	1,568,840	1,305,380	1,568,840	1,568,840
CJ Shenyang Feed Co., Ltd.	-	100.00	1,791,000	1,791,000	1,791,000	-
CJ Qingdao Feed Co., Ltd.	-	100.00	1,769,100	1,769,100	1,769,100	-
			<u>₩35,433,448</u>	<u>₩925,342,107</u>	<u>₩32,498,018</u>	<u>₩41,525,430</u>

As of December 31, 2003, investments in seven affiliated companies over which the Company exercise significant control or influence, including Myanmar Cheil Jedang Co., Ltd., were not valued using the equity method, due to the immateriality of their asset values.

The Company determined that the decline in the fair value of its investments in six companies, including Dream Life Co., Ltd., would not be recoverable and, accordingly, recorded an impairment loss of ₩2,107 million for the amount of decline.

(\*) As of December 31, 2003, the net asset values of certain investments, including Bioholdings Co., Ltd., have declined below their acquisition costs. However the Company did not adjust their carrying values to their net asset values, as their net asset values are likely to recover in subsequent periods.

**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2003 and 2002**

(3) Other investments

Other investments as of December 31, 2003 and 2002 consist of the following:

<i>(in thousands of Korean Won)</i>	2003			2002		
	Number of Shares Owned	Percentage of Ownership	Acquisition Cost	Market Value or Net book Value	Recorded Book Value	Recorded Book Value
Investments in partnership	-	-	₩3,354,000	₩3,980,010	₩2,908,200	₩3,354,000
Securities market stabilization fund	-	0.48	481,569	1,440,629	1,440,629	1,766,528
Stock warrants	517,241	6.27	33,430,000	16,640,264	16,640,264	21,307,632
Convertible bonds	-	-	50,000,000	50,000,000	50,000,000	57,500,000
Subordinated beneficiary certificates	-	-	-	-	-	58,702,312
Others			13,200	28,384	14,201	13,951
			<u>₩87,278,769</u>	<u>₩72,089,287</u>	<u>₩71,003,294</u>	<u>₩142,644,423</u>

Differences between the initial purchase price and fair value of the investments in the Securities Market Stabilization Fund, investments in partnership and stock warrants, are recorded as unrealized valuation gains or losses on available-for-sale securities in capital adjustments.

For the years ended December 31, 2003 and 2002, the changes in valuation gain or loss on long-term available-for-sale securities are as follows:

**Valuation Gain on Available-For-Sale Securities**

*(in millions of Korean Won)*

	2003				2002			
	Balance at January 1, 2003	Valuation Amount	Included in Earnings	Balance at December 31, 2003	Balance at January 1, 2002	Valuation Amount	Included in Earnings	Balance at December 31, 2002
Marketable stocks	₩ 2,112	₩ -	₩ 2,112	₩ -	₩ 2,134	₩ (22,551)	₩ -	₩ 2,112
Other	-	780	-	780	-	-	-	-
	<u>₩ 2,112</u>	<u>₩ 780</u>	<u>₩ 2,112</u>	<u>₩ 780</u>	<u>₩ 2,134</u>	<u>₩ (22,551)</u>	<u>₩ -</u>	<u>₩ 2,112</u>

**Valuation Loss on Available-For-Sale Securities**

*(in millions of Korean Won)*

	2003				2002			
	Balance at January 1, 2003	Valuation Amount	Included in Earnings	Balance at December 31, 2003	Balance at January 1, 2002	Valuation Amount	Included in Earnings	Balance at December 31, 2002
Marketable stocks	₩(16,151)	₩ 3,972	₩ (9,210)	₩ (2,969)	₩(12,968)	₩ (3,183)	₩ -	₩(16,151)
Other	-	(1,124)	-	(1,124)	-	-	-	-
	<u>₩(16,151)</u>	<u>₩ 2,848</u>	<u>₩ (9,210)</u>	<u>₩ (4,093)</u>	<u>₩(12,968)</u>	<u>₩ (3,183)</u>	<u>₩ -</u>	<u>₩(16,151)</u>

**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2003 and 2002**

**13. Equity-Method Investments**

Equity-method investments as of December 31, 2003 consist of the following:

<i>(in thousands of Korean Won)</i>	<b>Number of Shares Owned</b>	<b>Percentage of Ownership</b>	<b>Acquisition Cost</b>	<b>Market Value or Net Book Value</b>	<b>Recorded Book Value</b>
Morningwell Co., Ltd.	1,292,000	62.96	₩ 4,652,141	₩ 12,718,800	₩ 12,544,150
CJ Food System Co., Ltd.	5,592,220	59.63	43,038,582	32,714,487	50,044,180
CJ Foodvill Co., Ltd.	3,000,000	85.30	15,000,000	21,266,430	21,239,275
Haechandle Co., Ltd.	228,000	50.0	52,999,984	27,688,135	47,507,718
CJ Development Co., Ltd.	5,287,465	99.87	58,259,716	71,143,016	62,436,449
CJ Systems Co., Ltd.	521,333	52.13	2,727,562	5,261,565	2,585,118
CJ Entertainment Inc.	5,691,060	37.04	28,967,495	112,682,988	43,082,999
CJ Media Inc.	1,208,676	54.76	40,451,889	12,318,462	12,318,591
CJ Home Shopping Co., Ltd.	2,473,171	30.00	231,570,000	130,583,429	216,059,286
CJ Music Co., Ltd (Dream Music Co., Ltd.)	1,200,000	81.63	6,000,000	3,325,819	3,325,819
CJ Investment & Securities Co., Ltd.	14,663,718	31.88	81,038,721	-	-
CJ Venture Capital Co., Ltd. (Dream Discovery Co., Ltd.)	3,600,000	90.00	18,000,000	9,927,996	9,927,996
Enprari Co., Ltd.	1,240,209	27.76	6,201,046	5,130,606	5,071,381
MD1 Co., Ltd.	40,000	100.00	200,000	1,356,192	1,356,192
Samyang Oil & Feed Co., Ltd.	4,907,512	99.99	24,651,010	20,238,100	26,224,586
CJ Olive Young Co., Ltd.	1,210,000	50.00	6,050,000	4,355,043	4,355,043
CJ America Inc.	156	100.00	11,573,855	10,427,489	9,779,647
CJ HongKong Ltd.	299	100.00	157,890	2,743,591	2,586,551
CJ Philippines Inc.	764,400	70.00	2,477,386	5,787,379	5,780,106
P.T. Cheil Jedang Superfeed	2,500	20.83	2,073,500	-	-
P.T. Cheil Jedang Indonesia	1,500	10.00	1,248,450	1,325,210	1,325,210
P.T. Cheil Samsung Indonesia	1,047,939,95	91.76	96,620,622	224,653,009	219,598,344
CJ Qingdao Food Co., Ltd.	-	85.90	22,708,925	27,331,840	26,031,514
Beijing CJ Foods Co., Ltd.	-	53.36	5,838,497	1,014,749	1,014,749
CJ Ord River Sugar Pty., Ltd.	130,000,020	20.00	1,583,920	2,563,893	2,509,552
CJ Vina Agri Co., Ltd.	-	100.00	5,748,934	4,638,115	4,638,115
CJ Europe GMBH.	-	100.00	150,338	689,929	686,695
Lee Entertainment L.L.C.	165,735,911	99.36	162,576,072	74,004,530	74,004,530
CJ Cambodia Co., Ltd.	-	50.00	3,129,289	1,834,278	1,890,609
			<u>₩935,695,824</u>	<u>₩827,725,080</u>	<u>₩867,924,405</u>

The Company discontinued the equity method of accounting for its investments in CJ Investments & Securities Co., Ltd., an equity method investee, since the book value of the investments decreased below zero.

