The background of the page is a soft, abstract watercolor wash in shades of light beige and cream. The wash is most concentrated on the left side, where it forms a dark, textured shape that tapers towards the center, and then spreads out more thinly towards the right and bottom edges. The overall effect is a clean, artistic, and professional look.

# Daewoo Securities

Annual Report 2001





Daewoo Securities ···  
Shaping the future of Korea's financial industry



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Daewoo Securities started operations in September of 1970 and it has since been spearheading the growth of the Korean financial industry with its outstanding sales and distribution network, high quality research and strong profit-oriented management. Daewoo Securities' constant drive to be the best has culminated in a company strong in profitability, stability, and growth potential, recognized for the standard of excellence it maintains in customer service, and known for its strive to meet global standards in management and financial status. Also, Daewoo Securities' commitment to always innovate and keep ahead of competition has cultivated not only advanced financing techniques, but also top level professionals who are leaders of the industry today. These efforts have been acknowledged by various international and domestic media and financial institutions. During the past three decades Daewoo Securities has been awarded numerously including the recognition as Best Securities House for four consecutive years from 1995 to 1998 by the Financial Supervisory Service of Korea.

In the more recent past, however, the Company was faced with a very difficult challenge. But Daewoo Securities took the challenge head on and turned the crisis into a chance for reinventing itself.

In 1999, the Company separated from its long time parent Daewoo Group and in May 2000, welcomed the Korea Development Bank as the majority shareholder. With that, Daewoo Securities was able to free itself from chaebol management, something the Company needed to dispense with in order to become a world-class firm. Strengthened by new capital injection and drastic restructuring measures, Daewoo Securities emerged as the most sound financial institution in Korea, boasting the most advanced management practices and the highest profits and efficiency in the industry.

Daewoo Securities is opening a new chapter in its history. It intends nothing less than to become the Shaper of Korea's total financial service industry. The 2,500 employees of Daewoo Securities will be committed to the new principles of management, putting our clients first, upholding basic principles, and keeping a profit-oriented focus in all aspects of our business. Daewoo Securities is ready to embrace new challenges and change in order to further the development of the Korean securities industry and the Korean financial market.

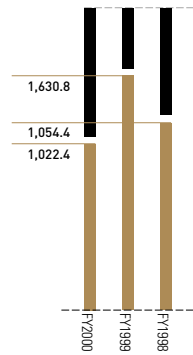
### Recent Achievements

|           |  |
|-----------|--|
| 1995-1998 | Best Securities House for four consecutive years - Financial Supervisory Services' annual management evaluation survey |
| 1999      | 7th Place, Best Equity Research Worldwide- Euromoney(Best in Korea)  |
| 1999      | 5th Place, Best Equity Research Asiawide- Asiamoney(Best in Korea)   |
| 2000      | Best Financial Service, KMA Internet Commerce Award - Korea Management Association                                     |
| 2000      | Best Financial Portal, Korea E-Commerce Award- Maeil Business Newspaper/ Korea CommerceNet                             |
| 2000      | Best Customer Satisfaction Award - Korea Management Association  |
| 2000      | Brokerage with the most 'Best Analysts' The Maekyung Economy   |
| 2000      | Brokerage with the most 'Best Analysts' - The Chosun Ilbo  |

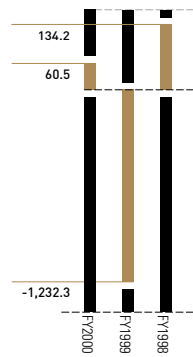
# | Financial Highlights |

(in billion won)

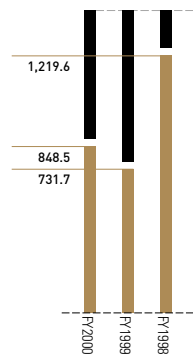
■ Operating Revenue (in billion won)



■ Net Income (Loss) (in billion won)



