



Daewoo Securities

Annual Report FY2003

Daewoo Securities draws the map of the Korean financial industry anew everyday

For 30 years of Korea's financial history, we have led the Korean securities market, creating maximum value for customer satisfaction and shareholder profit. Now, Daewoo Securities is taking another leap towards a greater future.

Expanding our role from a leader in the securities industry to become a pioneer in financial services and a world-class leading securities firm, advancing the development of Korea's capital market, we are poised to start a new era of financial service.

Based on our cutting-edge competitiveness recognized by the financial service industry, we will create and lead a market where the highest profits are made through trust and principle.

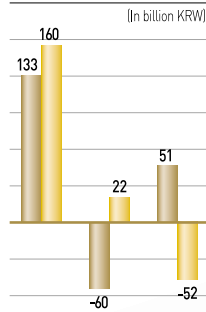
A company that attracts customers, a company that sets new standards in financial services, a company that paves the way for development in the Korean financial industry, that is Daewoo Securities.

We will spread our wings to deliver greater satisfaction to our customers and shareholders.

Contents

3	Financial Highlights	21	Report of Independent Auditors	50	Organization
5	To Shareholders & Customers	24	Financial Statements	51	Network
13	Management's Discussion & Analysis	30	Notes to Financial Statements		

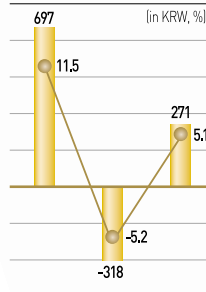
Operating Revenue / Net Income



FY2003 FY2002 FY2001

Net Income
Operating Income

EPS / ROE



FY2003 FY2002 FY2001

EPS ROE

Financial Highlights

(in billion KRW)

	FY2003	FY2002	FY2001
Operating Revenues	782	703	814
Operating Expenses	622	682	867
Operating Income	160	22	-52
Ordinary Income	133	-60	27
Net Income	133	-60	51
Total Assets	4,058	3,399	6,784
Total Liabilities	2,813	2,310	5,577
Paid-in Capital	1,021	1,021	1,021
Total Shareholders' Equity	1,245	1,089	1,207
Market Capitalization	936	673	1,889
Total Number of Shares Outstanding	204,176,641	204,176,641	204,176,641
Common Stock	190,100,891	190,100,891	190,100,891
Preferred Stock	14,075,750	14,075,750	14,075,750
Share Price Fiscal Year High (Common Stock) (in KRW)	5,980	10,600	12,150
Fiscal Year Low (Common Stock) (in KRW)	3,270	2,800	5,850
BPS (in KRW)	6,549	5,729	6,352
PBR (x)	0.7	0.6	1.5
EPS (in KRW)	697	-318	271
PER (x)	6.8	-18.0	33.2
ROE (%)	11.5	-5.2	5.1



Toward a future full of promise
The expectation of a new harvest
The promise of life in bloom
Daewoo Securities is poised and ready
To reap the fruit of tomorrow.



To Shareholders & Customers


Dear Shareholders and Customers:

At last year's General Meeting of shareholders, executives and employees of Daewoo Securities pledged to make FY2003 a new milestone for laying a firm foundation to become the best securities company. In order to keep that promise, we at Daewoo Securities have united together in putting forth our utmost efforts to ensure that the Company achieves its goals. As a result, the Company was able to resolve a series of long-lived uncertainties, thereby establishing the most sound and transparent financial structure within the financial service industry and succeeded in turning in profits. As well, we recovered the highest level of competitiveness in each existing business sector while at the same time securing a firm bridgehead in new businesses. Daewoo Securities' upgraded prestige and excellence has been recognized both at home and abroad. In particular, Daewoo Securities was selected as 'Best Domestic Equity House' by *Asiamoney* in May 2004 and 'Best Broker' by *FinanceAsia* in July 2004.

All these achievements are in large part attributable to the rigorous efforts made by the executives and employees at Daewoo Securities as they have worked hard to embed a customer-oriented corporate culture deeply within the Company. But above all, our achievements would not have been made possible without the constant support of our shareholders and customers. As such, I would like to once again extend my sincere gratitude to our shareholders and customers.

Though the Company's prestige has been raised, prospects for the market environment are still not favorable. An era of heightened competition among financial businesses has arrived as overall structural changes in the securities industry have materialized. We have witnessed the sale of some converted securities firms and large-sized securities firms amid rising uncertainties in the financial market itself. Korean securities firms are now faced with growing demands for more realistic and fundamental strategies that are imperative for growth in the fast-changing competitive environment.

Amidst these changes, Daewoo Securities will further strengthen its position as the 'Leading Company' by thorough risk management measures, profit-oriented operating strategies, and efficient allocation of resources based on 'Choice and Concentration'. Additionally, by continuously nurturing new business sectors, such as wealth management, and establishing a differentiated research system as well as efficient operating systems, we will further solidify our position as a highly productive securities company. If up until last year we were in a period of 'overcoming crises', FY2004 will be the first year of 'full-fledged renewed growth'.



To Shareholders & Customers

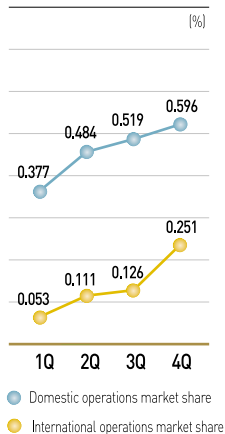
Highlights of achievement in FY2003

FY2003 was a watershed year in which we erased many of the external uncertainties or caveats surrounding the Company. The lawsuits related to the notes issued by Nara Banking Corporation and the lawsuit involving the GKO Russia Fund as well as the lawsuit concerning unredeemed beneficiary certificates were all settled. As a result, we posted KRW 160.2 billion in operating profit and KRW 132.5 billion in net income in FY2003. This was a remarkable year compared to the KRW 21.7 billion in operating income and KRW 60.4 billion in net loss recorded a year earlier.

Meanwhile, the Company's credit rating has been gradually raised to BBB+ due to the tireless efforts of employees and executives to normalize the business of the Company after the breakup of Daewoo Group. Now, as most uncertainties fade and we are regaining the highest level of operating power in the financial service industry, the Company expects further improvement in credit rating to take place in the near future.

We will take lion's share in FY2004

Domestic/International
Int'l operations market share



During the stock market of FY2003, most domestic securities firms witnessed a significant drop in their market share as trading volume by individual investors decreased, and the participation of foreign and institutional investors increased. The Company's market share also declined, but ranked second or third position as of March 31, 2004 due to a relatively slight decrease compared to other large-sized securities firms. In particular, the Company's off-line business has maintained a large market share. Furthermore, our competitiveness in the brokerage sector continues to grow stronger, along with our steadily increasing share of foreign and institutional investments, all led by the recovery of Daewoo Securities' competency.

In FY2004, we will concentrate our efforts on the brokerage sector and strengthen our market share, which will ultimately lead us back to our No.1 position - a title which was achieved through the hard work of our shareholders, customers, employees and executives over the past 30 years.



Best Equity House in Korea

awarded 'Best Domestic Equity House' in '2004 Best Domestic Banks Awards' by Asiamoney, international financial magazine based in Hong Kong
May 2004

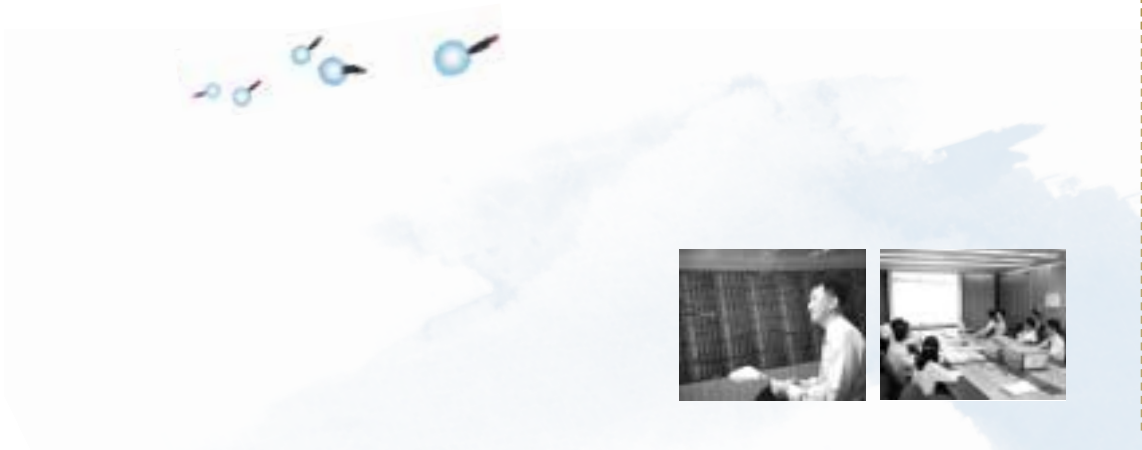
To Shareholders & Customers

Stellar achievements in investment banking

The Company's investment banking sector made outstanding achievements both in quantity and quality in FY2003. Unlike other securities companies owned by Chaebol or banks, our investment banking business made strenuous efforts without the support of our affiliates, and actively entered into new fields. We offered shares of 'Northeast Asia 1st Vessel Fund,' the first ship investment company in Asia, for public offering, which showed a high competition rate of 8:1. In particular, we were selected as 'Best Deal of the Year,' 'Best Bonds Underwriter' and 'Best M&A House' at the IB Awards organized by *Moneytoday*, an on- and off-line economic newspaper. With this, we were recognized not only for our stellar capabilities but also for the contributions we have made to the domestic economy and industries.

In FY2004, we will create a new source of revenue by reinforcing business alliance with the Korea Development Bank, our majority shareholder.

Investment Banking Performance		(in billion KRW)
IPO		91
Rights offerings		302
Corporate bonds		1,754
ABS		1,630
ELS		488



IB Awards by Moneytoday
'Best Deal of the Year' - Northeast Asia 1st Vessel Fund' (Ministry of Finance and Economy Prize)
'Best Bonds Underwriter' (Director of the Financial Supervisory Service Prize)
'Best M&A House' (The Head of Korea Securities Dealers Association Prize)
April 2004

To Shareholders & Customers

We secured a bridgehead

In October 2003, we became the first financial service company to register an investment discretionary business. In January 2004, we began in earnest the operation of ‘MasterWrap,’ a discretionary wrap account product.

In particular, Daewoo Securities launched the ‘KLCI MasterWrap’ by applying the KLCI (Korea Leading Company Stock Price Index) to our discretionary wrap account product. We developed KLCI by selecting 20 blue chip stocks from KOSPI and KOSDAQ Index. The product created a sensation within the financial service industry and among our customers, and even brought us the honor of receiving the ‘Excellent New Financial Product Award’ from the Governor of the Financial Supervisory Service.

Daewoo Securities’ MasterWrap responds to the various needs of investors by establishing the most diverse and sophisticated product line-up based on the highest level of quality research analysis and well-prepared product operating power. In addition, we practice systematic and scientific management service after launching products to ensure continuous customer satisfaction.

In FY2004, we will concentrate on cultivating the best wealth managers through rational and systematic plans to solidify the position of our wealth management business .



Excellent New Financial Product Award: KLCI
Governor of the Financial Supervisory Service Prize
December 2003

To Shareholders & Customers

The excellence of Daewoo Securities was once again acknowledged

In May and July of 2004, *Asiamoney* and *FinanceAsia*, two prestigious international finance magazines, chose Daewoo Securities as 'Best Domestic Equity House' and 'Best Broker' respectively, among the best institutions in Asia in sectors such as stocks and bonds. *Asiamoney* and *FinanceAsia* highly appreciated our ability to maintain the leading position in the brokerage business based on our superb business power, despite foreign securities firms making inroads into the Korean market. Daewoo Securities was once again recognized as the securities firm that represents Korea, both in name and in reality.

FY2004: The year to exceed our target of KRW 120 billion in net income

Daewoo Securities has set its business goal for FY2004 to post more than KRW 120 billion in net income. As the Company is free of non-ordinary profits and losses, we will actively practice thorough risk management, profit-oriented operation strategy, and efficient allocation of resources through 'Choice and Concentration', all based on its sound financial structure. Such moves are expected to firmly establish our position as a highly productive securities company.



Best Corporate Governance Company

ranked 1st in domestic brokerage companies, 4th in domestic companies and 21st in emerging markets by Euromoney '2003 Corporate Governance Poll' September 2003

To Shareholders & Customers

As I mentioned earlier, we have dedicated our efforts to lay the foundation for ‘renewed growth’. As a result, we have returned to the black, posting KRW 132.5 billion and enjoyed the honor of being selected as ‘Best Domestic Equity House’ and ‘Best Broker’.

However, all these achievements may not have been made possible without the loyalty and support shown by our customers and shareholders, who chose Daewoo Securities even during the most difficult times.

