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2002 Financial Report

OVERVIEW OF OPERATIONS 2002

The domestic economy surged a full 6 percent during the first half of the year, only to fall victim to a variety of circumstances during the second half of the year including reduced consumer spending, delayed economic recovery in the U.S., and declining exports. The threat of an American attack on Iraq and rising oil prices dampened the economic climate even further during the fourth quarter.

There were also a number of unfavorable factors operating in Korea's sophisticated confectionery market such as structural changes in distribution systems, and greater participation in the market by both foreign brands and nonestablished manufacturers. Nevertheless, the market as a whole grew an estimated 13 percent over the previous year. One obvious contributing factor to such growth was the introduction of new, highly-appealing "hit products" by both Tong Yang and its competitors.

Group Results

Externally, the year was quite meaningful for the group as it set new records in growth and profits. The year was equally meaningful internally, with wide-ranging improvements and reduction of investment risks by a number of group companies.

First and foremost, Tong Yang Confectionery's total sales broke the 500 billion KRW level for the first time, and despite the de-merging of the restaurant affiliate in September, the company registered 104 percent growth for the year. Domestic confectionery sales increased 13 percent thanks to introduction of highly competitive new products and strategies for product differentiation by channel. The company registered continual growth in domestic sales for 18 straight months since July 2001.

Operating income grew a solid 36 percent to 53.7 billion KRW,

or 102 percent of total sales. Factors contributing to this growth included increased efficiency through elimination of nonprofitable trade, reorganization of the sales structure, and closing of the Seoul plant.

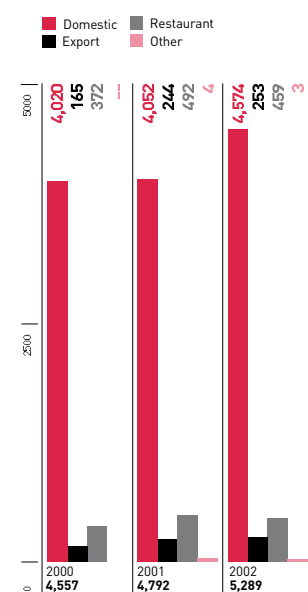
Additionally, expenses decreased 6.5 billion KRW over the previous year thanks largely to efforts in financial restructuring and reduced fund procurement. Companies in the entertainment industry made impressive gains, resulting in an increase of 6.3 billion KRW to 10.3 billion in gain valuation using the equity method of accounting gain on valuation of investment securities by equity method. Profits increased 115 percent to 48.9 billion KRW while net profits increased 127 percent to 34.9 billion KRW. ROE climbed to 14 percent, providing greater stockholder value.

There were great improvements in the financial structure as well. Loans declined 38.8 billion KRW over the previous year to 210.2 billion KRW with the debt-to-equity ratio dropping 34 percent to 122 percent. Short-term loans also declined from 70 percent the previous year to 40 percent.

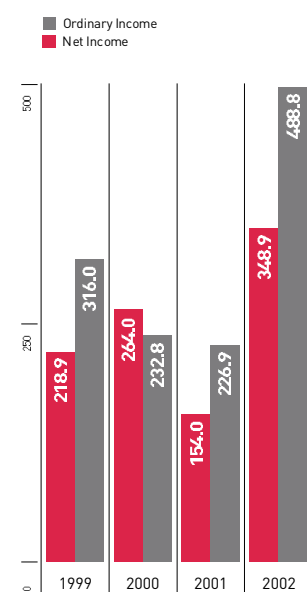
Vision for 2003

Orion Group plans to make 2003 the year for developing and actualizing superb sales capabilities. We plan to strengthen organization capabilities by taking into consideration both structural changes in distribution systems and increasingly fierce competition. Simultaneously we will strive to increase total sales through selectiveness and concentration, along with introduction of new, highly competitive products. Increased internal efficiency in all facets of operations should guarantee another formidable year of profitable growth.

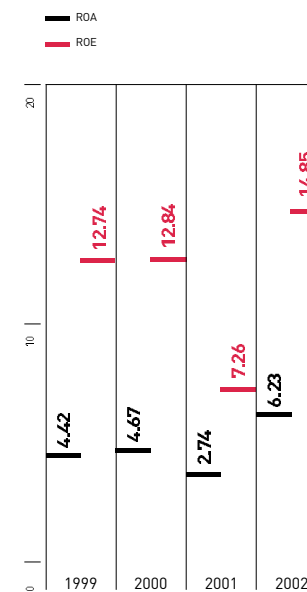
Total Sales (Unit : in KRW billions)



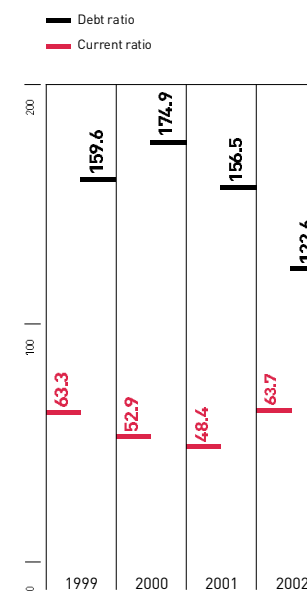
Ordinary & Net Income (Unit : in KRW millions)



ROE & ROA (Unit : %)



Debt & Current ratio (Unit : %)



* The company's family restaurant spinned off into a new company on August 26, 2002.

FIVE-YEAR SUMMARY

	In KRW millions					In USD thousands*
	1998	1999	2000	2001	2002	2002
For the year						
Sales	425,054	452,767	455,669	479,164	528,921	440,620
Gross profit	161,726	184,461	184,866	197,939	221,220	184,289
Operating income	43,015	49,721	32,446	39,443	53,659	44,701
Ordinary income	14,848	31,602	23,284	22,692	48,883	40,722
Net income	10,833	21,890	26,399	15,403	34,889	29,065
Depreciation	22,287	19,756	19,177	18,129	15,437	12,860
At year end						
Total assets	496,862	492,823	565,027	560,858	559,306	465,933
Current assets	124,823	117,906	124,430	121,832	107,935	89,915
Non-current assets	372,039	374,918	440,596	439,027	451,372	376,018
Total liabilities	343,063	302,985	359,475	342,177	308,078	256,647
Capital stock	22,492	25,541	26,534	26,662	26,956	22,456
Capital surplus	98,395	114,884	114,877	115,344	116,416	96,981
Retained earnings	34,139	47,457	69,194	80,891	111,599	92,968
Stockholders' equity	153,799	189,838	205,552	218,681	251,227	209,286
Financial ratios(%)						
Return on asset	2.31	4.42	4.67	2.74	6.23	
Return on equity	8.25	12.74	12.84	7.26	14.85	
Debt ratio	223.1	159.6	174.9	156.5	122.6	
Current ratio	61.9	63.3	52.9	48.4	63.7	

* Accounts in Korean won have been translated into U.S. dollars, solely for the reader's convenience, at W 1,200.40 per dollar, the prevailing rate on December 31, 2002.