**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2003 and 2002**

Equity-method investments as of December 31, 2002 consist of the following:

<i>(in thousands of Korean Won)</i>	Number of Shares Owned	Percentage of Ownership	Acquisition Cost	Market Value or Net Book Value	Recorded Book Value
Morningwell Co., Ltd.	1,292,000	41.25	₩ 4,652,141	₩ 18,151,375	₩ 15,875,455
CJ Food System Co., Ltd.	5,592,220	59.63	43,038,582	58,159,088	54,870,689
CJ Foodvill Co., Ltd.	3,000,000	85.30	15,000,000	20,573,154	20,544,611
Haechandle Co., Ltd.	228,000	50.00	52,999,984	26,509,466	49,578,297
CJ Development Co., Ltd.	5,287,465	99.87	58,259,716	66,693,179	58,207,914
CJ Systems Co., Ltd.	521,333	52.13	2,727,562	3,858,842	1,313,157
CJ Entertainment Inc.	5,691,060	39.69	28,967,495	57,764,259	41,109,601
CJ Media Inc.	1,016,276	81.62	38,451,891	11,482,894	13,158,821
CJ Home Shopping Co., Ltd.	2,473,171	30.00	231,570,000	104,615,133	220,535,320
CJ Investment & Securities Co., Ltd.	14,663,718	31.88	81,038,721	4,377,303	19,371,730
CJ Venture Capital Co., Ltd. (Dream Discovery Co., Ltd.)	3,600,000	90.00	18,000,000	13,414,882	13,414,882
Enprari Co., Ltd.	1,240,209	27.76	6,201,046	5,258,766	5,199,541
CJ Music Co., Ltd. (Dream Music Co., Ltd.)	1,200,000	81.63	6,000,000	4,849,082	4,849,082
Samyang Oil & Feed Co., Ltd.	4,907,512	99.99	24,650,886	17,020,000	24,650,886
CJ Olive Young Co., Ltd.	1,210,000	50.00	6,050,000	5,953,597	6,050,000
CJ America Inc.	156	100.00	11,573,855	10,697,848	10,676,780
CJ HongKong Ltd.	299	100.00	157,890	2,435,256	1,912,309
CJ Philippines Inc.	764,400	70.00	2,477,386	4,878,924	4,878,924
P.T. Cheil Jedang Superfeed	2,500	20.83	2,073,500	-	-
P.T. Cheil Jedang Indonesia	1,500	10.00	1,248,450	1,406,701	1,406,701
P.T. Cheil Samsung Indonesia	1,047,939,950	91.76	96,620,622	161,343,388	158,141,022
CJ Qingdao Food Co., Ltd.	-	62.96	5,488,725	9,035,652	8,561,397
Beijing CJ Foods Co., Ltd.	-	53.36	5,838,497	925,117	962,626
CJ Ord River Sugar Pty., Ltd.	130,000,020	20.00	1,583,920	1,977,162	1,898,684
CJ Vina Agri Co., Ltd.	-	100.00	4,497,834	2,796,967	2,796,967
CJ Europe GMBH.	-	100.00	150,338	373,958	375,643
Lee Entertainment L.L.C.	165,735,911	99.36	162,576,072	73,581,474	73,627,429
CJ Cambodia Co., Ltd.	-	50.00	3,129,288	2,163,324	2,238,434
			<u>₩915,024,401</u>	<u>₩690,296,791</u>	<u>₩816,206,902</u>

**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2003 and 2002**

Changes in goodwill (negative goodwill) for the year ended December 31, 2003 are as follows:

<i>(in thousands of Korean Won)</i>	<b>Balance at Beginning of Year</b>	<b>Increase (Decrease)</b>	<b>Amortization (Reversal)</b>	<b>Balance at End of Year</b>
Morningwell Co., Ltd.	₩ (1,949,538)	₩ -	₩(1,949,538)	₩ -
CJ Food System Co., Ltd.	4,469,897	-	4,445,552	24,345
Haechandle Co., Ltd.	23,112,193	-	3,214,733	19,897,460
CJ Development Co., Ltd.	49,008	-	14,218	34,790
CJ Systems Co., Ltd.	15,655	-	7,828	7,827
CJ Entertainment Inc.	2,758,794	-	1,226,131	1,532,663
CJ Media Inc.	1,630,599	-	1,684,448	(53,849)
CJ Home Shopping Co., Ltd.	174,414,104	-	9,966,520	164,447,584
CJ Investment & Securities Co., Ltd.	14,994,427	-	14,994,427	-
Samyang Oil & Feed Co., Ltd.	7,483,109	-	1,496,623	5,986,486
P.T.Cheil Samsung Indonesia (P.T.CSI)	(456,115)	-	(233,025)	(223,090)
CJ Qingdao Food Co., Ltd.	(206,688)	(921,109)	(51,672)	(1,076,125)
Beijing CJ Foods Co., Ltd.	37,509	-	37,509	-
CJ Ord River Sugar Pty., Ltd.	(78,479)	-	(24,148)	(54,331)
CJ Europe GMBH.	(1,594)	-	1,640	(3,234)
Lee Entertainment L.L.C.	45,955	-	45,955	-
CJ Cambodia Co., Ltd.	75,109	-	18,778	56,331
	<u>226,393,945</u>	<u>(921,109)</u>	<u>34,895,979</u>	<u>190,576,857</u>
Stock Warrants				
CJ Home Shopping Co., Ltd.	21,307,632	-	4,667,368	16,640,264
	<u>₩247,701,577</u>	<u>₩ (921,109)</u>	<u>₩ 39,563,347</u>	<u>₩207,217,121</u>

**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2003 and 2002**

Changes in goodwill (negative goodwill) for the year ended December 31, 2002 are as follows:

<i>(in thousands of Korean Won)</i>	<b>Balance at Beginning of Year</b>	<b>Increase (Decrease)</b>	<b>Amortization (Reversal)</b>	<b>Balance at End of Year</b>
Morningwell Co., Ltd.	₩ (3,899,076)	₩ -	₩(1,949,538)	₩ (1,949,538)
CJ Food System Co., Ltd.	8,369,294	-	3,899,397	4,469,897
Haechandle Co., Ltd.	26,326,927	-	3,214,734	23,112,193
CJ Development Co., Ltd.	63,225	-	14,217	49,008
CJ Systems Co., Ltd.	22,102	-	6,447	15,655
CJ Entertainment Inc.	3,984,925	-	1,226,131	2,758,794
CJ Media Inc.	3,315,047	-	1,684,448	1,630,599
CJ Home Shopping Co., Ltd.	184,380,624	-	9,966,520	174,414,104
CJ Futures Inc.	14,048	(9,365)	4,683	-
CJ Investment & Securities Co., Ltd.	33,182,830	-	18,188,403	14,994,427
Samyang Oil & Feed Co., Ltd.	-	7,483,109	-	7,483,109
P.T.Cheil Samsung Indonesia (P.T.CSI)	(689,140)	-	(233,025)	(456,115)
CJ Qingdao Food Co., Ltd.	(35,034)	-	171,654	(206,688)
Beijing CJ Foods Co., Ltd.	75,019	-	37,510	37,509
CJ Ord River Sugar Pty., Ltd.	(449,105)	-	(370,626)	(78,479)
CJ Europe GMBH.	46	-	1,640	(1,594)
Lee Entertainment L.L.C.	139,310	-	93,355	45,955
CJ Cambodia Co., Ltd.	92,754	-	17,645	75,109
	<u>254,893,796</u>	<u>7,473,744</u>	<u>35,973,595</u>	<u>226,393,945</u>
Stock Warrants				
CJ Home Shopping Co., Ltd.	<u>25,975,000</u>	<u>-</u>	<u>4,667,368</u>	<u>21,307,632</u>
	<u>₩280,868,796</u>	<u>₩7,473,744</u>	<u>₩ 40,640,963</u>	<u>₩247,701,577</u>

**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2003 and 2002**

Information relating to the elimination of unrealized gains and losses arising from transactions with equity-method investees as of December 31, 2003 and 2002 are as follows:

<i>(in thousands of Korean Won)</i>	2003			2002		
	Current Assets	Property, Plant and Equipment, and Intangible Assets	Total	Current Assets	Property, Plant and Equipment, and Intangible Assets	Total
Morningwell Co., Ltd.	₩ (174,650)	₩ -	₩ (174,650)	₩ (326,382)	₩ -	₩ (326,382)
CJ Food System Co., Ltd.	(448,428)	-	(448,428)	(1,582,470)	-	(1,582,470)
CJ Foodville Co., Ltd.	(27,155)	-	(27,155)	(28,543)	-	(28,543)
Haechandle Co., Ltd.	(77,877)	-	(77,877)	(43,361)	-	(43,361)
CJ Development Co., Ltd.	-	(8,741,357)	(8,741,357)	-	(8,534,272)	(8,534,272)
CJ Systems Co., Ltd.	-	(2,684,274)	(2,684,274)	-	(2,561,340)	(2,561,340)
CJ Entertainment Inc.	-	-	-	24,237	-	24,237
CJ Media Inc.	53,978	-	53,978	45,328	-	45,328
CJ Home Shopping Co., Ltd.	(7,954)	-	(7,954)	(4,092)	-	(4,092)
Enprani Co., Ltd.	(59,225)	-	(59,225)	(59,225)	-	(59,225)
CJ America Inc.	(647,842)	-	(647,842)	(21,068)	-	(21,068)
CJ HongKong Ltd.	(157,040)	-	(157,040)	(522,947)	-	(522,947)
CJ Philippines Inc.	(7,273)	-	(7,273)	-	-	-
P.T. Cheil Samsung Indonesia (P.T. CSI)	(4,831,575)	-	(4,831,575)	(2,746,251)	-	(2,746,251)
CJ Qingdao Food Co., Ltd.	(224,201)	-	(224,201)	(267,567)	-	(267,567)
	<u>₩(6,609,242)</u>	<u>₩(11,425,631)</u>	<u>₩(18,034,873)</u>	<u>₩ (5,532,341)</u>	<u>₩(11,095,612)</u>	<u>₩(16,627,953)</u>