I would like to once again express my deepest gratitude to all our shareholders and customers.

We will wrap up our period of ‘overcoming crises’ and make FY2004 the first year of ‘full-fledged renewed growth’. We are ready to accomplish this plan and pursue it while selecting and carrying out specific strategic goals.

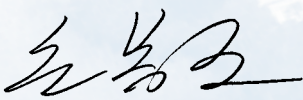
Thank you for your continued support and interest in Daewoo Securities.

Sincerely,



'New Intelligentsia' by the Government of Administration for 3 Consecutive Years
Yong-Hwan Yoo (General Manager, Cyber Trading System) in July 2001
Hyeong-Rae Kim (General Manager, Cyber Securities Marketing) in November 2001
In-Hwan Lee (General Manager, ERP System) in October 2002
Hyuk Na (Assistant Manager, KM System) in November 2003

To Shareholders & Customers



CEO and President **Bok-Jo Sohn**



Cultivating the highest aspirations
The vitality of growth
The beauty of life
Daewoo Securities continues
To build a foundation
To strengthen our commitment.

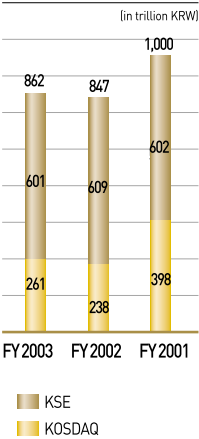
Management’s Discussion & Analysis

Stock Market Performance

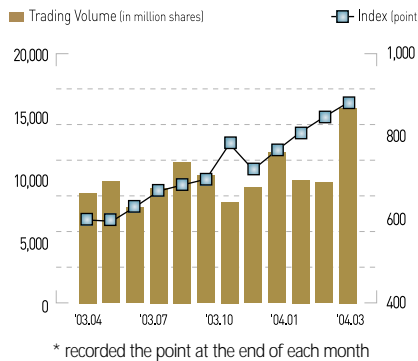
The Korean composite stock index (KOSPI) started at 529.07pt in April 2003 when the Korean economy was on the verge of fully recovering from the effects of domestic risks including geopolitical threats triggered by North Korea’s nuclear crisis, an upsurge in credit card delinquencies and the infamous SK Global accounting scandal as well as external risks such as the War in Iraq which percolated fears through Asian financial markets. Despite concerns over an economic slowdown weighed down by sluggish corporate investment and reduced consumption, the index continued its upward trend buoyed by rosy prospects for a U.S. economic recovery and active purchases from foreign investors. Following short-term adjustments initiated by the resurfacing problems of ailing credit card companies in November, the KOSPI closed at 880.50pt in March 2004. In stark contrast, the KOSDAQ Index, which started at 372.70pt, hit its year-high of 542.00pt in July and then losing ground closed lower at 434.16pt, recording only a 16.5% increase from the beginning of the year.

In FY2003, the stock market’s trading value stood at KRW 861.6 trillion, a 1.7% increase compared to KRW 846.9 trillion in FY2002. More specifically, trading amounted to KRW 600.9 trillion on the Korea Stock Exchange (KSE) and KRW 260.7 trillion on the KOSDAQ stock market, underscoring the lopsided trading trends seen in FY2002.

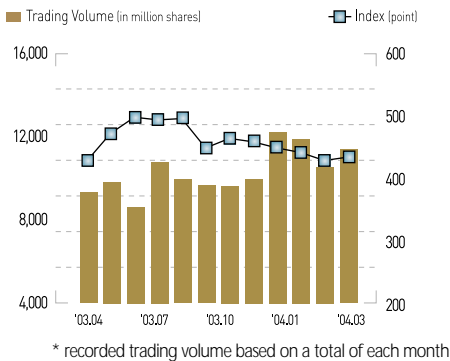
Annual Trading Value



KOSPI



KOSDAQ Index



The futures and options markets also breached their highest trading volume records in line with the rising Korean composite stock index. Individual investors were actively involved in the first half of FY2003, while foreign investors played an active role in the latter half of the fiscal year. In FY2003, trade volume of the KOSPI200 Index futures and the KOSPI200 Index options recorded KRW 2,725 trillion and 158 trillion, which represented a year-on-year increase of 24% and 16%, respectively.

In FY2003, the 3-year government bond interest rate closed at 4.75% as the stringent bond market, which resulted from the SK Global accounting scandal and credit card delinquencies, stabilized. The 3-year government bond interest rate, which fell to 3.95%, began to gradually rise in hopes of an economic recovery. In accordance with customers’ changing preferences for safer assets, the issuance of financial and corporate bonds began to slide while trading of government and public bonds and monetary stabilization bonds climbed, widening spreads.

Outstanding amounts of beneficiary certificates in the market stood at KRW 158 trillion as of March 2004, a 7.1% decrease from the KRW 170 trillion in April 2003. However, as more capital in the market has been freed up recently, the MMF balance was once again on the rise.

Meanwhile, the size of stock issuance on the KSE and the KOSDAQ market increased 33% from KRW 7.5 trillion in FY2002, to KRW 9.9 trillion in FY2003. It is noted that initial public offerings decreased while rights offerings increased drastically. The issuance of corporate bonds amounted to KRW 59 trillion, a 19.1% drop from KRW 73 trillion in FY2002.

Management’s Discussion & Analysis

Balance Sheet



>> Assets

As of end FY2003, total assets amounted to KRW 4,057.5 billion, up 19.4% from KRW 3,399.1 billion at year-end FY2002. In particular, total current assets increased by 35.4% from KRW 2,356.4 billion in FY2002 to KRW 3,190.6 billion in FY2003, while total non-current assets decreased by 16.9% from KRW 1,042.7 billion to KRW 866.9 billion during the same period.

Current Assets

Short-term securities amounted to KRW 1,655.8 billion, up 101.6% from KRW 821.5 billion a year earlier, due to increases in holdings of government, public, and corporate bonds. In the meantime, the amount of unsold beneficiary certificates decreased to KRW 419.0 billion from the previous fiscal year’s KRW 568.4 billion. The amount of loans to customers grew to KRW 174.5 billion in FY2003 from KRW 20.1 billion in FY2002, with increase of call loans in order to use extra funds. Any surplus funds will be used with increase of call loans.

Non-current Assets

Long-term securities recorded a year-on-year decrease of 14.4% to KRW 449.3 billion with the disposal of the Stock Market Stabilization Fund and stocks within available for sales investment. Other non-current assets declined significantly to KRW 38.4 billion upon the completion of the first stage of the GKO fund-related lawsuit.

Management's Discussion & Analysis

>> Liabilities

Total liabilities increased 21.8% to KRW 2,812.6 billion in FY2003 from KRW 2,310.0 billion in the previous fiscal year. Of this amount, total current liabilities rose by 40.7% to KRW 2,580.1 billion, while total long-term liabilities fell by 51.3% to KRW 232.4 billion.

Current Liabilities

The balance of bonds sold under repurchase agreements increased from KRW 89.2 billion to KRW 717.7 billion backed by the strengthened business in this sector. Customers' deposits decreased 20.0% to KRW 1,013.0 billion and securities and options sold stood at KRW 3.5 billion and KRW 3.2 billion, respectively. Structured securities sold that were newly set in relation to ELS (Equity Linked Securities) and OTC derivatives instruments recorded KRW 228.2 billion. In addition, KRW 250.0 billion worth of subordinated bonds were reclassified from long-term liabilities to other current liabilities as they near their maturity. As a result, other current liabilities amounted to a total of KRW 594.7 billion in FY2003.

Long-term Liabilities

In FY2003, the reserve for severance and retirement benefits increased to KRW 32.7 billion from KRW 23.8 billion in FY2002. Meanwhile, other long-term liabilities declined to KRW 200.0 billion in FY2003 from KRW 451.5 billion in the previous fiscal year as subordinated bonds were reclassified into current liabilities.

>> Shareholders' Equity

Shareholders' equity amounted to KRW 1,244.9 billion, a 14.3% increase from the previous year's KRW 1,089.1 billion. This was mainly due to a KRW 132.7 billion increase in retained earnings as the Company returned to profitability in FY2003. There was a KRW 23.2 billion increase in capital adjustment as gains on valuation of available for sales investment.



Management’s Discussion & Analysis

Income Statement Overview

Overview of Business

(in billion KRW, billion accounts)

	FY2003	FY2002	FY2001
Stock brokerage	126,431	126,754	161,793
Bonds brokerage	56,765	50,143	58,828
Corporate bond underwriting	8,228	6,930	5,899
Client assets in beneficiary certificates	2,870	3,310	4,578
Assets in custody*	16,673	14,602	22,021

*Assets in custody are valued at substitute price of securities and refer to securities in custody (including beneficiary certificates) and deposits.

Overview of Profit and Loss

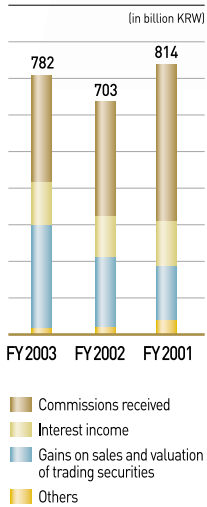
(in billion KRW)

	FY2003	FY2002	FY2001
Operating revenues	782 (100%)	703 (100%)	814 (100%)
Commissions received	323 (41.3%)	347 (49.4%)	475 (58.4%)
Interest and dividends	85 (10.9%)	127 (18.0%)	139 (17.1%)
Gain on sales of trading securities	92 (11.8%)	27 (3.8%)	58 (7.1%)
Gain on derivatives transactions	135 (17.3%)	170 (24.1%)	93 (11.4%)
Gain on valuation of trading securities	87 (11.1%)	16 (2.3%)	13 (1.6%)
Others	59 (7.5%)	17 (2.4%)	37 (4.5%)
Operating expenses	622 (100%)	682 (100%)	867 (100%)
Commissions expenses	29 (4.7%)	26 (3.8%)	32 (3.7%)
Interest expenses	90 (14.5%)	87 (12.8%)	140 (16.1%)
Loss on sales of trading securities	35 (5.6%)	63 (9.2%)	51 (5.9%)
Loss on derivatives transactions	121 (19.5%)	157 (23.0%)	79 (9.1%)
Loss on valuation of trading securities	7 (1.1%)	20 (2.9%)	80 (9.2%)
Selling and administrative expenses	318 (51.1%)	330 (48.4%)	486 (56.1%)
Others	23 (3.7%)	0	0

Management’s Discussion & Analysis

>> Operating Revenues

Operating Revenues

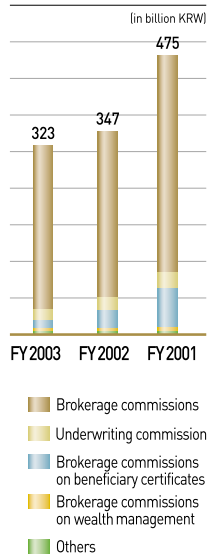


Commissions Received

Commission received amounted to KRW 323.4 billion in FY2003, representing a 6.8% slide from KRW 347.1 billion in FY2002. Trading value in equity markets in FY2003 recorded KRW 862 trillion, a slight increase from the KRW 847 trillion recorded in the previous fiscal year. By contrast, brokerage commissions decreased 1.1% to KRW 279.2 billion, mainly due to the declining market share of the Company. This decline was also experienced by other domestic securities firms, and resulted from increased market participation of foreign and institutional investors.

As the contraction of the primary market continued, underwriting fees recorded KRW 18.6 billion, 13.5% lower than the previous fiscal year, while commissions on beneficiary certificates plunged 50.3%, to KRW 18.7 billion, in FY2003. Commissions on beneficiary certificates are expected to enjoy an upward trend as the company’s sales balance of beneficiary certificates is on the rise and the downward trend of commissions slowing down.

Commissions Received



Interest on bonds skyrocketed to KRW 46.6 billion mainly due to an increase of holdings in government, public, and corporate bonds while interest income declined to KRW 82.1 billion as most deposits in KSFC (Korea Securities Finance Corp.) were transferred into trust accounts under the low interest rate environment. On the other hand, gain on valuation of reserve for claims of customers’ deposits-trust, which are dividends from KSFC, increased to KRW 47.0 billion in FY2003 from KRW 3.8 billion in FY2002. This increase led to a slight rise in actual interest income comprising of interest income and gain on valuation of reserve for claims of customers’ deposits-trust to KRW 129.2 billion in FY2003, compared to KRW 125.0 billion in FY2002. Dividend income witnessed a 41.7% cut to KRW 3.3 billion.