BALANCE SHEETS

December 31, 2001 and 2002

Assets	Korean won in thousands		U.S. dollars[Note 2]	
	2001	2002	2001	2002
Current assets :				
Cash and cash equivalents ^(Notes 3 and 13)	W 2,705,348	W 1,152,029	US\$ 959,704	
Short-term financial instruments ^(Note 3)	2,545,030	1,049,080	873,942	
Marketable securities ^(Note 4)	16,148	-	-	
Short-term loans	10,284	-	-	
Accounts and notes receivable - trade, less allowance for doubtful accounts ^(Notes 5, 8 and 13)	82,740,862	78,710,307	65,570,066	
Accounts receivable - other	714,799	471,376	392,682	
Accrued interest income	231,080	35,610	29,665	
Prepaid expenses	2,076,039	654,085	544,889	
Inventories ^(Notes 6 and 9)	28,757,929	25,527,202	21,265,580	
Advance payment	1,580,201	-	-	
Other current assets	454,349	334,812	278,917	
Total current assets	121,832,069	107,934,501	89,915,445	
Investments and other assets :				
Long-term financial instruments ^(Note 3)	98,500	23,500	19,577	
Investments in securities ^(Note 7)	139,585,810	219,395,411	182,768,586	
Long-term loans to affiliates ^(Notes 8 and 13)	2,619,048	-	-	
Guarantee deposits	23,627,391	8,263,920	6,884,305	
Long-term prepaid expenses	6,185,423	-	-	
Deferred income tax assets ^(Note 18)	9,917,649	7,777,742	6,479,292	
Total investments and other assets	182,033,821	235,460,573	196,151,760	
Property, plant and equipment ^{(Notes 9, 11 and 15) :}				
Land	127,330,773	103,834,433	86,499,861	
Buildings and structures	91,248,855	80,901,356	67,395,332	
Machinery and equipment	140,447,619	139,694,820	116,373,559	
Vehicles	8,292,897	10,128,629	8,437,712	
Tools, furniture and fixtures	28,648,109	23,868,720	19,883,972	
Construction in-progress	12,368,460	11,974,631	9,975,534	
	408,336,713	370,402,589	308,565,970	
Less accumulated depreciation	(152,158,793)	(155,038,540)	(129,155,731)	
Property, plant and equipment, net	256,177,920	215,364,049	179,410,239	
Intangibles, net of amortization	814,909	546,881	455,582	
Total assets	W 560,858,719	W 559,306,004	US\$ 465,933,026	

BALANCE SHEETS

Liabilities and Stockholders' Equity	Korean won in thousands		U.S. dollars[Note 2]
	2001	2002	2002
Current liabilities:			
Accounts and notes payable - trade ^(Note 8)	W 38,867,640	W 37,476,042	US\$ 31,219,628
Short-term borrowings ^(Notes 10, 11 and 13)	98,214,609	46,101,226	38,404,887
Accounts payable - other	31,908,098	29,358,588	24,457,338
Advances from customers	417,437	15,220	12,679
Income taxes payable	2,296,674	9,511,792	7,923,852
Dividends payable ^(Note 20)	3,466,726	4,681,259	3,899,749
Accrued expenses and other current liabilities	2,172,331	2,802,302	2,334,474
Current portion of long-term debt, bonds, and capital leases, less discount ^(Notes 11 and 13)	74,520,178	39,503,490	32,908,605
Total current liabilities	251,863,693	169,449,920	141,161,212
Long-term liabilities :			
Long-term debt and bonds, less discount and current portion ^(Note 11)	76,133,861	124,543,160	103,751,383
Severance and retirement benefits ^(Note 14)	9,814,478	9,843,485	8,200,171
Tenant lease deposits and other	4,365,253	4,241,975	3,533,802
Total long-term liabilities	90,313,592	138,628,620	115,485,356
Total liabilities	342,177,285	308,078,540	256,646,568
Commitments and contingencies ^(Note 15)			
Stockholders' equity ^{(Note 16) :}			
Common stock, W5,000 par value			
Authorized - 12,000,000 shares			
Issued - 5,332,338 in 2001 and 5,391,296 in 2002	26,661,690	26,956,480	22,456,248
Outstanding - 4,622,301 in 2001 and 4,681,259 in 2002			
Capital surplus ^(Note 16)	115,343,525	116,415,775	96,980,819
Retained earnings ^(Notes 16)			
Appropriated	79,300,000	108,200,000	90,136,621
Unappropriated	1,591,081	3,398,538	2,831,171
	80,891,081	111,598,538	92,967,792
Capital adjustment account:			
Treasury stock (710,037 shares in 2001 and 2002) ^(Note 16)	(16,607,561)	(16,607,561)	(13,835,022)
Gain on valuation of investments ^(Note 7)	12,392,699	12,742,717	10,615,392
Stock compensation expense	-	121,515	101,229
	(4,214,862)	(3,743,329)	(3,118,401)
Total stockholders' equity	218,681,434	251,227,464	209,286,458
Total liabilities and stockholders' equity	W 560,858,719	W 559,306,004	US\$ 465,933,026

STATEMENTS OF INCOME

Years ended December 31, 2001 and 2002

	Korean won in thousands		U.S. dollars[Note 2]
	2001	2002	2002
Net sales ^(Notes 8, 17 and 22)	W 479,164,299	W 528,920,711	US\$ 440,620,386
Costs and expenses:			
Cost of sales ^(Note 8)	281,225,146	307,700,301	256,331,474
Selling, general and administrative expenses ^(Note 21)	158,496,559	167,561,735	139,588,250
	439,721,705	475,262,036	395,919,724
Operating income	39,442,594	53,658,675	44,700,662
Other income (expenses):			
Interest expense	(23,944,428)	(17,371,304)	(14,471,263)
Interest income	2,940,222	1,045,376	870,856
Dividend income	8,494	781	651
Unrealized foreign currency translation gain (loss), net	(2,205)	65,539	54,598
Realized foreign currency exchange gain, net	423,480	208,893	174,019
Gain on disposal of marketable securities, net	48,067	-	-
Loss on valuation of marketable securities ^(Note 4)	(7,145)	-	-
Gain (loss) on disposal of property, plant and equipment, net	(400,778)	503,202	419,195
Equity income on investments in affiliated companies, net ^(Note 7)	4,060,411	10,318,287	8,595,707
Gain on disposal of investments, net ^(Note 8)	342,719	40,496	33,735
Loss on redemption of bonds	-	(240,000)	(199,933)
Impairment of investments in securities	(334)	(255,128)	(212,536)
Donations	(633,364)	(586,015)	(488,183)
Miscellaneous	413,952	1,494,372	1,244,896
	(16,750,909)	(4,775,501)	(3,978,258)
Ordinary income	22,691,685	48,883,174	40,722,404
Extraordinary gain (loss)	-	-	-
Income before income taxes	22,691,685	48,883,174	40,722,404
Provision for income taxes ^{(Note 18) :}			
Current	5,567,714	11,843,733	9,866,489
Deferred	1,720,585	2,150,396	1,791,399
	7,288,299	13,994,129	11,657,888
Net income	W 15,403,386	W 34,889,045	US\$ 29,064,516
Basic ordinary income per share ^(Note 19) (Korean won and U.S. dollars in units)	W 3,350	W 7,505	US\$ 6.25
Basic earnings per share ^(Note 19) (Korean won and U.S. dollars in units)	W 3,350	W 7,505	US\$ 6.25
Diluted ordinary earnings per share ^(Note 19) (Korean won and U.S. dollars in units)	W 3,350	W 6,976	US\$ 5.81
Diluted earnings per share ^(Note 19) (Korean won and U.S. dollars in units)	W 3,350	W 6,976	US\$ 5.81

STATEMENTS OF APPROPRIATIONS OF UNAPPROPRIATED RETAINED EARNINGS

Years ended December 31, 2001 and 2002

	Korean won in thousands		U.S. dollars [Note 2]	
	2001	2002	2001	2002
Unappropriated retained earnings at end of year before reversal and appropriations:				
Unappropriated retained earnings carried over from prior year	W 2,494,338	W 1,591,081	US\$ 1,325,459	
Increase (decrease) in retained earnings due to equity method of accounting for investments in affiliated companies ^(Note 7)	(239,917)	499,671	416,254	
Net income for the year	15,403,386	34,889,045	29,064,516	
	17,657,807	36,979,797	30,806,229	
Reversal of reserve for technology development	1,000,000	2,000,000	1,666,111	
Unappropriated retained earnings available for appropriations	18,657,807	38,979,797	32,472,340	
Appropriations:				
Legal reserve	400,000	500,000	416,528	
Reserve for business rationalization	700,000	400,000	333,222	
Reserve for financial position improvement	2,000,000	5,000,000	4,165,278	
Reserve for business expansion	2,500,000	12,000,000	9,996,668	
Reserve for technology development	4,000,000	6,000,000	4,998,334	
Voluntary reserve	4,000,000	7,000,000	5,831,390	
Cash dividends ^(Note 20)	3,466,726	4,681,259	3,899,749	
	17,066,726	35,581,259	29,641,169	
Unappropriated retained earnings to be carried forward to next year	W 1,591,081	W 3,398,538	US\$ 2,831,171	