■ Total Shareholders' Equity (in billion won)



| Fiscal Year                                  | 2000        | 1999        | 1998       |
|--|-------------|-------------|------------|
| Operating Revenue                            | 1,022.4     | 1,630.8     | 1,054.4    |
| Commissions Received                         | 526.9       | 1,079.3     | 511.2      |
| Gains on Trading Securities                  | 262.3       | 316.2       | 279.1      |
| Operating Expenses                           | 921.8       | 2,901.5     | 849.7      |
| Losses on Trading Securities                 | 247.1       | 862.8       | 354.5      |
| Selling and Administrative Expenses          | 444.5       | 1,081.3     | 291.9      |
| Operating Income                             | 100.6       | -1,270.7    | 204.7      |
| Non-Operating Income                         | 63.3        | 54.5        | 42.5       |
| Non-Operating Expenses                       | 102.6       | 20.8        | 51.6       |
| Ordinary Income                              | 61.2        | -1,237.0    | 195.7      |
| Extraordinary Gain                           | 1.2         | 1.0         | 0.1        |
| Extraordinary Loss                           | 2.0         | 1.8         | 0.8        |
| Net Income(loss) before Income Tax           | 60.5        | -1,237.8    | 194.9      |
| Income Tax Expense                           | 0           | -5.5        | 60.6       |
| Net Income for the Year                      | 60.5        | -1,232.3    | 134.2      |
| Current Assets                               | 1,846.3     | 3,420.5     | 2,978.3    |
| Cash and Bank Deposits                       | 944.0       | 1,623.9     | 807.8      |
| Trading Securities                           | 768.4       | 928.5       | 1,479.2    |
| Non-Current Assets                           | 1,546.0     | 1,439.9     | 1,132.9    |
| Total Assets                                 | 3,392.2     | 4,860.4     | 4,111.2    |
| Current Liabilities                          | 2,233.8     | 4,072.5     | 2,427.0    |
| Deposits from Customers                      | 899.4       | 1,657.1     | 922.6      |
| Borrowings                                   | 1,326.9     | 1,968.4     | 1,264.5    |
| Long-Term liabilities                        | 310.0       | 56.2        | 464.6      |
| Total Liabilities                            | 2,543.8     | 4,128.7     | 2,891.6    |
| Shareholders' Equity                         | 842.3       | 607.3       | 334.2      |
| Capital Surplus                              | 173.3       | 174.6       | 589.8      |
| Retained Earnings                            | 72.0        | 11.5        | 272.1      |
| Capital Adjustments                          | -239.2      | -61.7       | 23.5       |
| Total Shareholders' Equity                   | 848.5       | 731.7       | 1,219.6    |
| Total Liabilities and Shareholders' Equity   | 3,392.3     | 4,860.4     | 4,111.2    |
| Shares Outstanding                           |             |             |            |
| Common Stock (shares)                        | 154,388,291 | 107,392,070 | 52,754,270 |
| Preferred Stock (shares)                     | 14,075,750  | 14,075,750  | 14,075,750 |
| Market Capitalization (as of March 31st)     | 1,111.6     | 642.2       | 881.7      |
| Share Price (in Won)                         |             |             |            |
| Year High (common stock)                     | 10,800      | 30,861      | 19,633     |
| Year Low (common stock)                      | 3,100       | 5,980       | 3,903      |
| Adjusted Operating Income per Share (in Won) | 6,867       | 18,309      | 20,974     |
| Adjusted Earnings Per Share (in Won)         | 406         | -13,835     | 2,509      |
| Adjusted Book value Per Share (in Won)       | 5,496       | 6,814       | 23,119     |
| PER(x)                                       |             |             |            |
| Highest                                      | 29.12       | -2.52       | 11.72      |
| Lowest                                       | 8.36        | -0.49       | 2.33       |
| PBR(x)                                       |             |             |            |
| Highest                                      | 2.14        | 5.12        | 1.30       |
| Lowest                                       | 0.62        | 0.99        | 0.26       |
| ROE (%)                                      | 6.67        | -68.0       | 11.8       |

## | Message from the CEO |



**Jong-Soo Park**, President & CEO Daewoo Securities Co.,Ltd.

Born in Seoul, Korea in 1947

B.A, Seoul National University in 1970 | MBA, Yonsei University in 1988.

Head of Daewoo Bank [Hungary] Ltd. from 1990 | Managing Director of Daewoo Securities, CEO of Daewoo Futures in 1998

Executive Managing Director of Daewoo Securities in 1999 | Appointed as President & CEO of Daewoo Securities in September 1999.