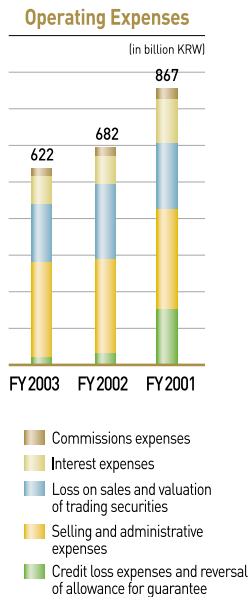
In FY2003, net income on trading securities recorded KRW 137.9 billion, a significant increase from the KRW 39.3 billion loss in FY2002. In particular, upon the completion of a lawsuit regarding notes issued by Nara Banking Corporation, which were included in unsold beneficiary certificates, KRW 68.0 billion of gains on sales and valuation were made. Also, KRW 55.0 billion worth of gain on valuation was generated from stocks included in unsold beneficiary certificates.

Net gain on structured securities of transactions that were newly introduced in FY2003 in relation to OTC derivatives including ELS amounted to KRW 7.4 billion. Meanwhile, net loss on on structured securities sold and net loss on derivatives of transactions stood at KRW 14.5 billion and KRW 0.1 billion, respectively.



Management’s Discussion & Analysis

>> Operating Expenses



Commissions expenses grew by 11.5% to KRW 29.4 billion compared to FY2002. Investment consultant fees posted KRW 6.0 billion, a decline of 26.1%. Trading and other commissions, however, recorded a 20.9% and 68.9% rise to KRW 18.4 billion and KRW 4.9 billion, respectively, in FY2003.

Interest expenses increased by 3.5% to KRW 89.6 billion in FY2003, from the KRW 86.6 billion recorded in the previous fiscal year. Interest expense on bonds sold under repurchase agreements rose to KRW 15.3 billion from KRW 3.0 billion in 2002, mainly due to an increase in balance of bonds sold under the repurchase. However, interest on borrowings from KSFC, customer deposits, call money and debentures all fell. In May 2004, the Company repaid KRW 150.0 billion of corporate bonds that came to maturity. Future interest expense is expected to improve as the Company plans to continuously repay corporate bonds.

Selling and administrative expenses decreased by 3.5% from FY2002 to post KRW 318.2 billion. There were no significant changes in labor costs which stood at KRW 161.8 billion. In addition, computer system operation expenses and rental expenses slightly rose to KRW 25.3 billion and KRW 14.8 billion, respectively. Advertising expenses rose by 32.0% to 16.4 billion, while credit loss fell by 34.3% to post KRW 20.9 billion in FY2003, from KRW 31.8 billion in FY2002.

>> Non-operating Profit and Extraordinary Profit

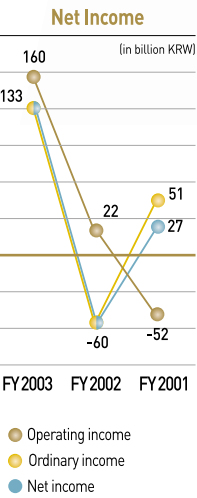
Non-operating income jumped to KRW 82.9 billion from FY2002. Of this amount, gain on disposition of the Stock Market Stabilization Fund stood at KRW 7.4 billion while gain on equity method valuation posted KRW 6.0 billion. In addition, gain from winning a GKO fund lawsuit in March 2004 worth KRW 46.3 billion was included in other non-operating income. In regards to the KRW 110.3 billion in non-operating expenses, it incorporates a KRW 12.2 billion loss realized on the disposition of securities available for sale derived from a debt-equity swap, and a KRW 85.9 billion loss recorded in others which realized from the court decision related to unredeemed beneficiary certificates lawsuits, the last factor to bring uncertainty to the Company. Negative factors that led to a non-operating loss in FY2002 were mostly completed in FY2003. Thereby, the Company is expected to have a healthier financial structure starting FY2004.

>> Income Tax Expenses

No income tax expenses were applicable in FY2003 as losses from the Daewoo Group crisis were carried over. Deferred tax payments were not accounted due to uncertainty in realization.

Management’s Discussion & Analysis

>> Operating Income, Ordinary Income and Net Income



Operating income improved to KRW 160.2 billion in FY2003, a 639.0% increase from KRW 21.7 billion in FY2002, and ordinary income turned to profit posting KRW 132.8 billion, from the ordinary loss of KRW 60.4 billion in the previous fiscal year. Accordingly, net income for FY2003 reached KRW 132.5 billion, turning to huge profits from a net loss of KRW 60.4 billion in FY2002.

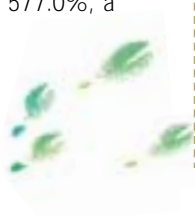
>> Risk Management

Daewoo Securities is committed to maintaining an asset management system that can capture profit opportunities within a tolerable range of risk as well as uphold a sound financial structure through effective risk management. The Company's risk management philosophy is grounded on the belief that profits can be maximized only when the interests of shareholders and customers are protected. To this end, a risk governance organization consisting of the CEO, Risk Management Committee, Risk Management Department, and Risk Managers are actively involved in managing risks that accompany the Company's assets management.

The Risk Management Department is responsible for establishing and implementing risk management policies and monitoring the Company's risks. It is an independent department that reports to management both regularly and on an ad-hoc basis. Additionally, the Company analyzes market risks using the Kamakura Risk Manager (KRM) module. It also uses a proprietary Enterprise Risk Manager (ERM) program to calculate a variety of risk indicators. In light of the increasing emphasis on operational risk, a special department was designated for the effective management and control of operational risk. The Company has established a procedural checklist of internal controls for each department and engages in regular training programs and seminars for risk management. Furthermore, the Company will apply two of the three methods recommended by BIS, namely the Standardized Approach and Internal Measurement Approach (IMA), to quantify and assess the Company's operational risk.

>> Capital Adequacy Ratio

As of March 31 2004, net working capital amounted to KRW 1,134.8 billion and risk-weighted assets recorded KRW 196.7 billion. Accordingly, capital adequacy ratio posted 577.0%, a 4.7%p decrease from 605.3% recorded at the end of FY2002.





Building your dreams
The hopefulness of the future
The bright eyes of wonder
Daewoo Securities helps you
achieve your goals
To reach our own.

SAMIL PRICEWATERHOUSECOOPERS

Samil PricewaterhouseCoopers
Kukje Center Building, 191 Hankangro 2ga, Yongsanku
Seoul 140-702, KOREA (Yongsan P.O. Box 266, 140-600)

To the Board of Directors and Shareholders of
Daewoo Securities Co., Ltd.


We have audited the accompanying non-consolidated balance sheets of Daewoo Securities Co., Ltd. (the "Company") as of March 31, 2004 and 2003, and the related non-consolidated statements of operations, 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 Daewoo Securities Co., Ltd. as of March 31, 2004 and 2003, 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 20 to the non-consolidated financial statements, the Company has been named as a defendant as of March 31, 2003 in legal actions filed by twelve financial institutions with respect to redemption requests of beneficiary certificates amounting to approximately ₩601 billion. Those financial institutions requested the Company to redeem the beneficiary certificates, which they purchased through the sales agency of the Company, at the carrying value of the underlying assets at the time of the request, in accordance with a certain provision of the related Investment Trust Act. However, the Company rejected the requests and offered that the redemption should be made based on the fair value of the underlying assets because the fair value significantly declined as contrasted with the carrying value enough to invoke the fundamental principle of the Investment Trust Act that customers should bear losses from the beneficiary certificates. For the



year ended March 31, 2003, a provision for losses of ₩45,600 million in connection with those cases was charged to current operations. However, during the year ended March 31, 2004, the Company partly lost these suits. Consequently, the Company recognized ₩85,900 million of loss as non-operating expenses, based on the result of the original judgments. However, as of the reporting date, the Company continues to respond to each case, entering appeals as of the balance sheet date. The ultimate outcome of these litigations on the financial position of the Company as of the reporting date cannot presently be determined, and no additional adjustments has been made to the non-consolidated financial statements, which may have occurred from these uncertainties.

As discussed in Note 5 to the non-consolidated financial statements, after the “Daewoo Group Bankruptcy” in 1999, the Company repurchased beneficiary certificates related to Daewoo Group’s bonds from customers, which amounted to ₩418,977 million as of March 31, 2004. For the valuation of the beneficiary certificates, the Company basically uses the prices which are announced by the investment trust management companies. In addition, in consideration of the recoverable value of the bonds issued by ailing companies, including Hynix Semiconductor Inc., the Company recognized a write-down of the carrying amounts of the beneficiary certificates as of the balance sheet date. In this regard, the Company classified those beneficiary certificates as current assets in accordance with the Financial Accounting Standards of the Republic of Korea, as the management of the Company believes that since the beneficiary certificates were evaluated down to their fair value, these would easily be convertible to cash.

However, the actual amount and timing of the recovery of those beneficiary certificates may have been affected by the unstable economic conditions in Korea and the normalization of companies formerly referred to as the Daewoo Business Group. As of the date of this report, the ultimate effect on the financial statements of these uncertainties cannot presently be determined. Accordingly, no adjustment has been made in the accompanying non-consolidated financial statements related to such uncertainties.

As discussed in Note 5 to the non-consolidated financial statements, trading securities as of March 31, 2004 include corporate bonds amounting to ₩126,700 million issued by local credit card and capital companies, which are experiencing difficulties in their operations. Accordingly, those bonds also are difficult to trade in the market. In this regard, the Company recognized provision losses amounting to ₩4,500 million for the year ended March 31, 2004. The ultimate effect of this matter cannot presently be determined. Accordingly, these non-consolidated financial statements do not contain any adjustments in consideration of this uncertainty.

As discussed in Note 28 to the non-consolidated financial statements, the Company provides its services to and purchases certain materials from affiliated companies. For the year ended March 31, 2004, the Company’s operating revenue and operating expenses from affiliated companies amounted to ₩5,573 million and ₩14,253 million, respectively. Related receivables and payables amounted to ₩128,013 million and ₩203,714 million, respectively, as of March 31, 2004.

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, April 23, 2004

Samil PricewaterhouseCoopers

This report is effective as of April 23, 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.



Balance Sheets | as of March 31, 2004 and 2003

	In Thousands of Korean Won	
	2004	2003
ASSETS		
Current assets :		
Cash and bank deposits (Notes 3 and 7)	₩ 156,457,421	₩ 248,724,541
Deposits with Korea Securities Finance Corporation (Note 3)	1,048,025,105	1,178,467,629
Trading securities (Notes 5)	1,655,822,565	821,534,058
Options purchased (Notes 2 and 6)	49,391,017	692,999
Loans to customers, net (Note 8)	174,233,459	19,975,688
Accounts receivable from customers, net (Note 4)	36,712,734	43,676,791
Accrued income	20,068,943	12,846,567
Advance payments	31,253,993	10,585,157
Prepaid income tax	6,269,667	3,730,699
Prepaid expenses	5,145,731	1,289,271
Derivatives instruments assets (Notes 2 and 6)	2,431,041	239,858
Others	4,795,916	14,639,692
Total current assets	3,190,607,592	2,356,402,950
Investment securities (Notes 9)	449,265,664	489,266,413
Long-term deposits (Note 3)	147,571	98,000
Long-term loans, net (Note 4)	18,175,961	24,520,293
Guarantee deposits	91,614,924	93,898,366
Other investments	5,633,345	5,198,803
Troubled loans, net (Notes 12 and 14)	15,378,397	45,757,818
Collective fund for default loss (Note 3)	12,146,270	11,225,909
Property, plant and equipment, net of accumulated depreciation (Note 10)	262,652,827	296,945,015
Others, net (Notes 4 and 13)	4,053,803	68,148,312
Intangible assets (Note 11)	7,826,737	7,591,239
Total assets	₩ 4,057,503,091	₩ 3,399,053,118

Balance Sheets | as of March 31, 2004 and 2003

	In Thousands of Korean Won	
	2004	2003
Liabilities and Shareholders' Equity		
Current liabilities		
Call money (Note 15)	₩ -	₩ 45,000,000
Short-term borrowings (Note 15)	20,000,000	78,000,000
Bonds sold under resale agreements	717,663,390	89,244,565
Deposits from customers (Note 16)	1,012,963,509	1,266,006,316
Securities sold	3,453,304	680,074
Structured securities sold	228,160,083	16,167,222
Accrued expenses	36,616,832	24,942,285
Guarantee deposits received	7,556,933	7,510,768
Current portion of long-term debts (Note 17)	449,946,713	200,000,000
Derivatives instruments liabilities (Notes 2 and 6)	1,965,132	498,023
Others	101,819,575	105,125,232
Total current liabilities	2,580,145,471	1,833,174,485
Subordinated debentures, net of discount on debenture issued (Note 17)	200,000,000	449,786,163
Allowance for guarantees (Note 18)	62,439	2,006,933
Reserve for severance and retirement benefits (Note 19)	32,365,366	23,351,970
Others	-	1,678,617
Total liabilities	2,812,573,276	2,309,998,168
Commitments and contingencies (Note 20)		
Shareholders' equity		
Capital stock, par value per share: ₩ 5,000, Authorized : 600,000,000 shares, Issued and outstanding (Note 21):		
Common stock: 190,100,891 shares	950,504,455	950,504,455
Preferred stock: 14,075,750 shares	70,378,750	70,378,750
Capital surplus (Note 21)	250,723,794	250,723,794
Retained earnings (Note 22)	198,093,317	65,429,096
Capital adjustments (Note 23 and 24)	(224,770,501)	(247,981,145)
Total shareholders' equity	1,244,929,815	1,089,054,950
Total liabilities and shareholders' equity	₩ 4,057,503,091	₩ 3,399,053,118