STATEMENTS OF CASH FLOWS

Years ended December 31, 2001 and 2002

	Korean won in thousands		U.S. dollars [Note 2]	
	2001	2002	2001	2002
Operating activities:				
Net income	W 15,403,386	W 34,889,045	US\$ 29,064,516	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	18,128,626	15,437,197	12,860,044	
Bad debt written off	2,045,381	3,475,101	2,894,953	
Provision for severance and retirement benefits	7,639,000	10,226,661	8,519,378	
Payments of severance and retirement benefits, net of transfers	(10,578,064)	(8,868,778)	(7,388,186)	
Decrease in accumulated prepayments to Korean National Pension Fund	454,852	360,350	300,192	
Amortization of discount on bonds	645,018	114,850	95,676	
Amortization of intangible assets	464,037	349,090	290,811	
Loss on valuation of marketable securities	7,145	-	-	
Gain on disposal of marketable securities, net	(48,067)	-	-	
Gain on disposal of investments, net	(342,719)	(40,496)	(33,735)	
Loss on disposal of property, plant and equipment, net	400,778	(503,202)	(419,195)	
Equity income on investments in affiliated companies, net	(4,060,411)	(10,318,287)	(8,595,707)	
Unrealized foreign currency translation loss (gain), net	2,501	(55,993)	(46,645)	
Loss on redemption of bonds	-	240,000	199,933	
Impairment of investments in securities	334	255,128	212,536	
Stock compensation expense	-	121,515	101,229	
Changes in operating assets and liabilities:				
Accounts and notes receivable - trade	(2,262,429)	(479,326)	(399,305)	
Accounts receivable - other	6,307	243,423	202,785	
Accrued interest income	967,442	195,471	162,838	
Prepaid expenses	6,170,976	309,852	258,124	
Other current assets	(739,956)	214,663	178,826	
Inventories	(8,432,658)	1,115,508	929,280	
Long-term prepaid expenses	(4,302,525)	(844,039)	(703,131)	
Deferred income tax assets	1,618,340	1,971,099	1,642,035	
Accounts and notes payable - trade	(9,745,815)	(468,700)	(390,453)	
Accounts payable - other	2,934,861	(1,208,865)	(1,007,052)	
Advances from customers	229,179	(350,898)	(292,318)	
Income taxes payable	(997,872)	7,215,118	6,010,595	
Accrued expenses and other current liabilities	(1,270,552)	965,383	804,217	
Tenant lease deposits and other	58,798	(123,278)	(102,697)	
Net cash provided by operating activities	14,395,893	54,437,593	45,349,544	

STATEMENTS OF CASH FLOWS

	Korean won in thousands		U.S. dollars (Note 2)	
	2001	2002	2001	2002
Investing activities:				
Acquisition of marketable securities	W (11,717,097)	W -	US\$ -	-
Proceeds from disposal of marketable securities	11,765,164	16,148	13,452	
Decrease in short-term financial instruments	4,746,414	1,570,950	1,308,689	
Decrease in long-term financial instruments	70,000	-	-	
Decrease (increase) in guarantee deposits	353,812	(3,205,775)	(2,670,589)	
Acquisition of investments in securities	(9,999,666)	(35,767,459)	(29,796,284)	
Proceeds from disposal of investment in securities	24,595,842	1,521,351	1,267,370	
Increase (decrease) in deposits for employee's group severance insurance	1,763,438	(72,878)	(60,711)	
Dividends received under equity method	324,000	-	-	
Acquisition of property, plant and equipment	(33,942,644)	(16,020,605)	(13,346,055)	
Proceeds from disposal of property, plant and equipment	2,357,097	2,895,298	2,411,944	
Increase in intangible assets	(366,476)	(327,262)	(272,627)	
Decrease in cash and cash equivalents due to spin-off	-	(15,500,000)	(12,912,363)	
Net cash used in investing activities	(10,050,116)	(64,890,232)	(54,057,174)	
Financing activities:				
Increase (decrease) in short-term borrowings	20,634,573	(42,049,042)	(35,029,192)	
Repayment of current portion of long-term debt	(70,703,875)	(64,862,626)	(54,034,177)	
Increase in long-term debt and bonds	75,760,000	142,240,649	118,494,376	
Decrease in long-term debt and bonds	(35,000,000)	(24,340,260)	(20,276,791)	
Decrease in long-term loans	1,001,462	-	-	
Decrease in short-term loans	47,385	10,284	8,567	
Common stock issued for stock warrants	595,550	1,369,765	1,141,090	
Stock issuance costs	(986)	(2,724)	(2,269)	
Payment of cash dividends	(2,758,000)	(3,466,726)	(2,887,976)	
Net cash provided by (used in) financing activities	(10,423,891)	8,899,320	7,413,628	
Net decrease in cash and cash equivalents	(6,078,114)	(1,553,319)	(1,294,002)	
Cash and cash equivalents at the beginning of the year	8,783,462	2,705,348	2,253,706	
Cash and cash equivalents at the end of the year	W 2,705,348	W 1,152,029	US\$ 959,704	

STATEMENTS OF CASH FLOWS

	Korean won in thousands		U.S. dollars (Note 2)	
	2001	2002	2001	2002
Transactions not involving inflow or outflow of cash:				
Transfer of construction in-progress to appropriate property, plant and equipment accounts	W 27,149,367	W 5,560,421	US\$ 4,632,140	
Transfer of long-term debt to current portion	74,622,626	39,503,490	32,908,605	
Acquisition of investments by stock swaps	-	2,619,048	2,181,813	
Depreciation offset against government grants	13,120	12,110	10,088	
Transfer of long-term financial instruments to short-term financial instruments	146,500	75,000	62,479	
Decrease in assets due to spin-off	-	83,429,844	69,501,703	
Decrease in liabilities due to spin-off	-	54,266,623	45,207,117	

The lesser of 10% of annual payroll expense or 40% of the accumulated severance and retirement benefits provision is deductible for corporate income tax reporting purposes, unless benefits are actually paid or the non tax-deducted portion is deposited with financial institutions. Accordingly, the Company had deposited the required portion of its severance and retirement benefits obligation with life insurance companies. Since the Company's employees are individually nominated as the vested beneficiaries of these deposits, such deposits have been offset against the Company's liability for severance and retirement benefits at December 31, 2001 and 2002 (Note 14).

In accordance with the Korean National Pension Law prior to revision, the Company had prepaid a portion of its severance and retirement benefits obligation to the Korean National Pension Corporation ["KNPC"] at a certain rate of payroll expense, up through March 31, 1999. Such accumulated prepayments have been offset against the Company's liability for severance and retirement benefits as of balance sheet dates. In accordance with the revised Korean National Pension Law, addition to such prepayments were no longer required effective April 1, 1999.

Revenue recognition • The Company recognizes revenue from sale of finished products and merchandise at the time of delivery.

Income taxes • Korean GAAP requires the recognition of deferred tax assets and liabilities arising from temporary differences between the financial reporting and tax reporting bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates which are expected to be applied to taxable income in the period such temporary differences are expected to be recovered or settled.

Earnings per share • Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock issued and outstanding during the period. Diluted earnings per share measures the performance of the Company over the reporting period while giving effect to all potential common shares, such as options, warrants and convertible debt, that were dilutive and outstanding during the period.

Use of estimates • The preparation of financial statements in conformity with Korean GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Korean GAAP revisions from 2003 • In 2002, the Korean Accounting Standards Board issued certain new accounting statements with the intention to revise Korean GAAP and disclosure rules to meet international practices. The revised accounting standards will apply to Korean companies for the first fiscal year starting after December 31, 2002. Early adoption of the revised accounting standards is allowed. The cumulative effect on prior years of the changes in accounting policies will be charged or credited to either opening retained earnings or capital adjustment accounts, as required, with disclosures made on the effect of the changes. The revisions include changes in the areas of revenue recognition, intangibles, property, plant and equipment, interest capitalization, marketable and investment securities, and events and transactions occurring after the balance sheet date.