**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
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The changes in the book values of equity-method investments for the year ended December 31, 2003 are as follows:

<i>(in thousands of Korean Won)</i>	<b>Balance at Beginning of Year</b>	<b>Earnings from Equity -method Investments</b>	<b>Other Increase (Decrease)</b>	<b>Balance at End of Year</b>
Morningwell Co., Ltd.	₩ 15,875,455	₩4,658,600	₩(7,989,905)	₩12,544,150
CJ Food System Co., Ltd.	54,870,689	(3,508,903)	(1,317,606)	50,044,180
CJ Foodville Co., Ltd.	20,544,611	694,664	-	21,239,275
Haechandle Co., Ltd.	49,578,297	(69,191)	(2,001,388)	47,507,718
CJ Development Co., Ltd.	58,207,914	4,228,535	-	62,436,449
CJ Systems Co., Ltd.	1,313,157	1,271,961	-	2,585,118
CJ Entertainment Inc.	41,109,601	4,989,452	(3,016,054)	43,082,999
CJ Media Inc.	13,158,821	(2,935,565)	2,095,335	12,318,591
CJ Home Shopping Co., Ltd.	220,535,320	206,773	(4,682,807)	216,059,286
CJ Investment & Securities Co., Ltd.	19,371,730	(16,467,515)	(2,904,215)	-
CJ Venture Capital Co., Ltd. (Dream Discovery Co., Ltd.)	13,414,882	(3,565,331)	78,445	9,927,996
Enprani Co., Ltd.	5,199,541	(128,160)	-	5,071,381
CJ Music Co., Ltd. (Dream Music Co., Ltd.)	4,849,082	(1,523,263)	-	3,325,819
Samyang Oil & Feed Co., Ltd.	24,650,886	3,226,710	(1,653,010)	26,224,586
CJ Olive Young Co., Ltd.	6,050,000	(2,604,957)	910,000	4,355,043
MD1 Co., Ltd.	-	1,156,192	200,000	1,356,192
CJ America Inc.	10,676,780	(882,917)	(14,216)	9,779,647
CJ HongKong Ltd.	1,912,309	666,152	8,090	2,586,551
CJ Philippines Inc.	4,878,924	1,312,172	(410,990)	5,780,106
P.T. Cheil Jadang Uperfeed	-	-	-	-
P.T. Cheil Jedang Indonesia (P.T. CJI)	1,406,701	121,280	(202,771)	1,325,210
P.T. Cheil Samsung Indonesia (P.T.CSI)	158,141,022	55,117,020	6,340,302	219,598,344
CJ Qingdao Food Co., Ltd.	8,561,397	160,488	17,309,629	26,031,514
Beijing CJ Foods Co., Ltd.	962,626	(335,499)	387,622	1,014,749
CJ Ord River Sugar Pty., Ltd.	1,898,684	(7,346)	618,214	2,509,552
CJ Vina Agri Co., Ltd.	2,796,967	829,591	1,011,557	4,638,115
CJ Europe GMBH.	375,643	220,150	90,902	686,695
Lee Entertainment L.L.C.	73,627,429	589,376	(212,275)	74,004,530
CJ Cambodia Co., Ltd.	2,238,434	(342,131)	(5,694)	1,890,609
	<u>816,206,902</u>	<u>47,078,338</u>	<u>4,639,165</u>	<u>867,924,405</u>
Stock Warrants				
CJ Home Shopping Co., Ltd.	21,307,632	(4,667,368)	-	16,640,264
	<u>₩837,514,534</u>	<u>₩42,410,970</u>	<u>₩4,639,165</u>	<u>₩884,564,669</u>

**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
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The changes in the book values of equity-method investments for the year ended December 31, 2002 are as follows:

<i>(in thousands of Korean Won)</i>	<b>Balance at Beginning of Year</b>	<b>Earnings from Equity -method Investments</b>	<b>Other Increase (Decrease)</b>	<b>Balance at End of Year</b>
Morningwell Co., Ltd.	₩ 11,276,462	₩ 4,598,993	₩ -	₩15,875,455
CJ Food System Co., Ltd.	60,037,753	2,009,232	(7,176,296)	54,870,689
CJ Foodville Co., Ltd.	17,788,049	2,756,562	-	20,544,611
Haechandle Co., Ltd.	51,280,669	297,575	(1,999,947)	49,578,297
CJ Development Co., Ltd.	59,225,139	(1,017,225)	-	58,207,914
CJ Systems Co., Ltd.	43,077	1,261,098	8,982	1,313,157
CJ Entertainment Inc.	34,053,800	1,311,385	5,744,416	41,109,601
CJ Media Inc.	14,117,099	(958,278)	-	13,158,821
CJ Home Shopping Co., Ltd.	219,499,005	3,476,611	(2,440,296)	220,535,320
CJ Futures Inc.	17,913,809	1,558,445	(19,472,254)	-
CJ Investment & Securities Co., Ltd.	50,118,271	(30,853,066)	106,525	19,371,730
CJ Venture Capital Co., Ltd. (Dream Discovery Co., Ltd.)	12,164,832	219,967	1,030,083	13,414,882
Enprani Co., Ltd.	19,361,477	(632,176)	(13,529,760)	5,199,541
CJ Music Co., Ltd. (Dream Music Co., Ltd.)	4,565,822	283,260	-	4,849,082
Han-Byuck No. 2 Investment Partnership	8,800,000	579,103	(9,379,103)	-
Samyang Oil & Feed Co., Ltd.	-	-	24,650,886	24,650,886
CJ Olive Young Co., Ltd.	-	-	6,050,000	6,050,000
CJ America Inc.	10,583,235	1,150,136	(1,056,591)	10,676,780
CJ HongKong Ltd.	1,796,790	286,394	(170,875)	1,912,309
CJ Philippines Inc.	3,697,625	2,091,022	(909,723)	4,878,924
P.T. Cheil Jedang Indonesia (P.T. CJI)	-	1,687,254	(280,553)	1,406,701
P.T. Cheil Samsung Indonesia (P.T.CSI)	152,234,352	21,572,585	(15,665,915)	158,141,022
CJ Qingdao Food Co., Ltd.	9,915,728	(1,658,440)	304,109	8,561,397
Beijing CJ Foods Co., Ltd.	1,407,242	(477,895)	33,279	962,626
CJ Ord River Sugar Pty., Ltd.	1,428,159	297,131	173,394	1,898,684
CJ Vina Agri Co., Ltd.	3,361,862	(47,061)	(517,834)	2,796,967
CJ Europe GMBH.	131,632	220,130	23,881	375,643
Lee Entertainment L.L.C.	85,885,675	(4,394,215)	(7,864,031)	73,627,429
CJ Cambodia Co., Ltd.	3,030,474	(536,418)	(255,622)	2,238,434
	<u>853,718,038</u>	<u>5,082,109</u>	<u>(42,593,245)</u>	<u>816,206,902</u>
Stock Warrants				
CJ Home Shopping Co., Ltd.	25,974,999	(4,667,367)	-	21,307,632
	<u>₩879,693,037</u>	<u>₩ 414,742</u>	<u>₩(42,593,245)</u>	<u>₩837,514,534</u>

**CJ Corp.**  
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Gain or loss on equity-method investments recorded in capital adjustments as of December 31, 2003 and 2002 are as follows:

*(in millions of Korean Won)*

	2003			2002				
	Balance at January 1, 2003	Valuation Amount	Included in Earnings	Balance at December 31, 2003	Balance at January 1, 2002	Valuation Amount		Included in Earnings
Gains on valuation of investment securities using equity method	₩ 44,280	₩2,647	₩ -	₩ 46,927	₩ 67,749	₩ (23,469)	₩ -	₩ 44,280
Losses on valuation of investment securities using equity method	(8,855)	(9,194)	-	(18,049)	(7,143)	(1,712)	-	(8,855)
	<u>₩ 35,425</u>	<u>₩(6,547)</u>	<u>₩ -</u>	<u>₩ 28,878</u>	<u>₩ 60,606</u>	<u>₩ (25,181)</u>	<u>₩ -</u>	<u>₩ 35,425</u>

The following equity-method investments as of December 31, 2003 were accounted for based on the unaudited or unreviewed financial statements of the investees.