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

Statements of Operations | for the years ended March 31, 2004 and 2003

	In Thousands of Korean Won	
	2004	2003
Operating revenue (Note 28)		
Commissions received	₩ 323,440,959	₩ 347,125,063
Interest and dividends	85,445,094	126,826,803
Gain on sales of trading securities	92,367,957	26,596,274
Gain on derivative transactions	135,117,049	169,526,195
Gain on valuation of trading securities	86,964,813	16,444,921
Others	58,776,134	16,794,750
	782,112,006	703,314,006
Operating expenses (Note 28)		
Commission expense	29,354,212	26,315,160
Interest expense	89,641,473	86,624,912
Loss on sales of trading securities	34,657,428	62,843,607
Loss on derivative transactions	120,673,039	156,604,588
Loss on valuation of trading securities	6,799,294	19,469,095
Selling and administrative expenses (Note 30)	318,203,982	329,768,641
Others	22,541,026	5,791
	621,870,454	681,631,794
Operating income	160,241,552	21,682,212
Other income (expenses)		
Office rental income	7,871,936	7,735,979
Gain on equity method valuation, net (Note 9)	6,049,089	9,786,552
Loss on foreign currency transactions, net	(3,156,392)	(38,735)
Loss on foreign exchange translation, net	(1,867,433)	(4,094,505)
Loss on valuation of investments in the stock market stabilization fund, net (Note 9)	-	(22,203,911)
Loss on impairment of investment securities	(1,137,507)	(1,418,106)
Loss on disposal of property, plant and equipment, net	1,354,451	(99,062)
Loss on disposal of investment securities, net (Note 9)	(7,577,666)	(16,097,709)
Gain on recovery of receivables written-off	3,007,465	2,283,235
Donations	(77,140)	(184,210)
Loss on contingency provision (Note 20)	(85,936,626)	(45,600,000)
Others, net	54,075,716	(12,107,155)
	(27,394,107)	(82,037,627)
Ordinary income (loss)	132,847,445	(60,355,415)
Extraordinary gain	-	-
Extraordinary loss	331,986	39,964
Income (loss) before income taxes	132,515,459	(60,395,379)
Income tax expense (Note 25)	-	-
Net income (loss)	₩ 132,515,459	₩ (60,395,379)
Per share data (in Korean Won) (Note 26)		
Basic ordinary income (loss) per share	₩ 699	₩ (318)
Basic earnings (loss) per share	697	(318)

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

Statements of Appropriations of Retained Earnings | Dates of appropriations : June 11, 2004 and June 17, 2003 / for the years ended March 31, 2004 and 2003

	In Thousands of Korean Won	
	2004	2003
Retained earnings before appropriations		
Unappropriated retained earnings carried over from the prior year	₩ 43,663,372	₩ 86,942,056
Effect of valuation of equity method investments (Note 9)	148,762	(648,973)
Net income (loss)	132,515,459	(60,395,379)
	176,327,593	25,897,704
Transfers from voluntary reserves		
Transfer from reserve for losses on securities transactions	17,765,690	17,765,689
	17,765,690	17,765,689
Appropriations of retained earnings		
Reserve for losses on securities transactions	26	21
	26	21
Unappropriated retained earnings carried forward to subsequent year	₩ 194,093,257	₩ 43,663,372

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

Statements of Cash Flows | for the years ended March 31, 2004 and 2003

	In Thousands of Korean Won	
	2004	2003
Cash flows from operating activities		
Net income (loss)	₩ 132,515,459	₩ (60,395,379)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Provision for severance and retirement benefits	12,675,466	9,832,445
Depreciation	26,365,994	34,478,071
Provision for doubtful accounts	20,872,233	31,761,423
Loss from trading securities valuation	6,799,294	19,469,095
Loss on disposal of investment securities, net	7,577,666	16,097,709
Loss on impairment of investment securities	1,137,507	1,418,106
Loss on foreign exchange translation, net	995,835	4,049,852
Loss on valuation of investments in the stock market stabilization fund, net	-	22,203,911
Gain on trading securities valuation	(86,964,813)	(16,444,921)
Gain on equity method valuation, net	(6,049,089)	(9,786,552)
Amortization of present value discounts	(5,853,096)	(14,882,735)
Loss on contingency provision	2,800,455	45,600,000
Gain on valuation of reserve for claims of customers' trust deposits	(47,017,701)	(3,801,083)
Others	538,704	(6,678,573)
	(66,121,545)	133,316,748
Changes in operating assets and liabilities		
Decrease in deposits with Korea Securities Finance Corporation	177,460,225	1,928,094,505
Increase in trading securities	(753,337,074)	(152,120,455)
Decrease in accounts receivable	2,352,030	61,389,775
Decrease (increase) in accrued income	(7,851,926)	18,103,103
Increase in prepaid income tax	(2,538,968)	(1,472,547)
Decrease in troubled loans	13,302,203	35,093,467
Increase in bonds sold under resale agreements	628,418,825	-
Decrease in deposits from customers	(253,042,807)	(1,819,785,784)
Increase in structured securities sold	207,466,520	-
Increase (decrease) in accrued expenses	11,674,548	(11,355,227)
Payments of severance and retirement benefits	(3,701,164)	(2,078,841)
Others	3,278,347	46,720,037
	23,480,759	102,588,033
Net cash provided by operating activities	89,874,673	175,509,402

Statements of Cash Flows | for the years ended March 31, 2004 and 2003

	In Thousands of Korean Won	
	2004	2003
Cash flows from investing activities		
Payment for call loans, net	(116,500,000)	-
(Payment for) proceeds from brokers' loans, net	(37,961,671)	662,031,195
Disposal of investment securities	67,169,623	130,863,504
Proceeds from long-term deposits	52,500	13,207
Proceeds from long-term loans	8,222,281	11,789,500
Disposal of property, plant and equipment	14,115,077	4,881,387
Acquisition of investment securities	(3,950,000)	(14,673,542)
Payment for long-term loans	(1,825,617)	(2,339,461)
Payment for guarantee deposits	(11,710,479)	(13,561,814)
Acquisition of property, plant and equipment	(5,436,962)	(15,624,994)
Others	10,362,073	(10,468,206)
Net cash (used in) provided by investing activities	(77,463,175)	752,910,776
Cash flows from financing activities		
Increase (decrease) in call money, net	(45,000,000)	45,000,000
Decrease in short-term borrowings, net	(58,000,000)	(1,569,675,085)
Proceeds from bonds sold under resale agreements	-	55,095,736
Issuance of subordinated debentures	200,000,000	450,000,000
Repayment of current portion of long-term debts	(200,000,000)	(200,000,000)
Repayment of subordinated current portion of long-term debts	-	(244,524,660)
Others	(1,678,618)	(6,731,217)
Net cash used in financing activities	(104,678,618)	(1,470,835,226)
Decrease in cash and cash equivalents	(92,267,120)	(542,415,048)
Cash and cash equivalents		
Beginning of the year	248,724,541	791,139,589
End of the year	₩ 156,457,421	₩ 248,724,541



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

1. The Company

Daewoo Securities Co., Ltd. (hereinafter, the "Company") was originally incorporated in September 1970 under the name of Dong Yang Securities Co., Ltd. The Company was organized pursuant to the laws of the Republic of Korea to engage in securities trading. In September 1975, the Company's shares were listed on the Korea Stock Exchange, and its outstanding capital stock as of March 31, 2004 amounted to ₩1,020,883 million (Note 21). The Company changed its name to Daewoo Securities Co., Ltd. and merged with Sambo Securities Co., Ltd. on December 19, 1983, and has 118 branches as of March 31, 2004.

Pursuant to the resolution of the Board of Directors in 2000, Korea Development Bank became the major shareholder of the Company by acquiring all the unsubscribed shares of common stock.

As of March 31, 2004, the Company's major shareholders are as follows:

	Number of Shares	Percentage of Ownership (%)
Korea Development Bank	74,309,252	39.09
Woori Bank	3,130,000	1.65
KorAm Bank	3,130,000	1.65
Korea Exchange Bank	3,080,000	1.62
Employees	2,063,988	1.09
Hermes Pensions	3,412,900	1.79
Others	100,974,751	53.11
	190,100,891	100

Under its Articles of Incorporation, the Company is authorized to issue nonvoting preferred stock up to 50% of its issued common stock (Note 21).

Under its Articles of Incorporation, the Company is authorized to issue convertible debentures and debentures with stock purchase options up to ₩1,200,000 million each. Starting from the date of incorporation up to March 31, 2004, convertible debentures amounting to ₩150,000 million and subordinated convertible debentures amounting to ₩250,000 million have been issued. Convertible debentures amounting to ₩141,460 million have been converted into common stock, and convertible debentures amounting to ₩8,540 million have been redeemed. In addition, subordinated convertible debentures amounting to ₩250,000 million have been converted into common stock.

Under its Articles of Incorporation, the Company is also authorized to grant stock options to the Company's employees and directors up to 15% of issued common stock. As of March 31, 2004, the number of granted stock options is 399,250 shares.

According to the Supervisory Regulation on Securities Companies prescribed by the Korean Securities and Exchange Law, the Company is restricted to own securities issued by related parties, as well as in providing surety obligations or loans to related parties.

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 non-consolidated 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 non-consolidated 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, or cash flows, is not presented in the accompanying non-consolidated financial statements.

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.

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 Supervisory Commission. SKFAS No. 2 through No. 9 became effective for the Company on April 1, 2003, and the Company has adopted these statements in its non-consolidated financial statements for the year ended March 31, 2004. In addition, the non-consolidated balance sheet as of March 31, 2003 and the related non-consolidated statements of operations, appropriations of retained earnings and cash flows for the year ended March 31, 2003, presented herein for comparative purposes, were prepared in accordance with the existing financial accounting standards established by the Korean Financial Supervisory Commission, and were not restated by SKFAS No. 2 through No. 9.

Change in the Timing of the Recognition of Appropriation of Retained Earnings

The Company prepared its non-consolidated financial statements as of and for the year ended March 31, 2004 in accordance with SKFAS No. 6, *Subsequent Events*, which was effective starting from March 31, 2003. Accordingly, the non-consolidated financial statements as of and for the year ended March 31, 2003, presented herein for comparative purposes, should be restated without reflecting the appropriations of retained earnings.

Investment Securities

The cost of trading securities is determined by the moving-average method, and available-for-sale securities sold are stated at market value. If the cost of trading securities and market value of available-for-sale securities are different from the fair value, these are carried at fair value. The amount of the difference is recognized as valuation gains or losses in current operations.

Trading securities, other than bonds and beneficiary certificates, are recorded at the closing price indicated by the relevant stock markets on the balance sheet date. If no closing price exists at the balance sheet date, the most recently available closing price is applied. Bonds are stated at fair value determined using the basic earnings rate published by bond pricing institutions, including the Korea Securities Dealers Association. Beneficiary certificates are stated at net realizable value considering the price published by investment trust management companies.

Derivatives

The Company recorded assets and liabilities related to derivatives in the accompanying balance sheets and stated them at market value. Resulting net valuation gains or losses are included in operating revenues or expenses.

Stock index (interest rate) futures are recorded as assets and liabilities in the balance sheets. Losses or gains on the sale or settlement of stock index (interest rate) futures are recorded as operating expenses or revenue.

As of the beginning of the derivative contract, stock index options are stated at their long position or short position value. Losses or gains on the sale of stock index options or valuation of stock index options are recorded as operating expenses or revenue, respectively.

Equity Linked Securities

Equity linked securities are recorded as assets at the issuance price, and equity linked securities sold are recorded as a liability at the purchase price. (Gains or losses upon redemption are recorded as a gain or loss on the transaction, and the difference with the estimated value and the book value at the balance sheet date is recorded as a gain or loss on valuation.)

Allowance for Doubtful Accounts

Pursuant to the supervisory regulations provided by the Korean Financial Supervisory Commission, the Company has classified receivables, including loans to customers, into the following five categories, and provided an allowance for bad debts for each classification.

Classification	Ratio of Allowance for Bad Debts
Current	over 0.5%
Special mention	over 2%
Substandard	over 20%
Doubtful	over 75%
Loss	100%

Valuation of Assets and Liabilities at Present Value

Pursuant to the Supervisory Regulations for Security Companies provided by the Korean Financial Supervisory Commission, if the difference between the nominal value and present value, as discounted at an appropriate interest rate, is material, troubled loans restructured unfavorably under workout plans or other similar restructuring agreements are recorded at their present value. Discounts are amortized using the effective interest rate method and recognized as interest income over the term of the related accounts.