The Company plans to adopt the revised accounting standards from January 1, 2003. The Company is currently evaluating the impact that adoption of the revised accounting standards will have on its financial position and results of operations.

3. CASH AND CASH EQUIVALENTS AND FINANCIAL INSTRUMENTS

Cash and cash equivalents and financial instruments at December 31, 2001 and 2002 consisted of the following:

	Korean won in thousands		U.S. dollars (Note 2)	
	2001	2002	2001	2002
Cash and cash equivalents:				
Cash on hand	W 194,642	W 88,767	US\$ 73,948	
Time deposits	67,048	-	-	
Checking and passbook accounts	2,443,658	1,063,262	885,756	
	W 2,705,348	W 1,152,029	US\$ 959,704	
Short-term financial instruments:				
Installment deposits	W 670,030	W 453,530	US\$ 377,816	
Time deposits	1,950,000	595,550	496,126	
Deposits required to maintain checking accounts	23,500	23,500	19,577	
	2,643,530	1,072,580	893,519	
Less: long-term financial instruments	(98,500)	(23,500)	(19,577)	
	W 2,545,030	W 1,049,080	US\$ 873,942	

4. MARKETABLE SECURITIES

The marketable securities at December 31, 2001, consisting of 14,290 shares of Chong Gu Housing & Construction Corp., was transferred to investments in securities in 2002 and valuation loss of W 16,148 thousand was recorded as impairment of investments in securities in 2002.

5. ACCOUNTS AND NOTES RECEIVABLE - TRADE

Accounts and notes receivable - trade at December 31, 2001 and 2002 consisted of the following:

	Korean won in thousands		U.S. dollars (Note 2)	
	2001	2002	2001	2002
Accounts receivable	W 56,901,085	W 51,471,854	US\$ 42,878,918	
Notes receivable	26,675,543	28,492,103	23,735,507	
	83,576,628	79,963,957	66,614,425	
Allowance for doubtful accounts	(835,766)	(1,253,650)	(1,044,359)	
	W 82,740,862	W 78,710,307	US\$ 65,570,066	

6. INVENTORIES

Inventories at December 31, 2001 and 2002 consisted of the following:

	Korean won in thousands		U.S. dollars (Note 2)	
	2001	2002	2001	2002
Merchandise	W 4,345,580	W 4,775,755	US\$ 3,978,469	
Finished goods	11,897,229	9,480,484	7,897,771	
Work-in-process	1,232,904	1,002,820	835,405	
Raw materials	6,956,359	6,327,157	5,270,874	
Supplies and parts	1,268,379	1,125,514	937,616	
Raw materials in-transit	3,057,478	2,815,472	2,345,445	
	W 28,757,929	W 25,527,202	US\$ 21,265,580	

7. INVESTMENTS IN SECURITIES

Investments in securities at December 31, 2001 and 2002 consisted of the following:

	Korean won in thousands				Equity ratio (%)
	2002	Acquisition cost	Proportionate share in net asset value or market value	Carrying value in balance sheet	
Affiliated companies					
(accounted for by the equity method):					
Orion Frito-Lay Corp.	W 2,703,346	W 29,298,985	W 26,672,537		50.00
Tong Yang Mart Corp.	25,393,012	24,853,787	24,821,130		54.59
Orion Beverage Corp.	100,000	100,000	100,000		100.00
Orion Food Co., Ltd.	11,370,316	15,207,753	15,174,202		80.26
Orion Food (Shanghai) Co., Ltd.	22,890,134	20,588,936	20,416,135		100.00
Tong Yang Reports Corp.	2,150,000	1,904,350	2,150,000		86.00
On Media Corp.	110,380,527	103,067,334	69,436,936		58.94
Zemiro Inc.	999,000	739,680	2,659		35.00
Mediaplex Corp.	17,999,000	29,043,592	28,973,921		83.33
riseON Inc.	32,754,002	32,786,254	30,445,381		100.00
	226,739,337	257,590,671	218,192,901		
Listed securities					
(accounted for at published market value):					
Haitai Store Co., Ltd.	166,480	6,826	6,826		0.12
Korea Investment Corp.	58,800	12,642	12,642		0.13
Others	2,225	10,218	10,218		
	227,505	29,686	29,686		
Non-listed securities (at cost):					
The Korea Economic Daily	28,400	13,937	28,400		0.03
Others	85,777	69,629	69,629		
	114,177	83,566	98,029		

Korean won in thousands				
	Acquisition cost	Proportionate share in net asset value or market value	Carrying value in balance sheet	Equity ratio (%)
2002				
Bonds (at cost):				
Corporate bonds	560,000	321,020	321,020	
Others	753,775	753,775	753,775	
	1,313,775	1,074,795	1,074,795	
Total	W 228,394,794	W 258,778,718	W 219,395,411	
2001				
Affiliated companies:				
Orion Frito-Lay Corp.	W 2,703,346	W 25,226,200	W 22,603,066	50.00
Tong Yang Mart Corp.	25,000,000	21,169,070	21,230,605	54.59
Orion Beverage Corp.	100,000	100,000	100,000	100.00
Orion Food Co., Ltd.	6,771,854	11,045,189	11,034,049	73.90
Orion Food (Shanghai) Co., Ltd.	9,137,416	9,351,760	9,137,416	100.00
Tong Yang Reports Corp.	2,150,000	2,150,000	2,150,000	86.00
On Media Corp.	110,380,527	93,550,724	57,828,599	58.94
Mediaplex Corp.	9,999,000	12,426,982	12,426,982	83.33
Zemiro Inc.	999,000	1,920,278	999,000	35.00
	157,241,143	176,940,203	137,509,717	
Listed securities (accounted for at published market value):				
Haitai Store Co., Ltd.	166,480	9,781	9,781	0.12
Korea Investment Corp.	58,800	29,988	29,988	0.13
Others	1,906	6,250	6,250	
	227,186	46,019	46,019	
Non-listed securities (at cost):				
Tong Yang Card Co., Ltd.	700,000	186,848	700,000	0.51
Others	162,659	162,659	162,659	
	862,659	349,507	862,659	
Bonds (at cost):				
Corporate bonds	560,000	560,000	560,000	
Others	607,415	607,415	607,415	
	1,167,415	1,167,415	1,167,415	
Total	W 159,498,403	W 178,503,144	W 139,585,810	

The net valuation loss on the investment in Haitai Store Co., Ltd. amounting to W 334 thousand was charged to 2001 operations and corporate bond amounting to W 238,980 thousand was charged to 2002 operations as impairment of investments in securities.

Investments in affiliated companies accounted for by the equity method at December 31, 2001 and 2002 consisted of the following (Korean won in thousands):

	Carrying value at Dec. 31, 2001	Additional acquisition costs	Equity income (loss) on investments	Gain (loss) on valuation of investments	Retained Earnings	Dividends	Carrying value at Dec. 31, 2002
2001	2001	costs	investments	investments	Earnings	Dividends	2002
Orion Frito-Lay Corp.	W 22,603,066	W -	W 4,069,471	W -	W -	W -	W 26,672,537
Tong Yang Mart Corp.	21,230,605	393,012	3,198,927	(229,242)	227,828	-	24,821,130
Orion Food Co., Ltd.	11,034,049	4,598,463	823,238	(1,281,399)	-	-	15,174,202
Orion Food (Shanghai) Co., Ltd.	9,137,416	13,752,718	(1,263,600)	1,210,399	-	-	20,416,135
On Media Corp.	57,828,599	10,000,000	886,874	449,620	271,843	-	69,436,936
Zemiro Inc.	999,000	-	(996,341)	-	-	-	2,659
Mediaplex Corp.	12,426,982	8,000,000	5,908,339	2,638,600	-	-	28,973,921
riseON Inc.	-	32,754,002	(2,308,621)	-	-	-	30,445,381
	W135,259,717	W 69,498,195	W 10,318,287	W 367,031	W 499,671	W -	W215,942,901