## To our Shareholders,

Daewoo Securities returned to profit in FY2000, a significant feat considering the challenges the Company has had to face. The turnaround in just a year would not have been possible without the collective efforts of everyone at Daewoo Securities and the faith and loyalty of our shareholders. Together we were able to override many hurdles of the past few years and set the stage for a new bound into the future.

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My major objectives last year were to stabilize our financial structure and restructure the Company in order to regain customer confidence and to restore our competitive edge. We began the year improving our financial condition by attracting external capital through new equity and bond issues. And exerting our capacity to maximize profitability in our core concerns while implementing strategies to find new sources of revenue have been prime objectives. We have also streamlined our asset and organization structure by disposing of a number of subsidiaries and non-core real estate assets worldwide, while redeploying our human resources and cutting our payroll to 2,500 from 3,400.

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Regaining the confidence of the market in the wake of the failure of Daewoo Group was a major test of our strengths. We feel that we have significantly restored the tainted corporate image and damaged operational and competitive edge during the course of the past year. We have seen improvements in our market share and in our profitability. Also, our credit rating and share price have stabilized at very favorable levels. Daewoo Securities' performance in retail brokerage has been especially strong, with the second most share of that market among competitors. Looking forward, we are working to reduce our dependency on brokerage commissions and to offer a fee-based comprehensive total asset management service.

-

However strong our efforts, some of the objectives we sought out to fulfill last year were difficult to close within the year. We are still waiting for the appropriate time to represent the Company with a brand new corporate image and brand name. That timing has a lot to do with when we will find the optimum strategic partner. I think it is essential that Daewoo Securities find a partner who will aid us in developing the Company as Shaper of the industry in Korea. I don't think this end can be met with a capital investor with relatively short-term interest in us, it requires a long term partner and this has taken more time than I would have preferred. Nevertheless, I am confident that these objectives will also be met in the near future.

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All in all, hard work and dedication has begun to pay off. Net income for FY 2000 reached 60.5 billion won. Although this amount is below the target we set up in FY 1999, we feel we have done satisfactorily in that we turned to profit in just one year, and in that the overall market condition had not been favorable due to the continuing slowdown of the economy and the increasing price competition in the industry.

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I am excited about the prospects and possibilities of Daewoo Securities' future. I am confident that the collective energy and commitment of everyone at Daewoo Securities will lead the Company to become a world-class firm. Currently, our goal is to be the Shaper of Korea's total financial service industry by year 2003. This is the motivating force behind the commitment of everyone at Daewoo Securities because we've never been comfortable anywhere else other than at the top.



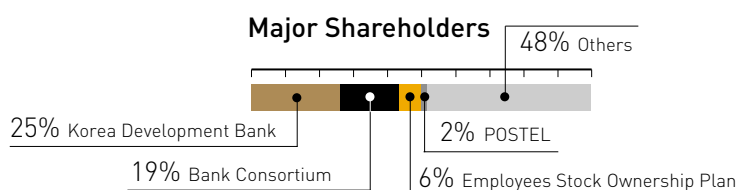
**Initiating Changes** Daewoo Securities has successfully regained the trust of our clients by strengthening our financial structure and by implementing intensive restructuring measures. We have turned crisis into opportunity.

### Change in Equity Ownership and Stable Capital Expansion

With the objective of strengthening our financial situation, Daewoo Securities undertook general subscription and third-party allocation rights issues in May 2000, attracting about 235 billion won in capital. The new inflow of capital has alleviated the company's liquidity crunch and provided adequate operating capital.

The Korea Development Bank became Daewoo Securities' majority shareholder by subscribing to these issues as well as to convertible bond issues also in May 2000. The capital injection from the KDB, the bank owned by the government of the Republic of Korea, has helped our capital standing enormously. With the support of our new partner, we have also been able to take full advantage of the synergies between bank and brokerage, allowing us to keep a step ahead of the competition amidst the wave of financial restructuring and business consolidation in the industry.

Our majority shareholder no longer a chaebol parent group, the Company was able to choose to build a Board of Directors which would make rational, transparent decisions in a democratic fashion. Adhering to the OECD's Corporate Governance 'best practice' guidelines, experts from academia, IT, the securities industry, and media came to serve as directors on our Board. Experts in their respective fields serving as outside directors for Daewoo Securities, we now boast a BoD of uncommon quality in Korea.