Investment Securities

The acquisition cost of available-for-sale securities are reported using the moving-average method, and are stated at the fair value of every year end. Securities that are not publicly traded and which the fair value cannot be reasonably measured are recorded at acquisition cost. Debt securities that do not have a market price are recorded at the discounted future cash flow, which is measured by a reasonable valuation model. Unrealized holding gains and losses on available-for-sale investments are charged to capital adjustments. The accumulated gains and losses shall be realized when the relevant securities are disposed or impaired.

Investments in equity securities of companies over which the Company exercises a significant control or influence are recorded using the equity method of accounting. Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over a period up to five years using the straight-line method. Under the equity method, the Company records changes in its proportionate ownership of the net book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

The Company discontinues the equity method of accounting for investments in equity method investees when the Company's share in the accumulated losses of the investees equals the costs of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equal its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

Unrealized profit arising from sales by the Company to equity method investees is fully eliminated. Unrealized profit arising from sales by the equity method investees to the Company or sales between equity method investees is also eliminated considering the percentage of ownership.

Foreign currency financial statements of equity method investees are translated into Korean Won using the basic exchange rates in effect as of the balance sheet date for assets and liabilities, and the annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustments account, a component of shareholders' equity.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and impairment on property, plant and equipment. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as described below:

	Estimated Useful Lives
Buildings	40 years
Vehicles	4 years
Furniture and equipment	4 years

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals, enhancing the value of the assets over their recently appraised value, are capitalized.

The Company assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. The carrying value of the assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the assets, net of accumulated depreciation before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

Intangible Assets

Intangible assets are stated at cost, including incidental expenses, net of accumulated amortization. Amortization is computed using the straight-line method over the following estimated useful lives.

	Estimated Useful Lives
Development costs	4 years
Software	4 years
Others	5 years

An impairment loss on intangible assets is recognized when the book value of the assets exceeds the recoverable value of the assets due to obsolescence and a sharp decline in market value.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the basic rates in effect at the balance sheet date (₩1,153.6: US\$1 as of March 31, 2004; ₩1,252.9: US\$1 as of March 31, 2003). Resulting exchange losses and gains are recognized in current operations (Note 7).

Bonds Sold under Repurchase Agreements

Under the repurchase agreements, the Company recorded bonds sold under repurchase agreements at the amount of bonds sold, and such bonds are included in current liabilities. In addition, the Company recorded the difference between the repurchase price and the price of the bonds sold as interest from bonds sold under repurchase agreements.

Meanwhile, under the resale agreements, the bonds purchased under resale agreements are stated at acquisition cost and are included in current assets. The Company recorded the difference between the bonds' resale price and their acquisition cost as interest from bonds purchased under resale agreements.

Accrued Severance Benefits

Employees and directors with one or more years of service are entitled to receive a lump-sum payment upon termination of their employment, 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.

The Company has made deposits to the National Pension Fund in accordance with the National Pension Funds Law. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of this deposit.

Income Taxes

The Company recognizes deferred income tax assets and liabilities, which represent temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred income tax assets and liabilities are computed on such temporary differences, including available net operating loss carry-forwards and tax credits, by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred income tax assets are recognized when it is almost certain that such deferred income tax assets will be realized.

The Company does not recognize the accumulated tax benefits as an asset due to the uncertainty of its availability for offsetting future tax liabilities.

Stock Options

Until the prior year, compensation costs for stock options granted to employees and directors are recognized on the basis of fair value. Under the fair value basis method, compensation costs for stock option plans are determined using the option-pricing model, and the Company recognizes an equal amount of compensation expense over the vesting period. During the year ended March 31, 2004, the Company chose to apply the method of compensating the amount of the difference between the exercise price and the stock price at the exercise date in providing compensation from stock options granted to its employees and directors. Accordingly, the Company changed its method of estimating the compensation costs from the fair value basis method to the intrinsic value basis method. As the difference in compensation costs due to this change was treated in a prospective approach, stock options amounting to ₩1,764 million in the capital adjustments account as of March 31, 2003 was fully reversed and recognized as a non-operating income in current operations for the year ended March 31, 2004 (Note 23).

3. Restricted Cash and Deposits

Restricted cash and deposits as of March 31, 2004 and 2003 consist of the following:

	in Millions of Korean Won	
	2004	2003
Negotiable certificate of deposits	₩ -	₩ 14,832
Reserve for claims of customers' deposits	700	700
Reserve for claims of customers' trust deposits	1,046,570	1,177,401
Long-term deposits	148	98
Collective fund for default loss	12,146	11,226
	₩ 1,059,564	₩ 1,204,257

As of March 31, 2003, negotiable certificates of deposits are pledged as collateral for short-term borrowings and, accordingly, withdrawal of these deposits is restricted (Note 15).

The customers' subscription deposits of newly issued or sold securities are in the custody of Korea Securities Finance Corporation and others.

Long-term deposits are subject to withdrawal restrictions for opening checking accounts under the Investment Advisor Act.

According to the Regulation on Securities Industry prescribed by the Korean Securities and Exchange Law, the Company is required to deposit with the Korean Securities Finance Corporation (KSFC) and other banks the amount of deposits from customers for the customers' claims.

Pursuant to the Korean Securities and Exchange Law, a collective fund for default loss is funded for compensating the loss resulting from breaching the regulations covering securities listed on the stock exchange.

4. Receivables

The Company's receivables, including trade accounts and notes receivable, as of March 31, 2004 and 2003 consist of the following:

	in Millions of Korean Won		
	2004		
	Gross amount	Allowance for doubtful accounts	Carrying value
Accounts receivable from customers	₩ 45,964	₩ 9,251	₩ 36,713
Long-term loans	18,717	541	18,176
Others (investment assets)	56,721	52,667	4,054
	₩ 121,402	₩ 62,459	₩ 58,943

	in Millions of Korean Won		
	2003		
	Gross amount	Allowance for doubtful accounts	Carrying value
Accounts receivable from customers	₩ 48,389	₩ 4,712	₩ 43,677
Long-term loans	24,979	459	24,520
Others (investment assets)	146,370	78,222	68,148
	₩ 219,738	₩ 83,393	₩ 136,345

5. Short-term Investment Securities

	in Millions of Korean Won	
	2004	2003
Shares of stock	₩ 75,804	₩ 32,800
Government and public bonds	882,883	181,753
Corporate bonds	237,444	37,931
Unsold beneficiary certificates	418,977	568,357
Other beneficiary certificates	24,595	693
Negotiable commercial papers	16,120	-
	₩ 1,655,823	₩ 821,534

After the “Daewoo Group Bankruptcy” in 1999, the Company repurchased beneficiary certificates related to Daewoo Group’s bonds from customers and which have not been terminated by the investment trust management companies, which amounted to ₩418,977 million as of March 31, 2004. For the valuation of the beneficiary certificates, the Company basically uses the prices which are announced by the investment trust management companies. However, the Company recognized a write-down of these beneficiary certificates by ₩4,747 million due to the negotiable commercial papers and bonds which were issued by Seoul Guarantee Insurance Co., Ltd. and others. In this regard, the Company classified those beneficiary certificates as current assets in accordance with the Financial Accounting Standards of the Republic of Korea, as the management of the Company believes that since the beneficiary certificates were evaluated down to their fair value, these would easily be convertible to cash.

Trading securities as of March 31, 2004 include corporate bonds amounting to ₩126,700 million issued by local credit card and capital companies, which are experiencing difficulties in their operations. Accordingly, those bonds also are difficult to trade in the market. Among these securities the Company owns corporate bonds issued by LG Card Co., Ltd. amounting to ₩35,800 million in its face amount. However, these bonds except those that are recorded at fair value, are classified as below substandard. A loss on valuation amounting to ₩4,500 million, 20% of the bonds, has been charged to current operations in the accompanying non-consolidated financial statements for the year ended March 31, 2004. The ultimate effect of this matter cannot presently be determined. Accordingly, these non-consolidated financial statements do not contain any adjustments in consideration of this uncertainty.

6. Derivatives

Derivatives as of March 31, 2004 and 2003 comprise the following:

	in Millions of Korean Won	
	2004	2003
Stock index futures (Long position)	₩ -	₩ 2,480
Stock index futures (Short position)	57,503	-
Stock index option (Long position)	40	434
Stock index option (Short position)	3,155	248
Interest rate futures (Short position)	147,442	20,242
Currency forward (Long position)	67,137	7,601
Currency forward (Short position)	83,829	7,601

The currency forward is agreed with Korea Development Bank and Korea Exchange Bank as a hedge for the interest and repayments at maturity of customers' offshore bonds, and the right of indemnity for offshore funds.

The Company uses the long and short position for Over-the-Counter stock index option as a hedge for Equity Linked Securities (ELS), and recognized these as warrant securities. ELS and warrant securities as of March 31, 2004 comprise the following:

	in Millions of Korean Won	
Warrant securities	₩	11,295
Warrant securities sold		10,444
ELS		38,056
ELS sold		217,716

The Company has pledged trading securities amounting to ₩57,888 million and ₩26,098 million as collateral for futures and options proprietary trading as of March 31, 2004 and 2003, respectively.

7. Assets Denominated in Foreign Currency

Assets denominated in foreign currency as of March 31, 2004 and 2003 comprise the following:

	2004				2003	
	in Thousands of U. S. Dollars		in Millions of Korean Won		in Millions of Korean Won	
Assets:						
Bank deposits	\$	17,043	₩	19,661	\$	779
		88		102		-
		8		9		-
Accounts receivable		159		183		5,852
Other non-current assets		9,285		10,712		67,942
	\$	26,583	₩	30,667	\$	74,573
Liabilities:						
Accounts payable	\$	2,536	₩	2,925	\$	-

The above assets and liabilities are composed of multiple currencies and converted into U.S. Dollars using the basic exchange rate as of March 31, 2004 and 2003.

8. Loans

Loans as of March 31, 2004 and 2003 comprise the following:

	in Millions of Korean Won	
	2004	2003
Loans to customers:		
Call loans	₩ 116,500	₩ -
Broker's loans	57,999	20,038
Short-term loans	28	48
	174,527	20,086
Allowance for doubtful accounts	(294)	(110)
	₩ 174,233	₩ 19,976

9. Long-Term Investment Securities

Long-term investment securities as of March 31, 2004 and 2003 comprise the following:

		in Millions of Korean Won			
		2004		2003	
Investments	Ownership Percentage	Acquisition Cost	Fair Value	Book Value	Book Value
Non-marketable equity securities					
Daewoo Capital CRV Co., Ltd.	23.97%	₩ 60,498	₩ 60,977	₩ 60,498	₩ 71,908
Korea Securities Finance Corp.	4.05%	13,788	18,566	13,788	13,788
Korea ECN Securities Co., Ltd.	3.13%	800	603	800	800
Yuongheung Iron and Steel Co., Ltd.	19.58%	3,338	3,021	3,338	3,338
Korea Securities Depository	2.31%	1,217	7,940	1,217	1,217
Korea Securities Computer Corp.	4.07%	1,097	4,926	1,097	1,097
Others	-	44,113	9,784	2,591	4,167
		124,851	105,817	83,329	96,315
Marketable equity securities					
Hanaro Telecom Inc.	2.60%	243,352	39,480	39,480	32,640
Keangnam Enterprises Co., Ltd.	0.06%	153	82	82	1,741
KP Chemical Co., Ltd.	1.33%	10,298	4,051	4,051	3,004
Cell Biotech Co., Ltd.	0.63%	540	140	140	132
Hanchang Co., Ltd.	2.68%	68	124	124	215
Others	-	-	-	-	535
		254,411	43,877	43,877	38,267
Investment in partnerships					
Korea Stock Exchange	3.20%	1,784	22,602	1,784	1,784
Stock Market Stabilization Fund	13.97%	13,475	11,982	11,982	40,055
Shinbo Investment No.5	8.33%	500	500	500	500
Others	-	350	350	350	-
		16,109	35,434	14,616	42,339
Securities in affiliated companies					
Seoul Investment Trust Co., Ltd.	81.85%	17,350	23,229	23,229	21,158
Daewoo Securities (Europe) Ltd.	100.00%	18,628	23,423	23,423	25,683
Daewoo Securities (America) Inc.	100.00%	9,621	12,977	12,977	14,468
Daewoo Securities (Hong Kong) Ltd	100.00%	7,775	16,396	16,396	17,929
Uz Daewoo Bank	61.11%	4,747	7,285	7,285	6,058
Shanghai Woosang Investment Consulting Co., Ltd.	100.00%	1,338	786	786	1,138
Optimal Access Inv.	100.00%	3,845	12,005	12,005	8,106
Delta Info-Comm Co., Ltd.	61.12%	8,600	4,187	4,187	5,452
		71,904	100,288	100,288	99,992
Corporate bonds		204,586	204,586	204,586	209,783
Other investments		2,570	2,010	2,570	2,570
		₩ 674,431	₩ 492,012	₩ 449,266	₩ 489,266

The shares of stock of Hanaro Telecom Inc. is provided to Korea Stock Exchange and Korea Securities Depository as collateral for futures and option sales, and borrowed securities sales.