	Carrying value at Dec. 31, 2000	Additional acquisition costs	Equity income (loss) on investments	Gain (loss) on valuation of investments	Retained Earnings	Dividends	Carrying value at Dec. 31, 2001
2001	2000	costs	investments	investments	Earnings	Dividends	2001
Orion Frito-Lay Corp.	W 20,478,219	W -	W 2,443,337	W -	W 5,510	W 324,000	W 22,603,066
Tong Yang Mart Corp.	18,719,015	-	2,511,590	-	-	-	21,230,605
Orion Food Co., Ltd.	10,314,345	-	170,756	548,949	-	-	11,034,049
Orion Food (Shanghai) Co., Ltd.	1,940,010	7,197,406	-	-	-	-	9,137,416
On Media Corp.	60,351,830	-	(2,705,251)	427,447	(245,427)	-	57,828,599
Zemiro Inc.	999,000	-	-	-	-	-	999,000
Orion Beverage Corp.	100,000	-	-	-	-	-	100,000
Tong Yang Reports Corp.	150,000	2,000,000	-	-	-	-	2,150,000
Mediaplex Corp.	10,787,002	-	1,639,979	-	-	-	12,426,982
	W123,839,421	W 9,197,406	W 4,060,411	W 976,396	W (239,917)	W (324,000)	W137,509,717

8. RELATED PARTY TRANSACTIONS

Transactions with affiliated companies during 2001 and 2002 are summarized as follows:

Transactions	Korean won in thousands		U.S. dollars (Note 2)
	2001	2002	
Sales to Orion Frito-Lay Corp.	W 1,548,783	W 1,266,964	US\$ 1,055,452
Purchases from Orion Frito-Lay Corp.	85,873,888	96,262,813	80,192,280
Sales to Orion Food Co., Ltd.	351,984	221,121	184,206
Purchases from Orion Food Co., Ltd.	6,293,263	12,567,901	10,386,455
Sales to Tong Yang Mart Corp.	1,371,352	2,009,776	1,674,255
Purchases from Tong Yang Mart Corp.	260,000	425,290	354,290
Sales to Orion Food (Shanghai) Co., Ltd.	-	58,910	49,075
Purchases from Orion Food Co., Ltd.	-	856,867	713,818
riseON Inc.	-	87,020,625	72,493,023

Outstanding balances resulting from the foregoing transactions at December 31, 2001 and 2002 are as follows:

2002	Korean won in thousands		U.S. dollars (Note 2)
	2001	2002	
Accounts and notes receivable from Orion Frito-Lay Corp.	W 207,052	W 146,161	US\$ 121,760
Accounts and notes payable to Orion Frito-Lay Corp.	18,341,734	22,338,236	18,608,994 ^o
Accounts and notes receivable from Tong Yang Mart Corp.	251,929	292,719	243,851
Accounts and notes payable to Tong Yang Mart Corp.	-	82,000	68,311
Accounts and notes receivable from Orion Food Co., Ltd.	21,987	22,067	18,383
Accounts and notes payable to Orion Food Co., Ltd.	625,418	1,126,636	938,550
Accounts and notes receivable from Orion Food (Shanghai) Co., Ltd.	-	4,104	3,419
Accounts and notes payable to Orion Food (Shanghai) Co., Ltd.	-	295,001	245,752
Long-term loans to Orion Food Co., Ltd.	2,619,048	-	-

9. INSURANCE COVERAGE AND PUBLISHED VALUE OF LAND

As of December 31, 2002, inventories and property, plant and equipment were insured against fire and other casualty losses, including losses on business interruption, for up to a total of W 128,586,057 thousand. (W 133,803,335 thousand as of 2001).

As of December 31, 2002, land was valued at W 75,853,958 thousand (W 88,564,782 thousand as of December 31, 2001), based on land values published by the Korean Government for tax administration purposes.

10. SHORT-TERM BORROWINGS

Short-term borrowings at December 31, 2001 and 2002 consisted of the following:

	Korean won in thousands		U.S. dollars(Note 2)	Annual interest rates in 2002 (%)
	2001	2002	2002	
Bank overdrafts	W 1,702,385	W 165,119	US\$ 137,553	6.50~10.50
General term loans:				
Local currency	90,000,000	40,000,000	33,322,226	5.30~6.33
Foreign currency	6,512,224	5,936,107	4,945,108	1.75~4.28
	W 98,214,609	W 46,101,226	US\$ 38,404,887	

See Note 11 for a description of guarantees and assets mortgaged or pledged in connection with these borrowings.

11. LONG-TERM DEBT

Long-term debt at December 31, 2001 and 2002 consisted of the following:

	Korean won in thousands		U.S. dollars(Note 2)	Annual interest rates in 2002 (%)
	2001	2002	2002	
Loans	W 2,946,000	W 74,070,288	US\$ 61,704,672	3.0~8.3
Bonds	117,000,000	90,000,000	74,975,008	5.8~8.0
	149,946,000	164,070,288	136,679,680	
Less:				
Discount on bonds	(138,487)	(23,638)	(19,692)	
Current portion	(73,673,652)	(39,503,490)	(32,908,605)	
	W 76,133,861	W 124,543,160	US\$ 103,751,383	

The bonds at December 31, 2001 and 2002 are detailed as follows:

	Korean won in thousands		U.S. dollars(Note 2)	Maturity	Annual interest rates in 2002 (%)
	2001	2002	2002		
Guaranteed	W -	W -	US\$ -	-	-
Non-guaranteed	117,000,000	90,000,000	74,975,008	03.3.26~05.8.22	5.8~8.0
Total	117,000,000	90,000,000	74,975,008		
Less:					
Current portion	(71,897,552)	(30,000,000)	(24,991,669)		
Discount on bonds	(138,487)	(23,638)	(19,692)		
	W 44,963,961	W 59,976,362	US\$ 49,963,647		

The overseas bond with detachable warrants, denominated in U.S. dollars and with coupon interest rate of 3%, were issued in May 1999 to Euro market investors originally for the total amount of US\$ 15,000,000. The bond holders can exercise their warrants during the period from June 16, 1999 through April 30, 2004, at W 24,000 per share of common stock, and starting on May 1, 2004, the holders may also ask the Company to redeem the bonds, with a guaranteed interest rate of 7.7%. The bondholders had exercised their put-option on May 31, 2000, and accordingly, the US\$ 15,000,000 was redeemed by the Company in full. In 2002, the bondholders exercised detachable warrants by acquiring common stocks amounting to US\$ 1,150,000 (US\$ 500,000 in 2001). Accordingly, the Company issued 58,958 new shares of common stock (25,634 shares in 2001). Detachable warrants amounting to US\$ 11,300,000 (US\$ 12,450,000 as of December 31, 2001) remain outstanding as of December 31, 2002.

In connection with the short-term borrowings, long-term debt and bond guarantees, two blank promissory notes (nine blank promissory notes and five blank checks in 2001) were provided by the Company as collaterals, together with the mortgage of certain property, plant and equipment to the extent of W 58,714,000 thousand (W 66,714,400 thousand in 2001) and US\$ 40,937,000 as of December 31, 2001 and 2002.