<i>(in thousands of Korean Won)</i>	Expected Closing Date	Net Book Value Before Adjustment	Adjustment	Net Book Value After Adjustment
CJ Music Co., Ltd.				
(Dream Music Co., Ltd.)	December 31, 2003	₩ 4,929,128	₩ (855,000)	₩ 4,074,128
CJ America Inc.	December 31, 2003	10,427,489	-	10,427,489
CJ Philippines Inc.	December 31, 2003	9,120,184	(852,499)	8,267,685
CJ Qingdo Food Co., Ltd.	December 31, 2003	32,282,123	(465,196)	31,816,927
Beijing CJ Food Co., Ltd.	December 31, 2003	2,647,024	(745,249)	1,901,775
CJ Vina Agri Co., Ltd.	December 31, 2003	4,638,115	-	4,638,115
CJ Cambodia Co., Ltd.	December 31, 2003	3,668,556	-	3,668,556
		<u>₩ 67,712,619</u>	<u>₩ (2,917,944)</u>	<u>₩ 64,794,675</u>

**CJ Corp.**  
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The following equity-method investments as of December 31, 2002 were accounted for based on the unaudited or unreviewed financial statements of the investees.

<i>(in thousands of Korean Won)</i>	<b>Expected Closing Date</b>	<b>Net Book Value Before Adjustment</b>	<b>Adjustment</b>	<b>Net Book Value After Adjustment</b>
CJ Venture Capital Co., Ltd. (Dream Discovery Co., Ltd.)	December 31, 2003	₩ 14,905,425	₩ -	₩ 14,905,425
CJ Music Co., Ltd. (Dream Music Co., Ltd.)	December 31, 2003	5,940,125	-	5,940,125
Beijing CJ Foods Co., Ltd.	December 31, 2003	3,417,816	(1,684,024)	1,733,792
CJ America Inc.	December 31, 2003	10,697,848	-	10,697,848
CJ Philippines Inc.	December 31, 2003	8,046,998	(1,077,105)	6,969,893
CJ Ord River Sugar Pty., Ltd.	December 31, 2003	9,885,810	-	9,885,810
CJ Vina Agri Co., Ltd.	December 31, 2003	2,796,967	-	2,796,967
CJ Europe GMBH.	December 31, 2003	373,958	-	373,958
CJ Cambodia Co., Ltd.	December 31, 2003	4,326,647	-	4,326,647
Lee Entertainment L.L.C.	December 31, 2003	21,448,973	52,609,033	74,058,006
		<u>₩ 81,840,567</u>	<u>₩ 49,847,904</u>	<u>₩ 131,688,471</u>

**14. Short-Term Borrowings**

Short-term borrowings as of December 31, 2003 and 2002 comprise the following:

<i>(in thousands of Korean Won)</i>	<b>Annual Interest Rates (%)</b>	<b>2003</b>	<b>2003</b>	<b>2002</b>
Bank overdraft facilities	6.86 - 7.86	₩ 1,969,904	₩ 3,143,225	
General term loans	3M ¥LIBOR+1.3 3M LIBOR+1.3 - 1.4 1M LIBOR+2.0	131,491,000	68,649,500	
Usance financing	1.21 - 1.59	150,423,516	168,456,874	
Notes discounted	4.06 - 4.20	48,000,000	-	
		<u>₩ 331,884,420</u>	<u>₩ 240,249,599</u>	

Certain bank deposits and property, plant and equipment are pledged as collateral for the above loans (Notes 3 and 8).

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**15. Long-Term Debt**

Long-term debt as of December 31, 2003 and 2002 consists of the following:

<i>(in thousands of Korean Won)</i>	<b>Reference</b>	<b>2003</b>	<b>2002</b>
Won currency loans	(A)	₩ 1,198,841	₩ 7,078,369
Foreign currency loans (Won equivalent)	(B)	253,289,914	168,654,971
Debentures	(C)	<u>197,887,161</u>	<u>475,774,479</u>
		452,375,916	651,507,819
Less: Current maturities		<u>(136,967,474)</u>	<u>(406,629,834)</u>
		<u>₩ 315,408,442</u>	<u>₩ 244,877,985</u>

(A) Won currency loans as of December 31, 2003 and 2002 consist of the following :

<i>(in thousands of Korean Won)</i>	<b>Annual Interest Rates (%)</b>		
	<b>2003</b>	<b>2003</b>	<b>2002</b>
National Agricultural Cooperative Federation	-	₩ -	₩ 687,280
Woori Bank	-	-	2,202,000
Korea Lease Financing Co., Ltd.	-	-	27,665
Bank of America and others	3.30	1,198,841	4,519,446
Less : Unamortized discounts		<u>-</u>	<u>(358,022)</u>
		<u>₩ 1,198,841</u>	<u>₩ 7,078,369</u>

**CJ Corp.**  
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(B) Long-term debt denominated in foreign currencies as of December 31, 2003 and 2002 consists of the following:

<i>(in thousands of Korean Won)</i>	<b>Annual Interest Rates (%)</b>		
	<b>2003</b>	<b>2003</b>	<b>2002</b>
ABN	1.42225	₩ 55,980,000	₩ -
Korea Development Bank	1.285	563,511	2,651,343
Woori Bank	LIBOR+0~1.0 1.075~1.445	105,572,681	64,243,028
Kookmin Bank	LIBOR+0.075~0.1 1.13~1.45	3,624,250	32,326,675
Shinhan Bank	LIBOR+0.75~0.11 1.065~1.415	50,069,207	23,674,957
Hana Bank and others	LIBOR+0.075~0.1 1.18~1.455	<u>37,480,265</u>	<u>45,758,968</u>
		<u>₩ 253,289,914</u>	<u>₩ 168,654,971</u>

(C) Debentures outstanding as of December 31, 2003 and 2002 consist of the following :

<i>(in thousands of Korean Won)</i>	<b>Annual Interest Rates (%)</b>		
	<b>2003</b>	<b>2003</b>	<b>2002</b>
Public bonds, payable through			
2003	5.58	₩ 50,000,000	₩ 280,000,000
Private bonds	7.30	50,000,000	100,000,000
Bonds payable in foreign currency(*)	2.41	98,805,825	99,042,886
Less : Unamortized discounts		(1,794,099)	(3,581,056)
Add : Long-term accrued interests		<u>875,435</u>	<u>312,649</u>
		<u>₩ 197,887,161</u>	<u>₩ 475,774,479</u>

(\*) On June 7, 2002, the Company has entrusted 304,222 shares of Samsung Life Insurance Co., Ltd. to Woori Bank and has issued foreign notes to a foreign Special Purpose Vehicle (the "SPV"), which has been granted the exchange option to buy the entrusted shares of Samsung Life Insurance Co., Ltd. from the trust bank. The SPV has issued bonds with rights to exchange them for the entrusted shares of Samsung Life Insurance Co., Ltd. to foreign investors based on its exchange option.

**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
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The terms of the foreign notes and foreign bonds are as follows:

**Foreign Notes**

- Issuer : CJ Corp.
- Investor : Foreign Special Purpose Vehicle
- Face Value : US\$ 80,000,000
- Issue Price : US\$ 79,200,000 (1% discount)
- Maturity : June 7, 2006
- Interest : 2.41% per year in arrears
- Repayment : Repayment at 102.38% of face value on June 7, 2006. The investor may call for early repayment with prior notice on June 7, 2005.

**Foreign Bonds**

- Issuer : Foreign Special Purpose Vehicle
- Investor : Foreign Investors
- Face Value : US\$ 80,000,000
- Issue Price : US\$ 80,000,000
- Maturity : June 7, 2006
- Interest : 2.41% per year in arrears
- Repayment : Repayment at 102.38% of face value on June 7, 2006. The investor may call for early repayment with prior notice on June 7, 2005.
- Exchange Exercise Price : One Samsung Life Insurance share/₩325,000 of face value
- Exchange Exercise Period : On or after September 7, 2002 through May 23, 2006.
- Exchange Rate : ₩1,235.9/US\$ 1.00

The Company has recognized the issuance of the foreign bonds to foreign investors by the SPV as the Company's accounts. Interest expense is calculated using the effective interest method and the interest for the redemption premium is recognized as long-term accrued interest payable which is added to debentures. Interest expenses of ₩562,786 thousand were recognized as long-term accrued interest payable for the year ended December 31, 2003.

In order to hedge the impact of fluctuations in interest rates with regard to the above foreign bonds, the Company has entered into an interest rate swap contract with 2 foreign banks and recorded ₩1,078 million of valuation loss on interest rate swap in non-operating expenses for the year ended December 31, 2003 (Note 17).

Certain bank deposits and property, plant and equipment are pledged as collateral for the above long-term debt (Notes 3 and 8).