The Stock Market Stabilization Fund was valued at net asset value, and Seoul Guarantee Insurance Co., Ltd. CP, included in other investments, was valued at the present value of future cash flows. However, investments in partnerships and non-marketable equity securities were valued at the acquisition value because the fair value can not be reasonably estimated.

The recoverable amount of some non-marketable securities is expected to be less than acquisition value, and such loss on available-for-sale securities, amounting to ₩1,138 million, has been charged to non-operating expenses in the accompanying non-consolidated financial statements for the year ended March 31, 2004.

The difference between the fair value and the acquisition value of available-for-sale securities, amounting to ₩211,807 million, was recorded as losses on valuation of securities available-for-sale in the capital adjustments account as of March 31, 2004.

All of the Company's shares in Hanchang Co., Ltd. and 1,130,000 shares of KP Chemical Co., Ltd. were acquired by debt-for-equity swap, and the sale of these securities are restricted.

As of March 31, 2004 and 2003, corporate bonds included in investment securities comprise the following:

	in Millions of Korean Won			
	2004		2003	
	Book Value	Allowance for Bad Debts	Net Book Value	Net Book Value
Private placement bonds	₩ 204,586	₩ -	₩ 204,586	₩ 209,783

In accordance with SKFAS No. 8, the corporate bonds were valued at their fair value and the information used in calculating the fair value is as follows:

	in Millions of Korean Won			
	Face amount	Discount rate	Date of maturity	Valued amount
Daewoo Capital CRV Private Placement Bonds (PPB)	₩ 206,723	7.68%	October 10, 2004	₩ 204,586

The maturity date of the above PPB is within a year. However, the PPB's annual rollover has been settled, and the PPB is recorded as investment securities.

As of March 31, 2004 and 2003, the investment securities in affiliated companies valued using the equity method are as follows:

Current year

	in Millions of Korean Won						
	Adjustments						
	Beginning Balance	Acquisition	Valuation Gain (Loss)	Retained Earnings	Capital Adjustment	Dividends	Ending Balance
Seoul Investment Trust Co., Ltd.	₩ 21,158	₩ -	₩ 2,071	₩ (1)	₩ 1	₩ -	₩ 23,229
Daewoo Securities (Europe) Ltd.	25,683	-	(229)	-	(2,031)	-	23,423
Daewoo Securities (America) Inc.	14,468	-	(354)	-	(1,137)	-	12,977
Daewoo Securities (Hong Kong) Ltd.	17,929	-	(129)	-	(1,404)	-	16,396
Uz Daewoo Bank	6,058	-	1,723	65	(561)	-	7,285
Shanghai Woosang Investment Consulting Co., Ltd.	1,138	-	(269)	-	(83)	-	786
Optimal Access Inv.	8,106	-	4,543	85	(729)	-	12,005
Delta Info-Comm. Co., Ltd.	5,452	-	(1,307)	-	42	-	4,187
	₩ 99,992	₩ -	₩ 6,049	₩ 149	₩ (5,902)	₩ -	₩ 100,288

Previous year

in Millions of Korean Won							
	Adjustments						Ending Balance
	Beginning Balance	Acquisition	Valuation Gain (Loss)	Retained Earnings	Capital Adjustment	Dividends	
Seoul Investment Trust Co., Ltd	₩ 16,052	₩ -	₩ 5,106	₩ -	₩ -	₩ -	₩ 21,158
Daewoo Securities (Europe) Ltd.	27,531	-	906	-	(1,503)	(1,251)	25,683
Daewoo Securities (America) Inc.	14,820	-	458	-	(810)	-	14,468
Daewoo Securities (Hong Kong) Ltd.	21,117	-	463	-	(1,158)	(2,493)	17,929
Uz Daewoo Bank	6,197	-	989	(649)	(479)	-	6,058
Shanghai Woosang Investment Consulting Co., Ltd.	1,326	-	(112)	-	(76)	-	1,138
Optimal Access Inv.	3,717	-	4,475	-	(86)	-	8,106
Delta Info-Comm. Co., Ltd	-	8,600	(3,205)	-	57	-	5,452
Daewoo Bank (Hungary) Ltd.	34,224	-	707	-	6,572	(41,503)	-
Daewoo Bank (Rumania) S.A.	21,266	-	-	-	(2,189)	(19,077)	-
	₩ 146,250	₩ 8,600	₩ 9,787	₩ (649)	₩ 328	₩ (64,324)	₩ 99,992

For the year ended March 31, 2004, the Company recognized gains on valuation of the equity method securities amounting to ₩6,049 million in current operations, ₩149 million as an increase in accumulated earnings and ₩5,902 million as a capital adjustment. For the year ended March 31, 2003, the Company recognized gains on valuation of the equity method securities amounting to ₩9,787 million in prior year operations, ₩649 million as a decrease in accumulated earnings and ₩328 million as a capital adjustment. As March 31, 2004 and 2003, the gain on valuation of equity method securities in the capital adjustments account amounted to ₩10,161 million and ₩16,063 million, respectively.

10. Property, Plant and Equipment

Property, plant and equipment as of March 31, 2004 and 2003, are as follows:

Current year

in Millions of Korean Won						
	Beginning Balance	Acquisition	Disposal	Depreciation	Others	Ending Balance
Land	₩ 136,936	₩ -	₩ (8,309)	₩ -	₩ -	₩ 128,627
Buildings	123,753	-	(4,174)	(3,560)	-	116,019
Vehicles	57	-	(5)	(22)	-	30
Furniture and equipment	35,422	5,437	(272)	(22,784)	-	17,803
Others	174	-	-	-	-	174
Construction in-progress	603	-	-	-	(603)	-
	₩ 296,945	₩ 5,437	₩ (12,760)	₩ (26,366)	₩ (603)	₩ 262,653

Previous year

in Millions of Korean Won						
	Beginning Balance	Acquisition	Disposal	Depreciation	Others	Ending Balance
Land	₩ 140,961	₩ -	₩ (4,025)	₩ -	₩ -	₩ 136,936
Buildings	127,343	-	-	(3,590)	-	123,753
Vehicles	43	34	-	(20)	-	57
Furniture and equipment	51,653	15,591	(954)	(30,868)	-	35,422
Others	175	-	(1)	-	-	174
Construction in-progress	-	-	-	-	603	603
	₩ 320,175	₩ 15,625	₩ (4,980)	₩ (34,478)	₩ 603	₩ 296,945

As of March 31, 2004 and 2003, the values of the Company's land, as announced by the Korean local government for property tax assessment purposes, approximate ₩104,346 million and ₩106,146 million, respectively.

As of March 31, 2004, the Company's land and buildings are pledged up to a maximum value amounting to ₩169,000 million as collateral for borrowings to Korea Development Bank. However, as of March 31, 2004, the balance of the borrowings was settled. In addition, a portion of buildings is pledged as collateral for the guarantee for rent liabilities, up to a maximum of ₩34,237 million.

In accordance with the Asset Revaluation Law, the Company revalued a substantial portion of its property, plant and equipment on July 1, 1998. The asset revaluation surplus amounting to ₩101,623 million was recognized and offset against accumulated deficit for the year ended March 31, 2003. As of March 31, 2004, buildings are insured against fire and other casualty losses up to approximately ₩141,951 million.

11. Intangible Assets

Intangible assets as of March 31, 2004 and 2003 comprise the following:

Current year

	in Millions of Korean Won			
	Development Costs	Software	Others	Total Amount
Beginning balance	₩ 5,200	₩ 2,090	₩ 301	₩ 7,591
Acquisition	2,994	1,022	-	4,016
Disposal	-	-	-	-
Amortization	(2,697)	(983)	(100)	(3,780)
Impairment loss	-	-	-	-
Ending balance	5,497	2,129	201	7,827
Accumulate amortization and others	₩ 6,438	₩ 2,166	₩ 301	₩ 8,905

Previous year

	in Millions of Korean Won			
	Development Costs	Software	Others	Total Amount
Beginning balance	₩ 5,377	₩ 1,721	₩ 401	₩ 7,499
Acquisition	1,802	1,086	-	2,888
Disposal	-	-	-	-
Amortization	(1,979)	(717)	(100)	(2,796)
Impairment loss	-	-	-	-
Ending balance	5,200	2,090	301	7,591
Accumulate amortization and others	₩ 3,740	₩ 1,184	₩ 201	₩ 5,125

For the years ended March 31, 2004 and 2003, the Company recorded amortization of intangible assets amounting to ₩3,780 million and ₩2,797 million, respectively, as a selling and administrative expense.

12. Troubled Loans

Troubled loans as of March 31, 2004 and 2003 comprise the following:

		in Millions of Korean Won	
		2004	2003
Advances for customers:			
Advances for payment on bonds guarantee	₩	108,637	₩ 113,061
Advances for payment on loss compensation		6,676	3,799
Advances for payment for others		9,357	11,076
Dishonored bonds		16,511	25,411
Dishonored bills receivable		6	6
		141,187	153,353
Less: Present value discount account		(3,051)	(8,867)
Allowance for doubtful accounts		(122,758)	(98,728)
	₩	15,378	₩ 45,758

13. Allowances for Bad Debts

Pursuant to supervisory regulations provided by the Korean Financial Supervisory Commission, the Company has classified receivables, including loans to customers, into the following five categories, and provided an allowance for bad debts for each classification. The details as of March 31, 2004 and 2003 are as follows:

		in Millions of Korean Won					
		2004					
	Current	Special Mention	Substandard	Doubtful	Loss	Total	
Loans to customers	₩ 58,023	₩ -	₩ -	₩ -	₩ 4	₩ 58,027	
Accounts receivable	36,813	-	-	478	8,672	45,963	
Accrued income	20,173	-	-	-	1,206	21,379	
Advance payments	-	-	-	-	609	609	
Long-term loans	18,267	-	-	-	398	18,665	
Advances for customers	1,908	1,815	13,702	17,182	90,063	124,670	
Troubled loans	-	-	6	-	16,511	16,517	
Other non-current assets	-	-	-	24,434	32,242	56,676	
	₩ 135,184	₩ 1,815	₩ 13,708	₩ 42,094	₩ 149,705	₩ 342,506	

		in Millions of Korean Won					
		2003					
	Current	Special Mention	Substandard	Doubtful	Loss	Total	
Loans to customers	₩ 20,077	₩ -	₩ -	₩ -	₩ 9	₩ 20,086	
Accounts receivable	42,996	-	-	3,583	1,810	48,389	
Accrued income	12,885	-	-	104	538	13,527	
Long-term loans	24,644	-	-	-	418	25,062	
Corporate bonds & other investments	206,723	4,177	-	-	34,400	245,300	
Advances for customers	1,971	10,454	41,662	16,387	57,462	127,936	
Troubled loans	-	-	12,606	-	12,811	25,417	
Other non-current assets	282	-	85,195	-	60,893	146,370	
	₩ 309,578	₩ 14,631	₩ 139,463	₩ 20,074	₩ 168,341	₩ 652,087	

The allowance for doubtful accounts and percentage to total receivables as of the end of the last three years are as follows:

		in Millions of Korean Won	
	Receivable Balances	Allowance for Doubtful Accounts(*)	Rates
March 31, 2002	₩ 1,604,364	₩ 839,100	52.30%
March 31, 2003	652,087	228,221	35.00%
March 31, 2004	342,506	190,988	55.76%

(*) The amount includes the present value discount account.

14. Present Value Discount Account

As of March 31, 2004 and 2003, troubled loans and investments, which were restructured by reorganization plans, approved by the court or agreed to by creditors, comprise the following:

in Millions of Korean Won					
2004					
Accounts	Period	Discount Rate (%)	Nominal Value	Present Value	Difference
Troubled loans	January 1999 ~ December 2011	8.0 ~ 14.0	₩ 14,088	₩ 11,037	₩ 3,051
Investments	December 2001 ~ September 2018	5.2	2,570	2,010	560
			₩ 16,658	₩ 13,047	₩ 3,611

in Millions of Korean Won					
2003					
Accounts	Period	Discount Rate (%)	Nominal Value	Present Value	Difference
Troubled loans	June 1998 ~ December 2011	8.0 ~ 14.0	₩ 40,744	₩ 31,877	₩ 8,867
Investments	December 2001 ~ September 2018	5.2	2,570	1,973	597
			₩ 43,314	₩ 33,850	₩ 9,464

15. Short-Term Borrowings

Short-term borrowings as of March 31, 2004 and 2003 comprise the following:

in Millions of Korean Won			
Present Annual Interest Rate (%)		2004	2003
Borrowing from Korean Securities			
Financial Corporation (KSFC)	3.80	₩ 20,000	₩ 78,000
Call money	-	-	45,000
		₩ 20,000	₩ 123,000

As of March 31, 2003, cash and bank deposits, trading securities, treasury stock and investments amounting to ₩14,832 million are pledged as collateral for the repayment of the above borrowing from KSFC.