Scheduled repayment of long-term debt outstanding as of December 31, 2002 is summarized as follows:

Years	Korean won in thousands		U.S. dollars(Note 2)	
2003	W	39,503,490	US\$	32,908,605
2004		67,506,474		56,236,649
2005		54,509,547		45,409,486
2006		1,887,713		1,572,570
2007 and after		663,064		552,369
	W	164,070,288	US\$	136,679,680

12. OBLIGATIONS UNDER CAPITAL LEASES

The Company leased certain machinery and equipment from Korea Exchange Bank under capital lease agreements which expired in 2002. The lease payments under these lease agreements as of December 31, 2002 are as follows:

Years	Korean won in thousands		U.S. dollars(Note 2)	
	Principal	Interest	Principal	Interest
2002	W 839,430	W 10,068	US\$ 699,292	US\$ 8,387
	W 839,430	W 10,068	US\$ 699,292	US\$ 8,387

13. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES

	Denominated in foreign currency		Equivalent Korean won in thousands 2002
	2001	2002	
Assets			
Cash and cash equivalents	US\$ 50,560	US\$ 547,171	W 656,824
Accounts and notes receivable trade	978,061	1,688,504	2,026,880
Long-term loans	1,975,000	-	-
Total	US\$ 3,003,621	US\$ 2,235,675	W 2,683,704
Liabilities			
Current portion of long-term debt	US\$ 638,358	-	-
Short-term borrowings	US\$ 4,445,929	US\$ 4,813,472	5,778,093
	EUR 412,315	EUR 125,672	158,015
	FRF 744,000	-	-
Total	US\$ 5,084,287	US\$ 4,813,472	W 5,936,108
	EUR 412,315	EUR 125,672	
	FRF 744,000		

14. SEVERANCE AND RETIREMENT BENEFITS

The changes in severance and retirement benefits for the years ended December 31, 2000 and 2001 are as follows:

	Korean won in thousands		U.S. dollars(Note 2)
	2001	2002	2002
Beginning balance	W 30,657,336	W 27,718,272	US\$ 23,090,863
Provision for severance and retirement benefits	7,639,000	10,226,661	8,519,378
Transferred from affiliated companies	40,625	12,006	10,002
Payments of severance and retirement benefits	(10,618,689)	(8,880,784)	(7,398,187)
Ending balance	27,718,272	26,785,083	22,313,465
Less:			
Deposits for group severance and retirement benefits	(16,630,963)	(16,073,541)	(13,390,154)
Prepayments to the KNPC	(1,272,831)	(868,057)	(723,140)
	W 9,814,478	W 9,843,485	US\$ 8,200,171

15. COMMITMENTS AND CONTINGENCIES

The Company has entered into a five-year royalty agreement on December 1, 1995, with Kint and Associates Inc. for the production of biscuits. Under the agreement, the Company paid a lump sum royalty of US\$ 35,000 in 1995 and is committed to pay running royalty at 2.0% of net sales of the licensed products from 1995. The royalty agreement was terminated in 2001.

In 1995, the Company entered into a twenty-year royalty agreement, with S&A Restaurant Co., Ltd. for the operations of "Bennigan's" family restaurants in Korea. Under the agreement, the Company paid a lump sum royalty of US\$ 150,000 and is committed to pay running royalty at 2.7% of net sales of restaurant business from 1995. On September 30, 2002, the family restaurant division of the Company was spun off into a new company, which was incorporated as riseON Inc. as described in Note 23.

In 2000, the Korea Tobacco Corporation (KTC) invested the amount of W 26,000,000 thousand in Tong Yang Mart Corporation, an affiliate of the Company. In relation to this investment, the Company made a commitment under a contract with KTC, to redeem KTC's investment in Tong Yang Mart Corporation anytime after 2004, at KTC's option.

As of December 31, 2002, the Company has entered into bank overdraft facility agreements with aggregate credit line of W 60,000,000 thousand. The Company also has entered into foreign trading agreements of which the limit amounts are US\$ 15,700,000 and W 4,000,000 thousand (US\$ 3,332,222).

16. STOCKHOLDERS' EQUITY

The Company's major stockholders as of December 31, 2002 are; Hwa Kyung Lee and relatives (11.63%), Chul Kon Tam (10.44%), and Arirang Fund (9.65%).

During 2001 and 2002, holders of overseas bond with warrants (Note 11) exercised their warrants by acquiring 25,634 and 58,958 shares of common stock with total par value of W 128,170 thousand and W 294,790 thousand thereby increasing capital surplus in excess of par value by W 467,380 thousand W 1,074,975 thousand, respectively.

As of December 2001 and 2002, the Company purchased 710,037 shares of its common stocks at the cost of W 16,607,561 thousand. This amount is shown as capital adjustment account, a deduction from stockholders' equity.

Capital surplus • Capital surplus at December 31, 2001 and 2002 consisted of the following:

	Korean won in thousands		U.S. dollars(Note 2)
	2001	2002	2002
Paid-in capital in excess of par value	W 42,997,646	W 44,069,897	US\$ 36,712,677
Asset revaluation surplus	71,675,867	71,675,867	59,709,986
Other capital surplus	670,012	670,011	558,156
	W 115,343,525	W 116,415,775	US\$ 96,980,819

The asset revaluation surplus may be used to offset a deficit, or may be transferred to paid-in capital.

Appropriated retained earnings • Appropriated retained earnings at December 31, 2001 and 2002 consisted of the following:

	Korean won in thousands		U.S. dollars(Note 2)
	2001	2002	2002
Legal reserve	W 4,900,000	W 5,400,000	US\$ 4,498,500
Reserve for business rationalization	7,300,000	7,700,000	6,414,528
Reserve for financial position improvement	14,100,000	19,100,000	15,911,363
Reserve for technology development	12,000,000	16,000,000	13,328,890
Reserve for business expansion	23,000,000	35,000,000	29,156,949
Voluntary reserve	18,000,000	25,000,000	20,826,391
	W 79,300,000	W 108,200,000	US\$ 90,136,621

In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated to legal reserve until such reserve equals 50% of paid-in capital.

The amount of tax exemptions taken in accordance with the Korean Tax Incentives Limitation Law ("KTILL") are required to be appropriated to business rationalization reserve.

The Korean Financial Control Regulations for listed companies require that an amount equal to at least 10% of net income, and 50% of net gain, if any, on disposal of property, plant and equipment, after deduction of any applicable tax, be appropriated as a reserve for financial position improvement until the ratio of stockholders' equity to total assets equals 30%. At December 31, 2002, the Company's ratio of stockholder's equity to total assets was 44.9% (39.0% at December 31, 2001).

The reserve for technology development was appropriated to obtain tax benefits. This reserve may be utilized for cash dividends after the lapse of the grace period prescribed under KTILL.

The legal reserve and reserves for business rationalization and financial position improvement referred to above may not be used for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

Stock-option • In accordance with a resolution of the board of directors at their meeting held on January 31, 2002, the Company adopted a stock option plan ("the Plan"), whereby 22,291 shares of common stock are reserved for issuance at W 39,546 per share to certain Company officers. As defined in the Plan, the options are exercisable within seven years, starting from January 31, 2005. The options are cancelable upon retirement of vested officers. The total compensation cost recognized in the income statements for stock-based employee compensation awards for the year ended December 31, 2002 amounted to W 121,515 thousand (US\$ 101,229).

The Black Scholes option-pricing model was used to value the stock option issued. Significant assumptions used to estimate the value of options are as follows:

• Volatility	45.25%
• Risk-free interest rate	7.11%
• Dividend yield	1.36%
• Expected rate of cancellation	7.15%

17. SALES

Details of the Company's sales for the years ended December 31, 2001 and 2002 are follows:

	Korean won in thousands		U.S. dollars(Note 2)
	2001	2002	2002
Product sales:			
Domestic sales	W 304,854,331	W 328,832,481	US\$ 273,935,756
Export sales	16,803,691	8,006,815	6,670,123
	321,658,022	336,839,297	280,605,879
Merchandise sales:			
Domestic sales	157,139,121	174,522,722	145,387,140
Export sales	367,156	17,558,692	14,627,367
	157,506,277	192,081,414	160,014,507
	W 479,164,299	W 528,920,711	US\$ 440,620,386

18. INCOME TAXES

In 2001 the Company was subject to corporate income taxes, including resident surtax, at the aggregate rates of 17.6% on taxable income up to W 100,000 thousand and 30.8% on taxable income in excess of W 100,000 thousand. Starting on January 1, 2002, such corporation tax rates were reduced to 16.5% and 29.7%, respectively. The Company is also subject to a special surtax for the development of farming and fishery industries at 20% of the amounts of certain tax reductions or tax credits taken by the Company up to the year 2003.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2002

1. ORGANIZATION AND BUSINESS

Tong Yang Confectionery Corporation ("the Company") was incorporated in 1956, under the laws of the Republic of Korea to engage in the business of manufacturing and selling confectioneries.