**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
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Maturities of long-term debt outstanding as of December 31, 2003, excluding discounts and long-term accrued interests on debentures are as follows:

<i>(in thousands of Korean Won)</i>	<b>Foreign</b>		<b>Total</b>
	<b>Currency Loans</b>	<b>Debentures</b>	
2005	₩ 117,521,281	₩ 50,000,000	₩ 167,521,281
2006	-	148,805,825	148,805,825
	<u>₩ 117,521,281</u>	<u>₩ 198,805,825</u>	<u>₩ 316,327,106</u>

**16. Accrued Severance Benefits**

Accrued severance benefits as of December 31, 2003 and 2002 consist of the following:

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
Accrued severance benefits	₩ 79,829,143	₩ 80,523,778
Less : Funded portion		
Severance insurance fund	(46,362,451)	(47,652,652)
National Pension Fund	<u>(2,415,873)</u>	<u>(3,247,444)</u>
Unfunded portion	<u>₩ 31,050,819</u>	<u>₩ 29,623,682</u>

**17. Commitments and Contingencies**

As of December 31, 2003, the Company is contingently liable for guarantees of indebtedness of related companies amounting to approximately ₩377,415 million. In addition, as of December 31, 2003, the Company provided guarantees of contract fulfillment for related companies in the amount of ₩126,092 million (Note 26).

As of December 31, 2003, the Company has entered into technical assistance agreements with certain companies. Total royalty fees incurred for the years ended December 31, 2003 and 2002 with respect to these agreements amounted to approximately ₩4,096 million and ₩3,184 million, respectively.

As of December 31, 2003, the Company has entered into 5,184 futures contracts to hedge the fluctuation of the purchase price of raw materials. For the year ended December 31, 2003, the Company recognized a gain of ₩1,303 million and loss of ₩3,092 million from the valuation of futures contracts. As of December 31, 2003, the Company is provided with guarantees of payment of \$14,000 thousand of guarantee deposits for futures trading from three financial institutions in relation to the above futures contracts.



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As of December 31, 2003, the Company has entered into forward exchange contracts (buying amounts of ₩1,062 million, and selling amounts of ₩209 million) to hedge against currency risk on foreign currency assets and liabilities. For the year ended December 31, 2003, the Company recognized a net gain of ₩852 million, charged to current operations, from the valuation of forward exchange contracts.

As of December 31, 2003, the Company has entered into currency option contracts. The valuation of the currency option contracts is summarized as follows:

<i>(In thousands of Korean Won)</i>	<b>Fair Value</b>		<b>Gain (loss) on valuation charged to current operation</b>	
	<b>Call</b>	<b>Put</b>		
CITI Bank	₩ (453,762)	₩ (24,528)	₩ 544,328	₩ (1,022,618)

The fair value of the currency option contracts was calculated using the option pricing model.

The Company has entered into four interest rate swap contracts with financial institutions to hedge against the impact of fluctuations in interest rates with regard to long-term debt. Swap contracts outstanding as of December 31, 2003 are as follows:

<i>(in millions of Korean Won)</i>	<b>Outstanding contract amount</b>		<b>Gain (loss) on valuation charged to current operations</b>		<b>Gain (loss) on valuation charged to shareholders' equity</b>
	<b>Trading</b>	<b>Hedging</b>	<b>Trading</b>	<b>Hedging</b>	
Deutsche	₩ -	₩ 103,892	₩ -	₩ 566	₩ (144)
CSFB	-	47,912	-	512	-
Woori Bank	50,000	-	(680)	-	-
	<u>₩ 50,000</u>	<u>₩ 151,804</u>	<u>₩ (680)</u>	<u>₩ 1,078</u>	<u>₩ (144)</u>

The Company has entered into two cross currency swap agreements with financial institutions to hedge against currency and interest rate risk on its foreign currency debt. Swap contracts outstanding as of December 31, 2003 are as follows:

<i>(in millions of Korean Won)</i>	<b>Outstanding contract amount</b>		<b>Gain (loss) on valuation charged to current operations</b>		<b>Gain (loss) on valuation charged to shareholders' equity</b>
	<b>Trading</b>	<b>Hedging</b>	<b>Trading</b>	<b>Hedging</b>	
CITI Bank	₩ -	₩ 11,978	₩ -	₩ (518)	₩ (50)
ABN	-	29,945	-	(868)	-
	<u>₩ -</u>	<u>₩ 41,923</u>	<u>₩ -</u>	<u>₩ (1,386)</u>	<u>₩ (50)</u>

As of December 31, 2003, the Company is a party to various legal claims and proceedings amounting to ₩3,541 million as plaintiff and ₩11,000 million as defendant, all of which are pending as of December 31, 2003. The Company's management believes that, although the outcome of these matters is uncertain, the ultimate resolution of these matters will not have a material adverse effect on the operations or financial position of the Company.

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As of December 31, 2002, the Company was a defendant in a lawsuit in a U.S. district court for an alleged violation of U.S. Anti-Trust Laws regarding the Company's sale of MSG and Hexane in the United States of America. The Company made a provision for potential loss of ₩42,014 million arising from the settlement of the case, which was recorded in non-operating expenses for the year ended December 31, 2002. Subsequently, this lawsuit was settled on July 10, 2003 in the amount of US\$ 42 million and an extra loss of ₩8,096 million was recorded in non-operating expenses for the year ended December 31, 2003. Moreover, the Company recognized a loss of ₩12,593 million and has made a provision for further potential losses of ₩2,515 million from lawsuits arising from the same matter filed by other parties, which was recorded in non-operating expenses for the year ended December 31, 2003.

As of December 31, 2003, the Company has entered into bank overdraft facility agreements up to a maximum of ₩86,000 million with several Korean banks.

As of December 31, 2003, the Company has entered into banker's usance borrowing agreements up to a maximum of ₩826,896 million with several Korean banks.

As of December 31, 2003, a promissory note and three checks totaling ₩3,313 million, and two blank notes were provided to financial institutions as collateral for bank loans and for the fulfillment of certain contracts.

In 2001, the Company disposed of 350,000 common shares of Samsung Electronics Co., Ltd. with a call option spread agreement with two financial institutions. The agreement entitles the Company to receive from counter parties, on the expiration date, the amounts, if any, by which the settlement price exceed the strike price in exchange for the risk premium paid on the date of trade. The settlement price is determined based on the average monthly closing price of Samsung Electronics Co., Ltd. for the six months or twelve months up to and including the expiration date, but is less than the upper strike price.

The following table presents the terms of the above agreements:

	<b>Salomon Brothers International Limited</b>	<b>Bank of America N.A.</b>
Trade date	March 21, 2001	April 12, 2001
Number of shares (options)	150,000	200,000
Initial price per share	₩ 191,714.29	₩ 188,429
Strike price	₩ 191,714.29	₩ 188,429
Upper strike price	₩ 287,571.43	₩ 376,858.00
Premium rate per share	Quarterly of 2.41%	Quarterly of 1.70%
Expiration date	March 21, 2003	April 12, 2004

**CJ Corp.**  
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The risk premium was paid on the date of trade and is amortized quarterly to interest expense over the agreement period. The fair value of the call option was calculated using the Black-Scholes model and recorded in other non-current assets (Note 10). As of December 31, 2003, gains on the option are included in the carrying amounts of the relative assets and a gain of ₩3,275 million was recognized in non-operating income for the year ended December 31, 2003.

In common with certain other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices, including corporate governance. The Company may be either directly or indirectly affected by these volatile economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Company. Actual results may differ materially from management's current assessment.

**18. Retained Earnings**

Retained earnings as of December 31, 2003 and 2002 consist of the following:

<i>(in thousands of Korean Won)</i>	<b>Reference</b>	<b>2003</b>	<b>2002</b>
Legal reserve	(A)	₩ 62,065,332	₩ 58,613,717
Reserve for improvement of financial structure	(B)	6,709,860	6,709,860
Reserve for business rationalization	(C)	54,804,727	54,804,727
Reserve for research and human resource development	(C)	163,857,629	91,685,301
Reserve for export losses	(C)	1,850,000	4,110,000
Reserve for overseas market development	(C)	<u>1,494,000</u>	<u>2,127,333</u>
		290,781,548	218,050,938
Retained earnings before appropriations		<u>168,866,871</u>	<u>107,746,759</u>
		<u>₩ 459,648,419</u>	<u>₩ 325,797,697</u>

(A) The Korean Commercial Code requires the Company to appropriate as a legal reserve, an amount equal to a minimum of 10% of annual cash dividends declared, until the reserve equals 50% of capital stock. This reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.

**CJ Corp.**  
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- (B) The Regulation for Securities Issuance and Disclosure requires the Company to appropriate as a reserve for improvement of financial structure an amount equal to at least 50% of the net extraordinary gain on disposal of property, plant and equipment and 10% of net earnings for each year until the shareholders' equity equals 30% of total assets. This reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any. As of December 31, 2003, the Company need not appropriate an additional amount as a reserve for improvement of financial structure because the shareholders' equity exceeds 30% of total asset as of December 31, 2003.
- (C) Pursuant to Korean tax laws, the Company is allowed to claim a tax deduction in determining taxable income for the amounts of retained earnings appropriated as reserves for research and human resource development, export losses and overseas market development. These amounts are not available for dividends until used for the specified purposes or reversed.