16. Deposits from Customers

Deposits from customers as of March 31, 2004 and 2003, comprise the following:

in Millions of Korean Won	
2004	2003
Customers' deposits for brokerage	₩ 867,710 ₩ 1,026,924
Customers' deposits for futures and options trading	88,875 83,830
Customers' deposits for savings	42,046 64,409
Customers' deposits for beneficiary certificates	11,892 87,826
Others	2,441 3,017
₩ 1,012,964	₩ 1,266,006

17. Debentures and Long-Term Borrowings

Debentures and long-term borrowings as of March 31, 2004 and 2003 comprise the following:

			in Millions of Korean Won	
	Annual Interest Rate (%)	The Terms of Redemption	2004	2003
Subordinated debentures (*)	5.77 ~ 8.20	2004.5.13 ~ 2005.6.30	₩ 650,000	₩ 650,000
Less : Current portion of long-term debts		2004.5.13 ~ 2005.6.30	(450,000)	(200,000)
Discount on the debentures			-	(214)
			₩ 200,000	₩ 449,786

(*) The redemption of subordinated debentures will be performed only after other indebtednesses are already settled in case the Company goes into bankruptcy.

The annual maturities of long-term borrowings and debentures outstanding as of March 31, 2003 are as follows:

in Millions of Korean Won	
Subordinated Debentures	
April 1, 2005 ~ March 31, 2006	₩ 200,000

18. Allowance for Guarantees

As of March 31, 2004 and 2003, the details of guarantees offered by the Company and the related allowance are as follows:

		in Millions of Korean Won			
		2004		2003	
Classification	Guaranteed Amount	Allowance	Guaranteed Amount	Allowance	
Normal	₩ -	₩ -	₩ -	₩ -	
Precautionary	3,122	62	37,380	748	
Substandard	-	-	6,297	1,259	
Doubtful	-	-	-	-	
Estimated loss	-	-	-	-	
Others (*)	-	-	17,800	-	
Total	₩ 3,122	₩ 62	₩ 61,477	₩ 2,007	

(*) Pertains to the portion of guarantees on the bonds acquired by the Company.

19. Reserve for Severance and Retirement Benefits

Reserve for severance and retirement benefits as of March 31, 2004 and 2003 are as follows:

		in Millions of Korean Won	
		2004	2003
Beginning balance	₩	23,769	₩ 16,015
Provisions		12,675	9,833
Severance payments		(3,701)	(2,079)
		32,743	23,769
Less Deposits to the National Pension Fund for severance and retirement benefits		(378)	(417)
	₩	32,365	₩ 23,352

20. Commitments and Contingencies

As of March 31, 2004, the borrowing agreements between the Company and the financial institutions are as follows:

in Millions of Korean Won				
	Financial Institutions	Interest Rate	Limit	Used
Bank overdraft	Shinhan and others	0.8~0.9%	₩ 125,000	₩ -
Margin borrowings	Korea Securities Finance	4.0%	240,840	-
General borrowings	Korea Securities Finance	4.0%	Deposit	-
Other borrowings	Korea Securities Finance	3.8%	410,000	20,000

As of March 31, 2004 and 2003, the Company's total contract amounts for derivatives amounted to ₩363,960 million and ₩39,269 million, respectively.

As of March 31, 2004, the Company has pledged a blank note to LG Card Co., Ltd. as collateral for the capital lease execution guarantee.

As of March 31, 2004, the Company has been sued in a number of (total claim amount: ₩83,025 million) cases, excluding the claims for the compensation loss on the beneficiary certificates mentioned below. The ultimate outcome of the cases cannot presently be determined and accordingly, no adjustment has been made in the accompanying non-consolidated financial statements.

The Company provided bonds amounting to ₩31,313 million, as a substitute for the price of securities (₩32,888 million in market price), to Kookmin Bank and others as collateral for the structured security sales, and the Company also provided bonds and securities amounting to ₩41,923 million, as a substitute for the price of securities (₩50,461 million in market price), to Korea Securities Depository.

As of March 31, 2003, the Company was named as a defendant in legal actions filed by twelve financial institutions with respect to redemption requests of beneficiary certificates amounting to approximately ₩601 billion. Those financial institutions requested the Company to redeem the beneficiary certificates, which they purchased through the sales agency of the Company, at the carrying value of the underlying assets at the time of the request, in accordance with a certain provision of the related Investment Trust Act. However, the Company rejected the requests, and offered that the redemption should be made based on the fair value of the underlying assets because the fair value significantly declined as contrasted with the carrying value enough to invoke the fundamental principle of the Investment Trust Act that customers should bear losses from the beneficiary certificates. For the year ended March 31, 2003, a provision for losses amounting to ₩45,600 million in connection with those cases has was charged to current operations. However, the court ordered the Company to pay for the beneficiary certificates amounting to ₩131,500 million, and the Company recognized ₩85,900 million as non-operating expenses for the year ended March 31, 2004 . Meanwhile, as of March 31, 2004, beneficiary certificates amounting to ₩18,000 million are related to financial institutions which did not file a suit. Most of the cases are pending at the second trial, however, the ultimate outcome cannot be presently be determined and accordingly, no additional adjustment has been made in the accompanying non-consolidated financial statements.

In September 2000, the Company made a contract with a European bank regarding the transfer of rights related to offshore funds. Accordingly, in April 2001, the Company acquired such right to claim the performance of an obligation related to offshore funds. On April 4, 2001, the Company filed a suit amounting to US\$87 million against Korea Investment Trust Management & Securities Company and Hyundai Investment Trust & Securities Co., Ltd. as a claim for compensation. The case was decided in favor of the Company on March 18, 2004, and the Company recognized ₩57,117 million as income, which is the difference between the collected money and the book value of the right to claim the performance of an obligation related to offshore funds. This case is still pending at the second trial, however, the ultimate outcome cannot be presently be determined and accordingly, no adjustment has been made in the accompanying non-consolidated financial statements.

On August 23, 2002, 5,000,000 shares of Delta Info-Comm. Co., Ltd. were traded at ₩25,853 million on the Korean Securities Dealers Automated Quotation ("KOSDAQ") stock market, as fictitious orders were made on-line through a cyber order account. In this regard, the Company acquired the entire shares related to this accident as part of its fiduciary duty, which includes complying with the related laws and regulations, protecting good faith in investors, and stabilizing the market.

In acquiring those shares as described above, the Company recorded the proportional net asset value of the investee amounting to ₩8,600 million as the acquisition cost of the investment, and the excess, amounting to ₩17,253 million, as a non-current asset. The Company collected ₩3,530 million during the year ended March 31, 2004 and appraised the non-current asset at its collectable amount. A provision for allowance for doubtful accounts amounting to ₩5,655 million has been charged to current operations in the accompanying non-consolidated financial statements for the year ended March 31, 2004, and the total provision for allowance for doubtful accounts amounts to ₩10,784 million for the year ended March 31, 2004.

During the year ended March 31, 2003, the Company entered into the contract for the sale of the shares of stock and the transfer of the right of management related to Daewoo Bank (Hungary) Ltd. ("DBH") with Korea Development Bank. According to the contract, the Company will provide guarantees for a certain portion of contingent losses arising from off-balance sheet liabilities ("ordinary contingent liabilities") of DBH for two years from the date of the transfer of management. Under the contract, the Company should provide the whole amount of guarantees for losses arising from off-balance sheet liabilities due to DBH's intentional or material negligence, and the excess amount over HUF 2,500,000 per transaction due to unintentional or immaterial negligence.

In addition, as for contingencies ("specific contingent liabilities") agreed upon in the contract, the Company should settle the difference between the fixed amount of losses and the allowance provided amounting HUF 970,275,000 when the contingent situations cease to exist.

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 non-consolidated 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.

21. Capital Stock and Capital Surplus

Capital stock and capital surplus as of March 31, 2004 comprise the following:

in Millions of Korean Won		
Common Stock	Preferred Stock	Capital Surplus (Paid-in capital in excess of par value)
₩ 950,504	₩ 70,379	₩ 250,724

Preferred stock is non-participating, non-cumulative and non-voting. The Company can issue preferred stock that can be converted into common stock within a limited period of time.

22. Retained Earnings

Retained earnings as of March 31, 2004 and 2003 comprise the following:

		in Millions of Korean Won	
	Reference	2004	2003
Reserve for loss on securities transactions	(A)	₩ 17,765	₩ 35,531
Reserve for loss on futures trading	(B)	-	-
Reserve for financial structural improvement	(C)	4,000	4,000
Unappropriated	(D)	176,328	25,898
		₩ 198,093	₩ 65,429

(A) In accordance with the Korean Securities and Exchange Law, the Company has provided a reserve for losses on securities transactions until March 31, 2001. However, the accumulated reserve for losses on securities transactions should be transferred to unappropriated retained earning within three years starting from the date the related regulations were abolished. If any, the reserve may be transferred to common stock or used to offset accumulated deficit.

(B) The Korean Futures Trading Act requires the Company to appropriate available retained earnings as a reserve for losses on futures trading every fiscal year. If available retained earnings are more than 0.1% of brokerage commissions, the reserve for losses on futures trading should be equal to 0.1% of brokerage commissions. This reserve is supposed to be utilized to compensate for the losses of the assigner, which the Company's directors and employees are accountable for, if any. Unless this reserve is utilized over three fiscal years after its provision, it should be transferred to unappropriated retained earnings.

(C) Up to 2001, the Tax Exemption and Reduction Control Law requires the Company to appropriate, as a reserve for business rationalization, an amount equal to the exemption from income taxes resulting from restructuring tax credits and certain deductions from taxable income specified by such law.

(D) In accordance with the approval of the accompanying non-consolidated financial statement by the Company's Board of Directors during a meeting to be held on May 29, 2003, the Company transferred a reserve for losses on securities transactions amounting to ₩17,765 million, and provided ₩20,938 for a reserve for loss on futures trading.

23. Stock Options

The Company granted stock options to some of its directors and employees as follows:

	Provision 1	Provision 2
Dates of provision	June 2000	August 2001
Option type	Distribution of cash	Distribution of cash
Number of shares granted	340,000 shares	98,000 shares
Number of shares lapsed	38,750 shares	-
Number of shares as of the balance date	301,250 shares	98,000 shares
Condition	Service until June 2003	Service until August 2003
Exercise price	₩ 7,000	₩ 8,900
Period of exercise	June 3, 2003 ~ June 2, 2010	August 24, 2003 ~ August 23, 2008

As the type of stock option changed from the issuance of new shares of stock or the distribution of cash to the distribution of cash pursuant to the resolution made by the Board of Directors' meeting held on June 18, 2003, the method of estimating compensation costs also changed from the fair value basis method to the intrinsic value basis method. This change decreased the compensation expense by ₩1,856 million and increased net income by ₩1,856 million for the year ended March 31, 2004.

24. Capital Adjustments

Capital adjustments as of March 31, 2004 and 2003 are as follows:

	in Millions of Korean Won	
	2004	2003
Treasury stock	₩ (32,970)	₩ (32,970)
Loss on valuation of investment securities (Note 9)	(191,801)	(216,775)
Reserve for stock options (Note 23)	-	1,764
	₩ (224,771)	₩ (247,981)

As of March 31, 2004, the Company owned 1,796,320 shares of preferred stock as treasury stock.