### Implementation of Far-reaching Restructuring Plans

Daewoo Securities took serious action to restructure itself. About 25% of the payroll was cut, from 3,400 to 2,500

| Classification | Mar 2001 | Mar 2000 | Change |
|----------------|----------|----------|--------|
| Branches       | 1,752    | 2,504    | -30.0% |
| Head Office    | 747      | 859      | -13.0% |
| Other          | 34       | 25       | +36.0% |
| Total          | 2,533    | 3,388    | -25.2% |

employees, and non-core or unprofitable operations were closed down. The number of staff members per branch was reduced from 19 to 13, though no branches were closed. We also improved our online service offerings to increase branch productivity. We have followed Arthur Anderson's recommendation to transform our compensation system. It is now completely performance-based so that the best performing employees can expect the highest compensation. The new system is helping our employees to maximize their potential and enjoy the corresponding benefits.

Our efforts to liquidate assets that do not support our core competencies started in late FY 1999 and continued into FY 2000. Following the sale of our professional basketball team, the 'Zeus', and closing our subsidiary in Singapore in FY 1999, we sold off the Daewoo Economic Research Institute and the Daewoo Securities Table Tennis Team last year. Real estate assets not essential to operations such as the Yoido head office building, Masan central branch office building, and Seoul Mokdong branch office building were also sold and liquidated. Overseas, the assets and employees of Daewoo Securities Hungary have been transferred to Daewoo Bank (Hungary) Ltd., and Daewoo Investment Trust (Hungary) Ltd. has been liquidated. We plan to liquidate further non-core assets in the future.

### Improvement of Internal Processes

Daewoo Securities is also upgrading its internal management system. In July 2000, we were the first in the securities industry to build a DW (Data Warehouse), which has increased the effectiveness of our marketing and customer management. Among other things, it has helped us better manage our customer accounts and automate some of our sales channels. In February 2001, we completed implementation of e-KM (Knowledge Management) and CRM (Customer Relationship Management) systems. In this way, we secured a competitive edge in information utilization and have built a foundation for customer-focused management. These advanced systems were part of our efforts to build an advanced management system that truly takes into account our customers' needs. We can now analyze and integrate all manner of customer data to fine-tune our marketing. Our ERP (Enterprise Resource Planning) system went live in April 2001, culminating our endeavors to build a stable customer base and increase operational revenue.

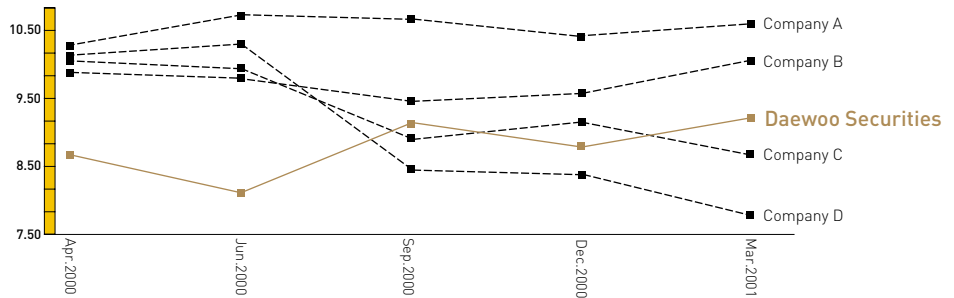


**Back on Track** Thanks to the dedication and hard work of everyone at Daewoo Securities, we have recovered our operational strength and competitive edge in all our business activities. We are now implementing changes to our revenue structure to ensure a steady growth in the future.

### Recovery of Sales Force & Competitive Edge

Owing to deteriorating economic conditions and a sluggish stock market performance in Korea, 23 listed securities firms collectively suffered a precipitous 80% decline in operating income YoY from a collective 1.9 trillion won in FY 1999 to only 392.6 billion won in FY 2000. Their combined net loss in FY 2000 is 84.5 billion won while Daewoo Securities fared much better, recording a net income of 60.5 billion won for the year and an ROE of 6.7%. Our market share rebounded to claim the position of third place, after falling to fifth in the wake of the failure of Daewoo Group. Particularly on the retail sales side, we regained most of our operational strength and held the second largest share of the market by April 2001.