As of December 31, 2001 and 2002, the Company has four manufacturing plants in Korea to produce biscuits, chocolates, pies and gums. The Company also sells merchandise purchased from Orion Frito-Lay Corp., a 50% owned company organized locally under a joint venture agreement with Pepsico Foods International Inc. of the United States of America.

The Company's common stock has been listed on the Korea Stock Exchange since June 27, 1975.

On September 1, 2001, the Company, together with all its affiliates (Note 7) separated from the Tong Yang Group of companies to establish its own identity as a confectionery, food and entertainment business group.

2. BASIS OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of financial statements ● The Company maintains its official 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 ("Korean GAAP"). 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 not intended for use by those who are not informed about Korean accounting principles and practices.

For the convenience of the reader, in preparing the accompanying financial statements, certain reclassifications, and changes in statement format and extent of disclosures have been made to the financial statements issued in the Korean language for domestic statutory purposes.

Certain supplementary information included in the statutory 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.

Basis of translating the financial statements ● Solely for the convenience of the reader, the 2002 financial statements, expressed in Korean won, have been translated to United States dollar amounts at the exchange rate of W 1,200.40 to US\$ 1, the prevailing exchange rate on December 31, 2002. This translation should not be construed as a representation that any or all of the amounts stated in Korean won could have been converted to United States dollars at this or any other rate.

Cash equivalents ● Highly liquid marketable securities and short-term financial instruments with original maturities of three months or less, and which have no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents.

Financial instruments ● Financial instruments, such as time deposits and restricted bank deposits, which are traded by financial institutions and are held for short-term cash management purposes or which will mature within one year, are accounted for as short-term financial instruments. Financial instruments other than cash equivalents and short-term financial instruments are recorded as long-term financial instruments.

Marketable securities and investments ● The cost of marketable securities is determined using the moving average method and the cost of investments in securities are determined using the weighted average method. Marketable securities and investments in listed securities (excluding investments subject to the equity method of accounting) are stated at market value as of the balance sheet date. The unrealized gains (losses) from marketable securities are credited (charged) to current operations and those from investments in listed securities are excluded from results of operations and recorded in capital adjustment account, a separate component of stockholders' equity.

Investments in affiliates owned 20% and above, or where the investor has significant management control over the investee, are accounted for using

the equity method. Investments in affiliates owned less than 20% and other investment securities are accounted for using the cost method. However, if the fair value or the underlying net worth of investments (excluding investments subject to the equity method of accounting) has declined significantly below the Company's book value or acquisition cost and there is no possibility of recovery in the future, a valuation loss is recognized and charged to current operations.

Allowance for doubtful account ● The Company provides an allowance for doubtful accounts to cover estimated losses that may arise from non-collection of its receivables. The estimate of losses is based on the estimated collectibility of receivables and historical bad debt experience.

Foreign currency translation ● The Company's books and records are maintained in Korean won. Transactions conducted in foreign currencies are recorded in Korean won based on the prevailing exchange rates when the transactions are made. Assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rates in effect at the balance sheet date. The resulting unrealized foreign currency translation gains (losses) are credited (charged) to current operations.

Inventories ● Inventories are stated at the lower of cost or net realizable value. Cost is determined by specific identification for materials in transit, and the moving average method for all other inventories.

Property, plant and equipment and depreciation ● Property, plant and equipment are stated at cost, except for assets which were revalued in accordance with the Korean Assets Revaluation Law.

Depreciation of property, plant and equipment has been provided using the declining balance method (straight-line method for buildings and structures acquired after January 1, 1995) over the following estimated useful lives:

	Useful lives of assets acquired from January 1, 1995	Useful lives of assets acquired before January 1, 1995
Buildings and structures	50	2 ~ 60
Machinery and equipment	10	2 ~ 10
Vehicles	5	2 ~ 15
Tools, furniture and fixtures	5	2 ~ 54

The Company has provided for depreciation on assets acquired after January 1, 1995 without retaining a 10% residual value in its accounts. Assets acquired prior to January 1, 1995 have been and will continue to be depreciated up to 90% of their acquisition costs, recognizing a 10% residual value to be disposed at equal amounts for three years after accumulated depreciation reaches 90% of their acquisition costs.

Maintenance and repairs are expensed in the year in which they are incurred. Expenditures that enhance the value or extend the life of an asset are capitalized as additions to property, plant and equipment. Interest expenses and financing charges on borrowings related to the construction or acquisition of property, plant and equipment are capitalized as part of the cost of the assets during construction period. The Company incurred total interest expense of W 17,371,304 thousand in 2002 (W 24,186,212 thousand in 2001), of which W 67,131 thousand (W 241,784 thousand in 2001) was capitalized.

Leased assets ● Property, plant and equipment acquired under capital leases and the related lease obligations are recorded at the discounted present value of non-cancelable lease payments. Assets acquired under capital leases are depreciated using the same method as that provided for other assets acquired through purchase or construction. Rental expenses incurred for assets leased under operating leases are charged to current operations.

Intangible assets ● Intangible assets consist of goodwill and industrial property rights; these are amortized using the straight-line method over 5 to 10 years.

Discount (or premium) on bonds ● The difference between proceeds from bonds (less bond issue and other related costs) and the face value of bond is presented as a deduction (or addition) from (to) the face value of the bonds and is amortized using the effective interest rate method over the life of the bonds.

Consideration for stock warrants of bonds ● Interest expense on bonds with stock warrants is recognized using the effective interest rate which equalizes the issued amount of bonds to the present value of the future cash outflow of bonds with stock warrants. Accordingly, the differences between accrued interest and interest paid are presented as an addition to the nominal value of the bonds as a long-term accrued interest account.

Severance and retirement benefits ● In accordance with the Korean Labor Standards Law and the Company's regulations, employees and directors with more than one year of service are entitled to severance and retirement benefits upon termination of their employment based on years of service, rates of pay in effect at the time of termination and certain other factors. The annual provision is sufficient to state the estimated obligation arising from services performed to and at rates of pay in effect at the end of year. Funding of this liability is not required by Korean law.

A reconciliation between taxable income and income before income taxes for financial reporting purposes are as follows:

	Korean won in thousands		U.S. dollars[Note 2]
	2001	2002	2002
Income before income taxes per the statements of income	W 22,691,685	W 48,883,174	US\$ 40,722,404
Permanent differences:			
Taxes and dues	1,642,691	126,742	105,583
Entertainment expenses	88,831	10,307	8,586
Valuation of equity method	(239,917)	531,066	442,408
Investments in securities	-	(1,586,669)	(1,321,784)
Other	-	311,910	259,838
	1,491,605	(606,644)	(505,368)
Temporary differences:			
Foreign currency translation loss	(127,061)	(325,209)	(270,917)
Allowance for doubtful accounts	517,223	929,437	774,273
Reserve for technology development	(3,000,000)	2,000,000	1,666,111
Depreciation	1,006,868	482,553	401,994
Accrued interest income	967,442	195,471	162,838
Equity income on investments in affiliates	(3,496,494)	(10,594,226)	(8,825,580)
Other	(162,417)	71,584	59,633
	(4,294,439)	(7,240,390)	6,031,648
Taxable income	W 19,888,852	W 41,036,140	US\$ 34,185,388

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant changes in cumulative temporary differences for the year ended December 31, 2002 are as follows:

	Korean won in thousands		
	Beginning balances	Net changes	Ending balances
Temporary differences			
Foreign currency translation gain	W 325,209	W 325,209	W -
Allowance for doubtful accounts	4,016,183	929,437	4,945,620
Accrued interest income	(231,080)	195,470	(35,610)
Reserve for technology development	(8,000,000)	2,000,000	(6,000,000)
Equity income on investments in affiliates	31,093,204	(10,849,353)	20,243,851
Depreciation	5,358,509	482,553	5,841,062
Other, net	866,047	326,712	1,192,759
	33,428,072	W 7,240,390	26,187,682
Tax rate	29.7%		29.7%
Deferred income tax - asset	W 9,928,138		W 7,777,742

Temporary differences vary between amounts shown on December 31, 2001 and January 1, 2002 due to spinoffs and adjustments after tax investigation by tax authorities.