25. Income Taxes

Income taxes for the years ended March 31, 2004 and 2003 comprise the following:

	in Millions of Korean Won	
	2004	2003
Current income taxes	₩ -	₩ -
Deferred income taxes	-	-
Income tax benefits	₩ -	₩ -

The following table reconciles the Company's pretax income to the taxable income for the years ended March 31, 2004 and 2003.

	in Millions of Korean Won	
	2004	2003
Income (loss) before taxes	₩ 132,515	₩ (60,395)
Permanent differences	2,355	3,421
Temporary differences	(165,283)	(896)
Loss carry-forwards	₩ (30,413)	₩ (57,870)

The details of deferred taxes as of and for the years ended March 31, 2004 and 2003 are as follows:

in Millions of Korean Won					
2004					
	Beginning Balance	Increases	Decreases	Ending Balance	Deferred Income Tax Assets
Accrued interest receivables	₩ (4,006)	₩ (13,866)	₩ (3,815)	₩ (14,057)	₩ (4,175)
Gain on valuation of trading securities	(47,796)	(87,156)	(451)	(134,501)	(36,988)
Loss on valuation of trading securities	122,562	6,346	25,719	103,189	28,377
Loss on impairment of investment securities	42,669	1,137	-	43,806	12,047
Gain on valuation of investment securities (stock market stabilization fund)	(8,425)	-	-	(8,425)	(2,317)
Loss on contingency provision	45,600	2,800	45,600	2,800	770
Present value discount account	9,464	-	5,853	3,611	993
Affiliated company securities	(201)	(6,049)	10,981	(17,231)	(4,739)
Land revaluation surplus	(46,910)	-	(92)	(46,818)	(12,875)
Allowance for payment guarantees	2,007	-	1,945	62	17
Accrued severance benefits	13,839	5,429	-	19,268	5,299
Gain on valuation of structured securities	-	(1,973)	-	(1,973)	(543)
Loss on valuation of structured securities sold	-	4,526	-	4,526	1,245
Others	7,958	(5)	2,318	5,635	1,550
Accumulated temporary differences	136,761	(88,811)	88,058	(40,108)	(11,339)
Operating loss carry-forwards	853,213	45,287	-	898,500	247,088
	₩ 989,974	₩ (43,524)	₩ 88,058	₩ 858,392	₩ 235,749
			Less : Valuation allowance		(235,749)
					₩ -

in Millions of Korean Won					
2003					
	Beginning Balance	Increases	Decreases	Ending Balance	Deferred Income Tax Assets
Accrued interest receivables	₩ (1,302)	₩ (4,006)	₩ 1,302	₩ (4,006)	₩ (1,190)
Gain on valuation of trading securities	(44,054)	(15,800)	12,058	(47,796)	(14,195)
Loss on valuation of trading securities	189,888	19,469	(86,795)	122,562	36,401
Loss on impairment of investment securities	45,604	1,418	(4,353)	42,669	12,673
Gain on valuation of investment securities (stock market stabilization fund)	(30,629)	22,204	-	(8,425)	(2,502)
Loss on contingency provision	-	45,600	-	45,600	13,543
Present value discount account	22,377	-	(12,913)	9,464	2,811
Affiliated company securities	(26,873)	(6,042)	32,714	(201)	(60)
Land revaluation surplus	(46,912)	-	2	(46,910)	(13,932)
Allowance for payment guarantees	12,545	-	(10,538)	2,007	596
Others	17,013	5,696	(912)	21,797	6,473
Accumulated temporary differences	137,657	68,539	(69,435)	136,761	40,618
Operating loss carry-forwards	806,673	57,871	(11,331)	853,213	253,404
	₩ 944,330	₩ 126,410	₩ (80,766)	₩ 989,974	294,022
			Less : Valuation allowance		(294,022)
					₩ -

The statutory income tax rate, including resident tax surcharges, applicable to the Company was approximately 29.7% in 2004, and was amended to 27.5% effective for fiscal years beginning April 1, 2005 in accordance with the Korean Corporate Income Tax Law.

The Company does not recognize the accumulated tax benefits as an asset due to the uncertainty of its availability for offsetting future tax liabilities.

The maturities of the future tax effects of temporary differences and operating loss carry-forwards that were not recognized as deferred income tax assets are as follows:

	in Millions of Korean Won		
	Temporary Difference and Others	Deferred Income Tax Assets	Carry-forward Period Limitation
Deferred tax assets from temporary differences	₩ (40,108)	₩ (11,030)	-
Deferred tax assets from undisposed accumulated deficit			
March 31, 2000	300,358	82,598	March 31, 2005
March 31, 2001	458,333	126,042	March 31, 2006
March 31, 2002	36,651	10,079	March 31, 2007
March 31, 2003	72,822	20,026	March 31, 2008
March 31, 2004	30,336	8,342	March 31, 2009
	898,500	247,087	
	₩ 858,392	₩ 236,057	

26. Earnings (Loss) Per Share

Earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding for the years ended March 31, 2004 and 2003. Ordinary income (loss) per share is computed by dividing ordinary income (loss), after the adjustment from extraordinary gains or losses and related income taxes, by the weighted-average number of common shares outstanding for the years ended March 31, 2004 and 2003.

Ordinary income (loss) per share and earnings (loss) per share for the years ended March 31, 2004 and 2003 are calculated as follows:

	in Korean Won	
	2004	2003
Ordinary income (loss)	₩ 132,847,445,211	₩ (60,355,414,767)
Weighted-average number of common shares outstanding	190,100,891	190,100,891
Ordinary income (loss) per share	699	(318)

	in Korean Won	
	2004	2003
Net income (loss)	₩ 132,515,459,407	₩ (60,395,379,159)
Weighted average number of common shares outstanding	190,100,891	190,100,891
Earnings (loss) per share	₩ 697	₩ (318)

Stock purchase options, which may be converted into the Company's common stock, have no dilative effect. Accordingly, diluted income (loss) per share is not presented.

27. Offshore Funds

Offshore funds of the Company as of March 31, 2004 and 2003 are as follows:

Fund name	Location	Ratio of Shareholding	Net Asset Value as of March 31, 2004	Total Borrowings as of March 31, 2004	Money Invested by the Company	in U.S. Dollars	
						2004	2003
						Net Asset Value (the Company's portion)	Net Asset Value (the Company's portion)
Optimal Access Inv.	Malaysia	100%	US\$ 10,406,794	US\$ -	US\$ 3,305,755	US\$ 10,406,794	US\$ 6,469,909

28. Related Party Transactions

Significant transactions with related parties for the years ended March 31, 2004 and 2003, and the related balances as of March 31, 2004 and 2003, are summarized as follows:

in Millions of Korean Won				
2004				
	Revenue	Expenses	Receivables	Payables
Daewoo Securities (Europe) Ltd.	₩ -	₩ 344	₩ -	₩ 64
Daewoo Securities (America) Inc.	-	1,226	-	114
Daewoo Securities (Hong Kong) Ltd.	-	995	-	103
The Korea Development Bank	5,573	11,688	128,013	203,433
Delta info-Comm. Co., Ltd.	-	-	-	-

in Millions of Korean Won				
2003				
	Revenue	Expenses	Receivables	Payables
Daewoo Securities (Europe) Ltd.	₩ -	₩ 165	₩ -	₩ -
Daewoo Securities (America) Inc.	-	203	-	-
Daewoo Securities (Hong Kong) Ltd.	-	1,055	-	-
The Korea Development Bank	2,212	36,618	113,761	210,991
Delta info-Comm. Co., Ltd.	-	-	-	1,295

29. Securities in Custody

As of March 31, 2004 and 2003, the securities in custody which are owned by the customers are as follows:

in Millions of Korean Won				
	2004		2003	
Trust securities in custody	₩	12,296,851	₩	9,627,656
Saver securities in custody		243,493		290,417
Beneficiary securities in custody		2,870,368		3,309,863
Other securities in custody		249,387		108,453

30. Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended March 31, 2004 and 2003 comprise the following:

in Millions of Korean Won				
	2004		2003	
Salaries	₩	87,822	₩	83,138
Other benefits for employees		61,254		68,523
Computer system operation expenses		25,304		24,570
Rental expenses		14,760		14,415
Advertising expenses		16,413		12,437
Depreciation		26,366		34,478
Credit loss expense		20,872		31,761
Others		65,413		60,447
	₩	318,204	₩	329,769

31. Operating Results for the Final Interim Period

Significant operation results for the three-month periods ended March 31, 2004 are as follows:

	in Millions of Korean Won	
Operating income	₩	255,707
Operating income, net		107,865
Ordinary income		163,812
Net income		163,756
Ordinary income per share (in Korean Won)		862
Earnings per share (in Korean Won)		861

32. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended March 31, 2004 and 2003 are as follows:

	in Millions of Korean Won			
		2004		2003
Impairment of available-for-sale securities	₩	17,400	₩	-
Transfer from available-for-sale securities to other non-current assets		17,000		10,615
Transfer from other non-current assets to available-for-sale securities		751		294,038
Impairment of non-current assets		35,412		627,758
Transfer from other non-current assets to securities		786		720
Transfer from construction in-progress to property, plant and equipment		603		-
Reclassification of subordinated bonds		450,000		200,000
	₩	521,952	₩	1,133,131

33. Approval of Financial Statements

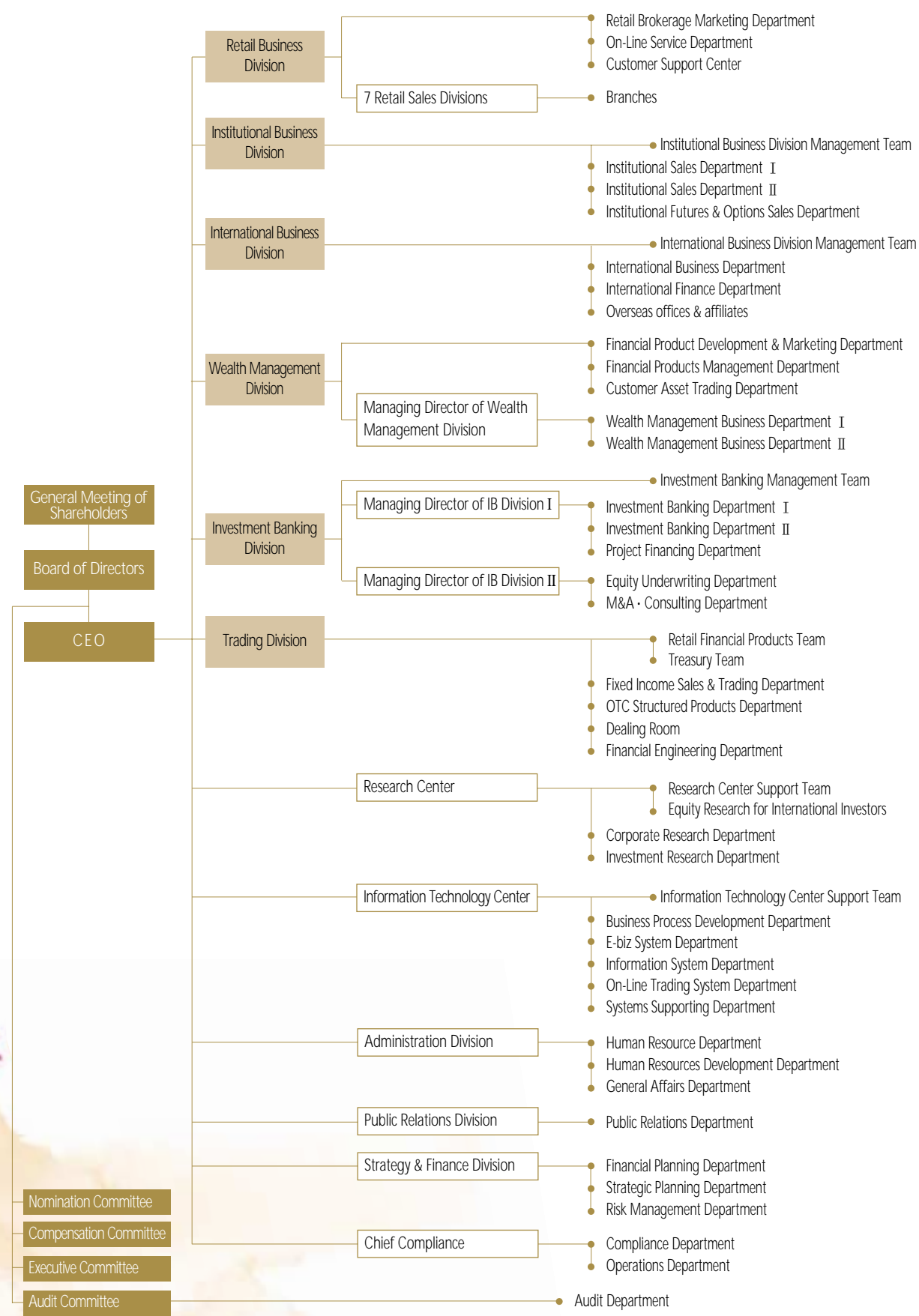
The accompanying non-consolidated financial statements as of and for the year ended March 31, 2004 will be duly approved by the Company's Board of Directors during a meeting to be held on May 24, 2004.

34. Reclassification of Prior Year Financial Statement Presentation

Certain amounts in the non-consolidated financial statements as of and for the year ended March 31, 2003 have been reclassified to conform to the 2004 presentation. These reclassifications had no effect on previously reported net income or shareholder's equity.

Organization

- 1 Chief Compliance
- 22 Divisions, 39 Departments, 15 Teams
- 118 Branches, 1 Office





Company	Address	Telephone No.
Daewoo Securities (Europe) Ltd.	41st Fl., Tower 42, 25 Old Broad Street, London EC2N 1HQ, U.K.	4420-7982-8000
Daewoo Securities (America) Inc.	600 Lexington Avenue, Suite 301, New York, NY10022, U.S.A.	1-212-407-1000
Daewoo Securities (Hong Kong) Ltd.	Suite 816-819, Jardine House, 1 Cannaught Place, Central, H.K., China	852-2845-6332
UzDaewoo Bank	1 Pushkin Street, Tashkent, 700000, zbekistan	998-71-1208000