■ Market Share (in %)

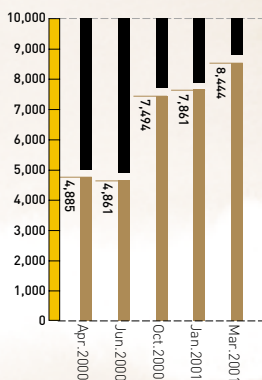


Daewoo Securities' Investment Banking Division were underwriters of a total 24 new KSE and KOSDAQ listings (190.5 billion won), led 18 cases of rights issues (352.4 billion won), issued a total 2.5 trillion won in corporate bonds, and sold 1.4 trillion won in derivatives (ABS, CBO, etc.). We have done well in all areas of the business notwithstanding unfavorable market conditions. Also in international operations, equity transactions by foreigners have been rising steadily since the latter half of last year, and domestic overseas investments totaled US\$331.02 in 522 transactions, putting Daewoo Securities ahead of its competitors. Eleven issues of overseas stock, totaling US\$ 146 million, were successfully executed by Daewoo Securities as well.

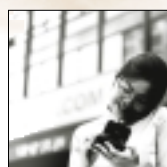
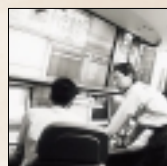
■ Operation Results

|   |                                     |
|---|-------------------------------------|
| IPOs                                    | 24 listings, 190.5 billion won      |
| Rights issues                           | 18 increases, 352.4 billion won     |
| Corporate bond sales                    | 2.5 trillion won                    |
| Derivatives sales                       | 1.4 trillion won                    |
| Overseas investment by Korean nationals | 522 investments, US\$331.02 million |
| Overseas stock issuance                 | 11 issues, US\$146 million          |

■ Monthly Average Share Price (in KRW)



Our efforts last year have been reflected in our share price: Daewoo Securities common share price had dropped to as low as 2,950 won in May 2000, but through the course of the year we have recovered, and we were able to hit a year high of 11,400 won in February 2001. Accordingly, our total market capitalization rose to 1.1 trillion won as of March 31, 2001, the second highest in the industry. Also, our credit rating for subordinated corporate bonds was raised from CCC to BB, and in FY 2001 we expect to see additional improvement in our credit rating.



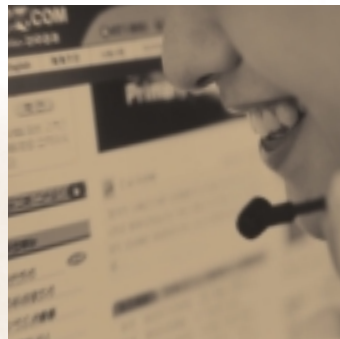
### Expansion of Online Operations

To service the growing number of online transactions in Korea, Daewoo Securities opened its financial portal site - BESTez.com - in May 2000. It attracted much attention as the first in the industry to offer real-time investment advice as well as web-casting services. We opened a new chapter in online trading by providing a user-friendly trading system along with highly reliable and arguably Korea's best research data and market information to our clients. BESTez.com has been recognized and awarded as the top choice for stock market information and online trading from various institutions.

### Diversification of Revenue Sources

Our aim to maximize shareholder value is of course best accomplished by increasing earnings and revenue growth. We are not quite satisfied with our current revenue structure, widely fluctuating according with trading value changes. Therefore we are working on diversifying and stabilizing our revenue sources. In the meantime, for FY 2000, we have increased our commission income through raising our online commission rate by about 30% from an average of 0.105% to 0.144% in June 2000. We were confident enough of the differentiated service we provided and decided to step away from the cannibalistic competition of online trading commission discounts. At the discounted rates, it was not possible to cover the cost of IT investments, let alone expect growth in earnings. Our customers seem to agree with us as the number of active accounts remained constant and they paid the premium to use our services.

As part of our efforts to finding new sources of revenue, and also to start off our total asset management service, we opened "Caesars class Kangnam," a private banking branch in Apgujung-dong, Seoul in November 2000. The branch, managed by experienced private bankers from a renowned global bank, succeeded in attracting 160 billion won in deposits in only its first 90 days of business. It has become a strong first mover in the private banking industry thanks to our differentiated sales strategy, advanced investment engineering system, and custom-tailored services. We have also begun offering our first total asset management service, dubbed "Plan Master," in February 2001, introducing wrap accounts. The new product is the result of our decade-long R&D to develop total asset management services that meet the particular needs of the Korean financial market. Specifically, the 1999 development of "Prism," the industry's first total wealth distribution model, and the early 2000 introduction of "Spectrum," a wrap account type product, have been the prototypes. The experience and know-how gained from developing such innovative products puts Daewoo Securities in a better position to lead the total asset management service market.