Significant changes in cumulative temporary differences for the year ended December 31, 2001, are as follows:

	Korean won in thousands		
	Beginning balances	Net changes	Ending balances
Temporary differences			
Foreign currency translation gain	W 452,270	W (127,061)	W 325,209
Allowance for doubtful accounts	3,346,202	517,223	3,863,425
Accrued interest income	(1,198,522)	967,442	(231,080)
Reserve for technology development	(5,000,000)	(3,000,000)	(8,000,000)
Equity income on investments in affiliates	35,011,200	(3,917,996)	31,093,204
Depreciation	4,142,920	1,006,868	5,149,788
Other, net	1,032,402	159,808	1,192,210
	37,786,472	W (4,393,716)	33,392,756
Tax rate	30.8%		29.7%
Deferred income tax - asset	W 11,638,234		W 9,917,649

In accordance with the Korean Tax Incentives Limitation Law, the income tax due on the gain on disposal of investments tendered in exchange partly for the 62.18% equity in On Media Corporation (Note 8) amounting to \31,906,986 thousand and on the gain on disposal of property, plant and equipment to riseON, Inc. due to spin-off amounting to W 1,586,669 thousand is deferred up to the time when those investments are substantially transferred to third parties.

19. PER SHARE AMOUNTS

The per share amounts are computed as follows:

	Korean won in thousands	
	2001	2002
Basic and diluted net income available to common stockholders	W 15,403,386	W 34,889,045
Weighted average number of common shares outstanding during the year	4,598,142	4,648,560
Weighted average number of common shares outstanding - adjusted for additional dilutive shares from warrants (352,736 shares in 2002)	4,598,142	5,001,296
Basic earnings per share (in single Korean won)	W 3,350	W 7,505
Diluted earnings per share (in single Korean won)	W 3,350	W 6,976

(*) There is no adjustment for dilutive shares for the stock option plan in 2002, because there is no dilutive, even if the average market value per share is over the exercise price during 2002

(*) There is no adjustment for dilutive shares for warrants in 2001, because the exercise price of warrants is over the average market value per share during 2001.

20. DIVIDENDS

Cash dividends for the year ended December 31, 2001 are as follows:

	Outstanding shares	Dividend rates(%) (of par value)	Korean won in thousands
Accrued cash dividends	4,622,301	15%	W 3,466,726

Cash dividends for the year ended December 31, 2002 are as follows:

	Outstanding shares	Dividend rates(%) (of par value)	Korean won in thousands	U.S. dollars [Note 2]
Accrued cash dividends	4,681,259	20%	W 4,681,259	US\$ 3,899,749

21. FINANCIAL DATA FOR THE CALCULATION OF ADDED VALUE

The accounts and amounts, which are required to be disclosed in connection with the calculation of the added value of the Company's operations for the years ended December 31, 2001 and 2002, are as follows (Korean won in thousands):

	Cost of goods manufactured		Selling and administrative expenses		Total	
	2001	2002	2001	2002	2001	2002
Salaries	W 16,235,432	W 16,186,141	W 62,169,200	W 66,917,348	W 78,404,632	W 83,103,489
Severance and retirement benefits	2,283,958	2,720,630	5,355,042	7,506,031	7,639,000	10,226,661
Fringe benefits	3,377,255	3,537,257	13,911,005	13,160,754	17,288,260	16,698,011
Rental expenses	252,390	213,411	3,523,699	3,126,593	3,776,089	3,340,004
Depreciation	12,351,466	10,822,718	5,777,160	4,614,479	18,128,626	15,437,197
Taxes and dues	458,444	432,737	1,495,898	1,536,531	1,954,342	1,969,268
Total	W 34,958,945	W 33,912,894	W 92,232,004	W 96,861,736	W 127,190,949	W 130,774,630

22. SEGMENT INFORMATION

The Company's business is broken down into two segments; manufacturing and selling confectioneries and the family restaurant business. The sales from manufacturing and selling of confectioneries accounted for 89.7% and 91.3% of total sales for the years ended December 31, 2001 and 2002, respectively. The family restaurant business was spun-off on September 30, 2002 as described in Note 23.

23. SPIN-OFF

The family restaurant business of the Company was spun off into a new company, which was incorporated as riseON Inc., a wholly owned subsidiary, as approved by stockholders resolution at their meeting held on August 26, 2002. The opening balance sheet of riseON Inc. as of September 30, 2002 is as follows.

Assets:	Korean won in thousands	Liability	Korean won in thousands
Current asset:	W 20,234,454	Current liabilities	W 22,650,275
Quick assets	18,119,237	Non-current liabilities	31,616,348
Inventory	2,115,217	Total liabilities	54,266,623
Non-current assets:	66,786,171	Stockholder 'equity:	
Investments	19,500,953	Capital stock	5,412,000
Property and equipment	47,039,018	Capital surplus	27,342,002
Intangible assets	246,200		32,754,002
Total assets	W 87,020,625	Total liabilities and Stockholder 'equity	W 87,020,625

24. SUBSEQUENT EVENTS

In accordance with resolution of the board of directors at their meeting held on January 30, 2003, the Company adopted a stock option plan ("the Plan"), whereby 19,318 shares of common stock are reserved for issuance at W 57,140 per share to certain Company officers. As defined in the Plan, the options are exercisable within seven years, starting from January 30, 2006. The options are cancelable upon retirement of vested officers.

25. KOREAN ECONOMY

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Company may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

INDEPENDENT AUDITORS' REPORT



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The Stockholders and Board of Directors

Tong Yang Confectionery Corporation

We have audited the accompanying balance sheets of Tong Yang Confectionery Corporation ("the Company") as of December 31, 2001 and 2002, and the related statements of income, appropriations of unappropriated retained earnings and cash flows for the years then ended, all 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 financial statements referred to above, expressed in Korean won, present fairly, in all material respects, the financial position of Tong Yang Confectionery Corporation as of December 31, 2001 and 2002, and the results of its operations, appropriations of unappropriated retained earnings, and cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

As described in Note 1, on September 1, 2001, the Company, together with its affiliates, including Orion Frito-Lay Corp. and On Media Corp. separated from the Tong Yang Group to establish its own entertainment and confectionery business group.

As described in Note 8, the Company has had transactions with subsidiaries and affiliated companies.

As described in Note 23, effective September 30, 2002, the family restaurant division ("Bennigan's") of the Company was spun off into a new company, which was incorporated as riseON Inc., a wholly owned subsidiary, as approved by the stockholders in a resolution passed at their meeting held on August 26, 2002 at the time of spin-off, the assets and liabilities of the family restaurant division were W 87,020,625 thousand and W 54,266,623 thousand, respectively, and the excess of assets over liabilities amounting to W 32,754,002 thousand was capitalized as common stock and capital surplus of riseON Inc.

As described in Note 24, in accordance with a resolution by the board of directors in their meeting held on January 30, 2003, the Company adopted a stock option plan ("the Plan"), in which 19,318 shares of common stock are reserved for issuance at W 57,140 per share to the Company's officers. As defined in the Plan, the options are exercisable within seven years, starting from January 30, 2006. The options are cancellable upon retirement of vested officers.

We have also reviewed the translation of the 2002 Korean won financial statements mentioned above into United States dollar amounts on the basis described in Note 2. In our opinion, such statements have been properly translated on such basis.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized 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 financial statements are for use by those who are knowledgeable about Korean accounting principles and auditing standards and their application in practice.

February 21, 2003

This audit report is effective as of February 21, 2003, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.