**19. Dividends**

For the year ended December 31, 2003, a cash dividend of ₩47,294,495 thousand (Common stock : 35%, First series preferred stock : 36%, Second series preferred stock : 35%) is proposed and shall be approved during the general shareholders' meeting on February 27, 2004.

Dividend propensity is approximately 28.09% and 32.18% as of December 31, 2003 and 2002, respectively.

**20. Treasury Stock**

As of December 31, 2003, the Company has acquired 307,000 shares of its own non-voting preferred stock and 550,000 shares of its own common stock under the authorization of the Board of Directors. The treasury stock is recorded as a capital adjustment and will be sold subject to stock market conditions.

**CJ Corp.**  
**Notes to Non-Consolidated Financial Statements**  
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**21. Stock Option Plan**

The Company has a stock option plan that provides for granting stock purchase options to employees or directors who have contributed or are expected to contribute to the management and technological innovation of the Company.

A summary of the terms of the stock options granted is as follows.

	<b>Date of the grant</b>		
	<b>August 14, 2001</b>	<b>April 27, 2002</b>	<b>March 11, 2003</b>
Options outstanding	47,000	95,600	134,300
Exercise price (*)	₩ 40,000	₩ 58,000	₩ 41,000
Exercise period from the date of the grant (**)	2~9 years	2~9 years	2~9 years

(\*) The exercise price can be adjusted in case of the issuance of new shares, stock dividends, stock splits, or stock merger.

(\*\*) The options can be fully vested in two years from the date of the grant.

The fair value of each option grant was estimated using the Black-Scholes option-pricing model based on the following assumptions.

	<b>Date of the grant</b>		
	<b>August 14, 2002</b>	<b>April 27, 2003</b>	<b>March 11, 2003</b>
Risk-free interest rates	5.10%	6.37%	4.69%
Expected stock price volatility	70.60%	66.18%	54.81%
Expected life	3 years	3 years	3 years

The compensation expense related to stock options was ₩1,978 million for the year ended December 31, 2003. In addition, accumulated compensation expense as of December 31, 2003 and estimated compensation expense for the years thereafter is ₩3,263 million and ₩1,326 million, respectively.

**CJ Corp.**  
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**22. Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the years ended December 31, 2003 and 2002 consist of the following:

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
Salaries	₩ 101,411,553	₩ 109,336,865
Provision for severance benefits	13,914,268	16,828,963
Employee benefits	16,426,816	19,573,085
Travel expenses	11,167,604	11,601,761
Commission & service charge	123,288,863	84,347,402
Depreciation expense for tangible assets	34,615,290	35,632,526
Amortization expense for intangible assets	9,342,478	7,763,102
Advertising expenses	42,456,390	43,478,071
Sales promotion expenses	45,841,058	35,366,173
Transportation expenses	102,955,910	92,168,123
Bad debt expenses	-	449,676
Research expenses	26,508,489	20,965,650
Expenses for Company Events	20,517,523	15,144,192
Stock compensation expenses	1,810,298	1,010,813
Others	<u>45,476,477</u>	<u>41,326,190</u>
	<u>₩ 595,733,017</u>	<u>₩ 534,992,592</u>

**23. Income Tax Expense**

The statutory income tax rate applicable to the Company including resident surcharges, is approximately 29.7% for the year ended December 31, 2003.

Income tax expense for the years ended December 31, 2003 and 2002 consists of the following:

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
Current income taxes	₩ 28,235,397	₩ 49,910,759
Deferred income taxes	17,220,404	(3,820,244)
Income taxes charged to other capital surplus	<u>-</u>	<u>(468,649)</u>
Income tax expense	<u>₩ 45,455,801</u>	<u>₩ 45,621,866</u>

**CJ Corp.**  
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The changes in deferred income tax assets for the years ended December 31, 2003 and 2002 are as follows:

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
Beginning deferred income tax assets	₩ 45,685,126	₩ 41,864,882
Increase (decrease) in deferred tax assets		
due to temporary differences and tax credits	<u>(17,220,404)</u>	<u>3,820,244</u>
Ending deferred income tax assets	<u>₩ 28,464,722</u>	<u>₩ 45,685,126</u>

The following table reconciles the expected amounts of income tax expense based on statutory rates to the actual amounts of taxes recorded by the Company:

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
Income before taxes	₩ 213,822,672	₩ 152,892,598
Statutory tax rate	<u>29.7%</u>	<u>29.7%</u>
Expected taxes at statutory rate	63,505,334	45,409,102
Tax credit	(9,006,190)	(6,236,159)
Others, net	<u>(9,043,343)</u>	<u>6,448,923</u>
Actual taxes	<u>₩ 45,455,801</u>	<u>₩ 45,621,866</u>
Effective tax rate	<u>21.3%</u>	<u>29.8%</u>

**CJ Corp.**  
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Components of deferred income taxes as of December 31, 2003 are as follows:

<i>(in thousands of Korean Won)</i>	<b>Beginning balance</b>	<b>Increase (Decrease)</b>	<b>Ending balance</b>
Deferred income tax assets			
Depreciation expenses	₩ 2,743,842	₩ (293,114)	₩ 2,450,728
Loss on valuation of investments in equity securities	43,035,772	(19,752)	43,016,020
Allowance for doubtful accounts	736,717	(331,210)	405,507
Severance benefits	1,193,856	(1,353)	1,192,503
Provision for loss from lawsuits	12,478,158	(11,731,090)	747,068
Others	<u>1,423,031</u>	<u>1,601,700</u>	<u>3,024,731</u>
Total deferred income tax assets	<u>₩ 61,611,376</u>	<u>₩ (10,774,819)</u>	<u>₩ 50,836,557</u>
Deferred income tax liabilities			
Special reserves appropriated for tax purposes	₩ (3,779,028)	₩ 528,161	₩ (3,250,867)
Amortization of research and development expenses	(1,060,180)	950,943	(109,237)
Accrued interest income	(4,161,219)	(2,421,228)	(6,582,447)
Gain on valuation of derivative instruments	(5,428,796)	1,802,866	(3,625,930)
Others	<u>(1,497,027)</u>	<u>(7,306,327)</u>	<u>(8,803,354)</u>
Total deferred income tax liabilities	<u>₩ (15,926,250)</u>	<u>₩ (6,445,585)</u>	<u>₩ (22,371,835)</u>
Net deferred income tax assets	<u>₩ 45,685,126</u>	<u>₩ (17,220,404)</u>	<u>₩ 28,464,722</u>

The Company periodically assesses its ability to recover deferred income tax assets. In the event of a significant uncertainty regarding the Company's ultimate ability to recover such assets, a valuation allowance is recorded to reduce the assets to its estimated net realizable value.

In 2003 and 2002, the statutory income tax rate applicable to the Company, including resident tax surcharges, was 29.7%. Effective in 2005, the statutory income tax rate applicable to the Company will be reduced to 27.5%, which will be applied to calculate deferred income taxes for fiscal years beginning on or after January 1, 2005. As a result of this change, net income for the year ended December 31, 2003 and deferred income tax assets as of December 31, 2003, decreased by ₩1,097 million, respectively.



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**24. Earnings Per Share**

Earnings per share and diluted earnings per share are calculated as follows :

**Basic earnings per share**

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
Net income	₩ 168,366,871	₩ 107,270,732
Adjustments :		
Dividends for preferred stock	(9,050,248)	(6,511,329)
Undeclared participating preferred stock dividend	<u>(22,827,595)</u>	<u>(13,442,982)</u>
Net income available for common stock	136,489,028	87,316,421
Weighted average number of shares of common stock	<u>21,957,642</u>	<u>22,375,255</u>
Earnings per share (in Korean Won)	<u>₩ 6.216</u>	<u>₩ 3.902</u>

**Diluted earnings per share**

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
Net income available for common stock	₩ 136,489,028	₩ 87,316,421
Adjustment :		
Dividends for convertible preferred stock	<u>-</u>	<u>-</u>
Net income available for common stock & common equivalent stock	136,489,028	87,316,421
Weighted average number of shares of common stock & common stock equivalents	<u>22,571,570</u>	<u>23,115,709</u>
Diluted earnings per share (in Korean Won)	<u>₩ 6.047</u>	<u>₩ 3.777</u>

**CJ Corp.**  
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**25. Foreign Currency Translation**

As of December 31, 2003 and 2002, assets and liabilities denominated in foreign currencies and related gains and losses on foreign currency translation are as follows:

<i>(in thousands of Korean Won)</i>		2003			2002
		Foreign Currencies	Korea Won (translated)	Translation Gain	Translation Loss
<b>Assets</b>					
Trade accounts and notes receivable	AUD	₩ 183,982	15,655	-	₩ 347,361
	USD	23,401,597	270,595	52,359	14,154,535
	JPY	381,476	31,330	27,548	525,021
	EU	1,851,540	118,564	292	1,730,615
	GBP	72,039	4,831	-	-
	SGD	17,890	-	-	-
		25,908,524	440,975	80,199	16,757,532
Short-term loan	JPY	9,270	744	-	-
Other accounts and notes receivable	USD	6,585,372	75,351	4,172	838,931
	CHF	1,108,807	112,585	-	1,490,716
	CN	1,172,232	-	60,507	1,174,662
	EUR	56,411	7,424	-	-
	JPY	18,510	593	-	-
	GBP	713	15	-	4,051
		8,942,045	195,968	64,679	3,508,360
Others	GBP	70,111	5,645	-	48,350
	JPY	37,040	2,659	-	8,221
	USD	565,410	8,025	995	399,926
		672,561	16,329	995	456,497
<b>Liabilities</b>					
Trade accounts and notes payable	USD	2,298,539	628	18,416	837,227
	JPY	396,295	-	3,339	7,305
	GBP	-	-	-	39,078
	EU	68,514	-	613	4,304
		2,763,348	628	22,368	887,914
Short-term borrowings	USD	192,299,866	666,793	2,649,333	186,384,801
	JPY	89,568,000	-	5,150,100	50,643,500
	EU	46,650	-	3,170	78,073
		281,914,516	666,793	7,802,603	237,106,374
Other accounts and notes payable	USD	3,316,807	11,380	26,831	45,337,263
	EU	87,291	-	4,635	1,539
	GBP	-	-	-	727,080
	FRF	182,230	-	5,817	-
	JPY	782,234	9	7,467	430,076
		4,368,562	11,389	44,750	46,495,958
Accrued expenses	USD	667,408	35,897	2,139	1,554,558
	JPY	700,686	-	56,024	635,073
	EU	460	-	114	3,500,726
		1,368,554	35,897	58,277	5,690,357
Current portion of long-term debt	USD	135,768,633	636,647	846,995	122,302,828
Long-term debt	USD	61,541,281	270,236	696,408	46,352,143
	JPY	55,980,000	-	2,318,500	-
		117,521,281	270,236	3,014,908	46,352,143
Total			<u>₩2,275,606</u>	<u>₩11,935,774</u>	

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**26. Related Party Transactions**

Significant transactions with related parties for the years ended December 31, 2003 and 2002 and the related receivables and payables as of December 31, 2003 and 2002 are as follows:

<i>(in thousands of Korean Won)</i>	<b>Sales</b>		<b>Purchases</b>		<b>Accounts Receivable</b>		<b>Accounts Payable</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
CJ Systems Co., Ltd.	₩3,652,857	₩ 2,036,210	₩25,763,121	₩27,934,637	₩ 67,908	₩ 316,161	₩10,343,766	₩6,251,439
CJ Futures Inc.	-	22,787	-	16,271	-	1,114	-	1,279
CJ Development Co., Ltd.	668,196	388,682	39,992,013	33,728,724	402,068	222,945	7,213,878	12,164,519
CJ Food System Co., Ltd.	112,572,244	125,957,536	99,930,383	103,632,414	99,469	945,014	11,428,200	17,133,819
CJ Media Inc.	345,089	921,108	1,812,711	1,850,690	52,552	29,824	588,842	1,178,100
CJ GLS Co., Ltd.	9,599,418	7,954,852	113,228,920	99,258,058	913,746	360,697	17,437,629	15,785,451
CJ Investment & Securities Co., Ltd.	9,741,697	8,578,855	103,967	-	22,396,435	13,443,260	-	-
CGV Co., Ltd.	1,425,590	272,751	311,320	613,696	425,265	30,144	841,169	1,006,650
Dream Music Co., Ltd.	1,224	3,981	5,041	-	-	2,467	601	-
CJ Entertainment Inc.	510,935	300,157	6,212	10,668	166,817	117,093	1,798,525	800,000
CJ Investment Trust Management Co., Ltd.	27,667	42,864	-	-	4,209	-	-	-
CJ Foodvill Co., Ltd.	3,611,606	1,644,100	668,963	-	961,047	133,230	77,135	-
Yang-Chon Cable TV Co., Ltd.	16,989	7,957	10,000	1,500	-	2,504	-	-
I39 Co., Ltd.	-	88,749	-	1,252,778	-	-	-	-
Ecline Co., Ltd.	51,329	-	-	-	-	-	-	-
Hanil Food Mart Co., Ltd.	131,093	37,199	3,845	-	4,459	3,414	-	-
Samyang Oil & Feed Co., Ltd.	8,691,878	-	36,500,807	-	374,351	-	5,410,288	-
Korea CATV Gaya Broadcast	427,232	-	21,041	-	266,824	-	12,145	-
Korea CATV Gyeong-Nam Broadcast	10,569	11,029	10,000	-	104,304	1,263	-	-
Korea CATV Ma-San Broadcast	6,490	6,909	-	-	856	1,557	-	-
Joy Rent A Car Inc.	184,924	6,219	582,097	548,631	-	-	48,396	62,956

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<i>(in thousands of Korean Won)</i>	<b>Sales</b>		<b>Purchases</b>		<b>Accounts Receivable</b>		<b>Accounts Payable</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Haechandle Co., Ltd.	₩ 2,417,405	₩ 1,875,424	₩ 179,968	₩ 194,650	₩ 124,511	₩ 403,680	₩ 28,940	₩ 3,447
Cheil Teleservice Co., Ltd.	139,824	37,218	41,428	5,200	25,721	1,930	1,267	1,320
Enprani Co., Ltd.	-	1,535,955	-	1,842,614	-	235,883	-	1,502,117
MD1 Co., Ltd	144,223	-	41,474,904	-	3,872	-	3,579,122	-
CJ Olive Young Co., Ltd.	304,938	-	-	-	47,827	-	-	-
CJ Japan Corp.	41,618	-	1,686,920	-	15,003	-	195,544	-
CJ Philippines Inc.	621,080	509,084	-	-	633,151	454,672	-	-
CJ Hong Kong Ltd.	4,875,960	4,777,647	8,666,534	5,198,637	3,109,914	814,499	1,210,499	934,966
P.T. Cheil Samsung Indonesia (P.T. CSI)	4,996,260	17,182,644	7,909,859	6,848,012	218,048	5,074,123	852,614	763,214
P.T. Cheil Jedang Superfeed (P.T. CJS)	1,509,164	1,194,081	-	-	-	207,549	63,731	-
P.T. Cheil Jedang Indonesia (P.T. CJI)	7,070,586	5,753,845	22,867,840	20,307,792	807,960	1,466,409	1,396,635	1,537,159
P.T. Super Unggas Jaya	-	62,761	-	-	-	60,020	-	-
Morningwell Co., Ltd.	9,132,769	7,692,169	61,744,437	57,586,492	651,221	272,656	19,315,003	18,256,266
CJ Home Shopping Co., Ltd.	10,185,146	14,828,500	8,303,131	2,764,576	4,895,952	1,278,790	441,397	1,540,356
CJ America Inc.	22,529,130	27,607,306	1,170,937	1,654,892	6,114,225	6,126,319	1,075	1,214,400
CJ Nutracon Inc.	-	-	9,675,763	11,616,145	-	-	74,570	5,149,985
CJ Qingdao Food Co., Ltd.	5,087,196	7,284,594	-	-	1,822,800	-	-	-
Beijing CJ Foods Co., Ltd.	-	-	-	-	-	1,621,628	-	-
CJ Europe GMBH.	4,773,849	3,306,695	1,532,997	1,649,775	2,176,551	704,362	380,431	334,637
CJ Vina Agri Co., Ltd.	713,281	334,297	-	-	-	-	-	-
Others	32,233	-	119,575	-	2,535	-	22,000	-
<b>Total</b>	<b>₩226,251,689</b>	<b>₩242,264,165</b>	<b>₩484,324,734</b>	<b>₩378,516,852</b>	<b>₩46,889,601</b>	<b>₩34,333,207</b>	<b>₩82,763,402</b>	<b>₩85,622,080</b>

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The Company provided guarantees of indebtedness of related parties as of December 31, 2003 and 2002 as follows:

(in thousands of

Korean Won)