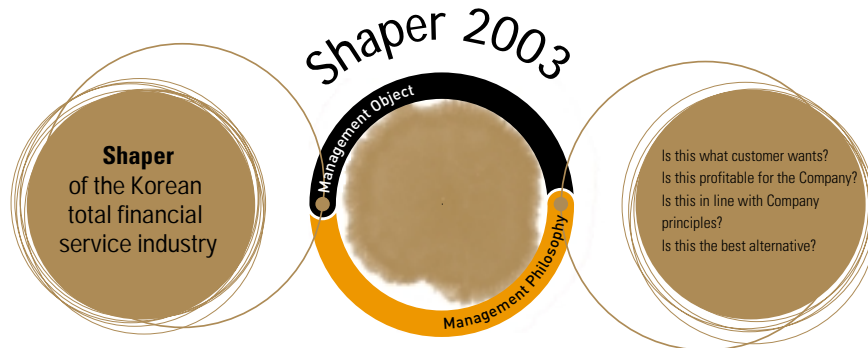




**Shaping the Future** The goal of Daewoo Securities is to become Shaper of the Korean total financial service industry. We will achieve this feat through continual improvement of our customer service, diversifying revenue sources, and improving our profitability and efficiency.

## Management Objective and Management Philosophy

With the objective of becoming the Shaper of the Korean total financial service industry, Daewoo Securities is attempting to renew itself yet again. A "Shaper" can be defined as a company that shapes and determines market rules. The 2,500 Daewoo Securities employees fully support the new management philosophy and will base all decisions on the basic questions pertaining to Shaper strategy: 'Is this what customers want?' 'Is this profitable for the Company?' 'Is this in line with Company principles?' and 'Is this the best alternative?'



## Management Strategy

To realize the management objective above, Daewoo Securities must strengthen our customer service, diversify our revenue sources, and improve our profitability and efficiency.

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To strengthen our customer service, we will utilize DW, e-KM, and CRM systems in our retail operations to better understand our customers and offer custom-tailored services, such as e-mail service for our online clients, and particularly target top-tier clients. Our aim will be to make our clients feel that they are truly serviced and we will be training our employees with client management manuals. To improve online trading support, we will continue to reinforce our back-up system to increase system availability and reliability. In May 2001, we will launch a new version of BESTez.com. It will have richer content and allow a more convenient online experience. During the latter half of 2001, we will also be introducing a new trading system, "Express 21."

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We will develop services beyond simple stock broking with services such as our Private Banking and PlanMaster, forming the basis on which we will build up our total financial service model. We are streamlining our sales organizations and focusing on employee training to strengthen this foundation. Daewoo Securities will also seek to become the first mover in the market by strengthening product marketing. We will promote sales of beneficiary certificates for the retail market and actively develop new products that meet the demands of the market. We will maintain a strong presence in underwriting, targeting non-chaebol related companies in good standing, and also in derivatives sales. We will also be focusing on minimizing risk for the Company which will all benefit the Company's bottom line.

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We plan to overhaul the current commission schedule and branch office policies so that we can introduce better approaches that maximize customer satisfaction, efficiency and profitability.





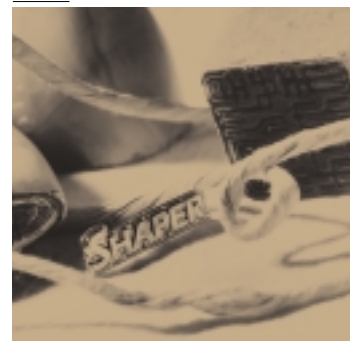
We are already well into FY 2001. All too soon, I will be reviewing our business during the first real year of the new millennium with you. Although we are proud of the turnaround we achieved in FY 2000, I think FY 2001 will be a year in which Daewoo Securities can show our shareholders what we're really worth. We thank you for the support you have shown us during the past year, we hope it continues on to the next.