Guarantee	Financial institutions	Loan amounts		Guarantee amounts	
		2003	2002	2003	2002
Beijing CJ Foods Co., Ltd.	Korea Exchange Bank	₩ -	₩ 9,603,200	₩ -	₩ 9,603,200
CJ Chengdu Feed Co., Ltd.	Hana Bank	838,460	-	838,460	-
CJ Shenyang Feed Co., Ltd.	Woori Bank	359,340	-	718,680	-
P.T.Cheil Samsung Indonesia	Korea Development Bank & Others	130,099,516	169,054,210	179,653,700	234,894,950
CJ Europe GMBH.	Korea Exchange Bank	32,101,124	13,454,083	46,579,986	32,691,333
CJ Hong Kong Ltd.	BOA & Others	76,120,190	43,376,454	83,846,000	60,020,000
P.T.Super Unggas Jaya	Export-Import Bank of Korea	-	3,001,000	-	3,001,000
P.T Cheil Jedang Indonesia	Export-Import Bank of Korea	14,313,710	15,905,300	14,313,710	15,905,300
CJ Vina Agri Co., Ltd.	CITI Bank & Others	6,081,231	2,993,798	6,108,780	6,122,040
CJ Philippines Inc.	BOA	4,224,641	1,947,049	4,551,640	2,160,720
CJ Nutracon Inc.	Shinhan Bank	5,390,100	-	7,186,800	-
CJ Cambodia Co., Ltd.	Export-Import Bank of Korea	5,509,880	4,801,600	5,509,880	4,801,600
CJ America Inc.	Woori Bank	4,024,608	11,102,500	11,978,000	19,206,400
CJ Japan Corp.	Shinhan Bank	11,195,962	-	11,195,962	-
CJ Ord River Sugar Pty., Ltd.	Korea Exchange Bank	2,690,917	-	4,933,349	1,699,316
		<u>₩292,949,679</u>	<u>₩ 275,239,194</u>	<u>₩377,414,947</u>	<u>₩ 390,105,859</u>

In addition to the above guarantees, as of December 31, 2003, the Company provided guarantees of fulfillment of futures contracts for P.T. Cheil Samsung Indonesia and CJ OrdRiver Sugar Pty., Ltd. amounting to approximately ₩126,092 million.

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**27. Supplementary Information for Computation of Value Added**

The accounts and amounts included in cost of sales and selling, general and administrative expenses, and in others, which are needed for the computation of value added for the years ended December 31, 2003 and 2002 are as follows:

<i>(In thousands of Korean Won)</i>	<b>Cost of Sales</b>		<b>Selling, general and administrative expenses</b>		<b>Others</b>		<b>Total</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Wage and salaries	₩44,480,677	₩44,522,961	₩101,411,553	₩109,336,865	₩1,651,321	₩3,189,257	₩147,543,551	₩157,049,083
Provision for severances benefits	6,677,692	6,882,370	13,914,268	16,828,963	208,833	377,987	20,800,793	24,089,320
Employee benefits	13,623,006	12,832,009	16,426,816	19,573,085	378,615	602,747	30,428,437	33,007,841
Rent	5,116,982	5,132,765	4,000,277	4,164,889	71,568	138,965	9,188,827	9,436,619
Depreciation and amortization	61,776,398	57,610,906	43,957,768	43,395,628	600,069	624,776	106,334,235	101,631,310
Taxes and dues	5,031,097	4,861,985	7,559,067	6,485,089	83,045	153,030	12,673,209	11,500,104
	<u>₩136,705,852</u>	<u>₩131,842,996</u>	<u>₩187,269,749</u>	<u>₩199,784,519</u>	<u>₩2,993,451</u>	<u>₩5,086,762</u>	<u>₩326,969,052</u>	<u>₩336,714,277</u>

**28. Supplemental Cash Information**

Significant transactions not affecting cash flows for the years ended December 31, 2003 and 2002 are as follows:

<i>(in thousands of Korean Won)</i>	<b>2003</b>	<b>2002</b>
Transfer to property, plant and equipment from construction in-progress	₩ 114,986,073	₩ 94,257,633
Reclassify current maturities of long-term debt	136,967,474	406,629,834
Transfer to short-term available-for-sale securities from long-term available-for-sale securities	40,201,284	-
Changes in capital adjustments from the valuation of available-for-sale securities and equity-method investments	4,178,997	28,224,042
Reclassify current maturities of long-term loans	-	100,000

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**29. Environmental Standards and Policies**

The Company takes the lead in environment protection in all aspects of its corporate activities and makes an effort to be an "Environment-friendly Corporation" through an environment-friendly management.

In detail, the Company operates waste treatment facilities for its own use and utilizes cleaning fuel to reduce pollution. The Company has actively provided safe working conditions for all employees at all times and at all places.

**30. Employee Benefits**

Building on its philosophy of "Only One," the Company provides a specific benefit policy for employees in addition to the basic employee benefits.

The details of the Company's employee benefits are as follows :

<b>Items</b>	<b>Description</b>
• Support for employees' personal property accumulation	• Allots preferably a portion of newly issued shares to the employee stock ownership association.
• Living support	• Individual pension plans to support a comfortable life upon retirement. • Support for academic tuition fees

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**31. Cultivation of Professional Human Resources and Professional Training**

The Company has various programs for employee development and training.

The details of the various programs are as follows :

<u>Type of Program</u>	<u>Description</u>
• Leadership Development	• Improvement of leadership
• IT basic course	• Improvement of information technology ability
• MBA course	• Developing specialists
• Executive manager development	
• Next-generation manager development	• Improvement of managerial ability
• CJ-Management Academy	

Total expenses incurred during the year ended December 31, 2003 with respect to such programs amounted to approximately ₩5,433 million.

**32. Segment information**

A summary of information on the Company's operations by business segment at December 31, 2003 and 2002, and for the years then ended, is as follows:

**Financial Data by Business Segment**

<i>(in millions of Korean Won)</i>	<u>2003</u>					<u>Total</u>
	<u>Processed Foods</u>	<u>Food Stuffs</u>	<u>Animal Feeds</u>	<u>Fine Chemistries</u>	<u>Others</u>	
Sales						
Sales to unaffiliated customers	₩ 712,343	₩ 877,860	₩ 293,823	₩ 387,326	₩ 134,156	₩ 2,405,508
Inter-segment sales	-	6,454	-	-	-	6,454
	<u>₩ 712,343</u>	<u>₩ 884,314</u>	<u>₩ 293,823</u>	<u>₩ 387,326</u>	<u>₩ 134,156</u>	<u>₩ 2,411,962</u>
Operating profit	<u>₩ 58,857</u>	<u>₩ 73,065</u>	<u>₩ 24,277</u>	<u>₩ 32,002</u>	<u>₩ 11,085</u>	<u>₩ 199,286</u>
Tangible & intangible assets	<u>₩ 399,274</u>	<u>₩ 342,638</u>	<u>₩ 63,785</u>	<u>₩ 144,013</u>	<u>₩ 35,116</u>	<u>₩ 984,826</u>
Depreciation and amortization	<u>₩ 37,385</u>	<u>₩ 34,432</u>	<u>₩ 7,836</u>	<u>₩ 22,696</u>	<u>₩ 3,985</u>	<u>₩ 106,334</u>



**CJ Corp.**  
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<i>(in millions of Korean Won)</i>	<b>2002</b>					
	<b>Processed Foods</b>	<b>Food Stuffs</b>	<b>Animal Feeds</b>	<b>Fine Chemistries</b>	<b>Others</b>	<b>Total</b>
Sales						
Sales to unaffiliated customers	₩ 643,307	₩ 830,896	₩ 272,987	₩ 353,074	₩ 131,317	₩ 2,231,581
Inter-segment sales	<u>-</u>	<u>7,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,460</u>
	<u>₩ 643,307</u>	<u>₩ 838,356</u>	<u>₩ 272,987</u>	<u>₩ 353,074</u>	<u>₩ 131,317</u>	<u>₩ 2,239,041</u>
Operating profit	<u>₩ 58,929</u>	<u>₩ 76,796</u>	<u>₩ 25,006</u>	<u>₩ 32,343</u>	<u>₩ 12,029</u>	<u>₩ 205,103</u>
Tangible & intangible assets	<u>₩ 392,412</u>	<u>₩ 391,376</u>	<u>₩ 87,615</u>	<u>₩ 138,666</u>	<u>₩ 36,140</u>	<u>₩ 1,046,209</u>
Depreciation	<u>₩ 33,637</u>	<u>₩ 35,874</u>	<u>₩ 7,744</u>	<u>₩ 19,995</u>	<u>₩ 4,381</u>	<u>₩ 101,631</u>

**Reconciliation of Operating profit**

<i>(in millions of Korean Won)</i>	<b>2003</b>	<b>2002</b>
Business segment operating profit	₩ 199,286	₩ 205,103
Inter-segment revenues	<u>533</u>	<u>684</u>
Operating profit per statements of income	<u>₩ 198,753</u>	<u>₩ 204,419</u>

**33. Subsequent event**

Subsequent to December 31, 2003, the Company entered into an agreement to acquire the existing shares of Shin Dong Bang Co., Ltd. at ₩39,981 million and newly issued shares at ₩36,500 million in accordance with the Board of Directors' approval on January 28, 2004.

The financial statements as of and for the year ended December 31, 2003 were approved by the Board of Directors on January 13, 2004.