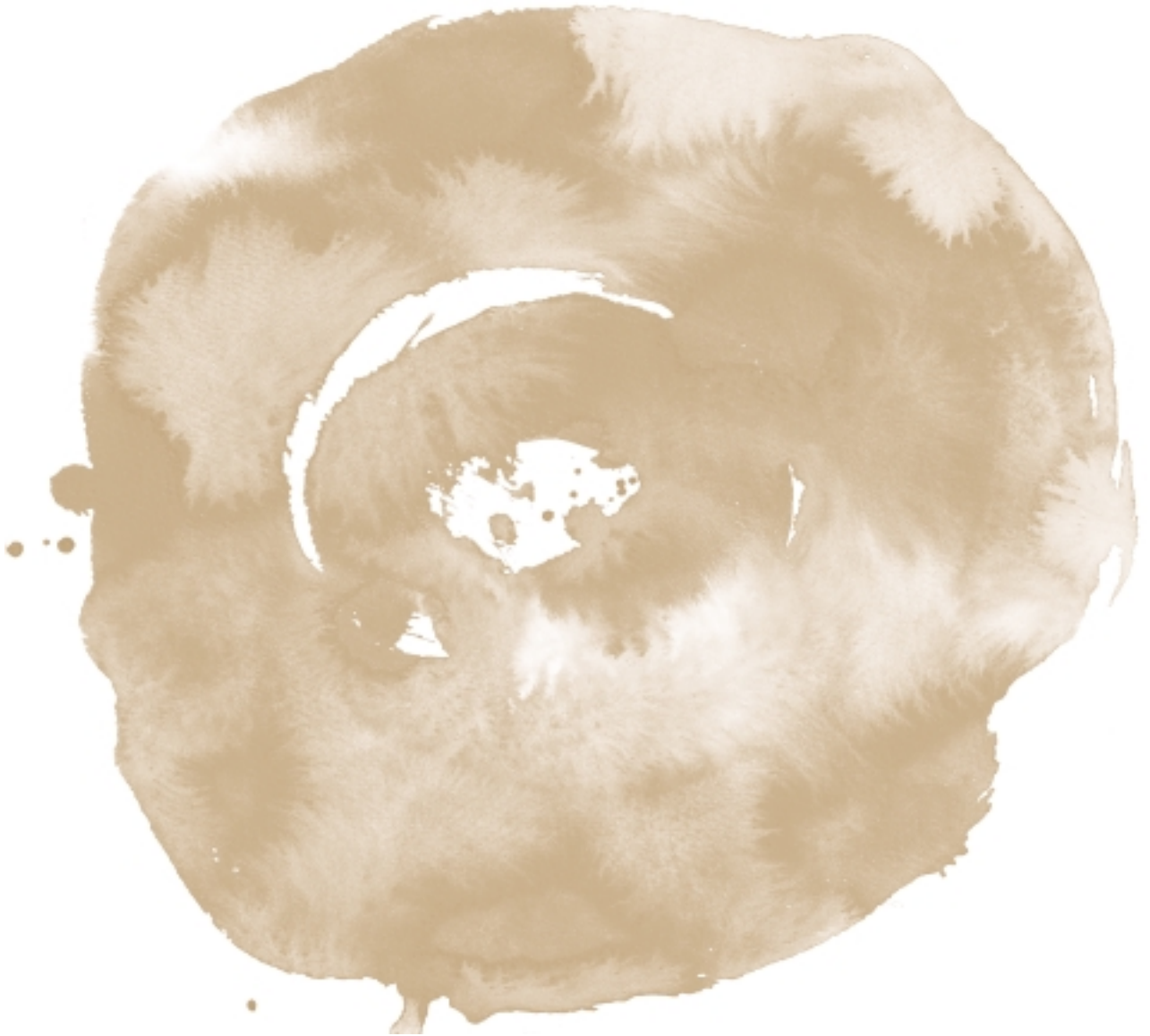
Thank you.



Jong-Soo Park

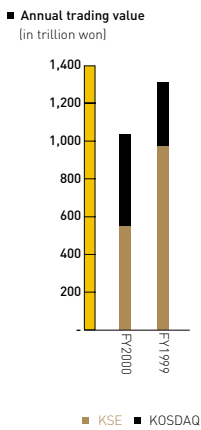
President & CEO, Daewoo Securities Co., Ltd.





**Market Conditions**

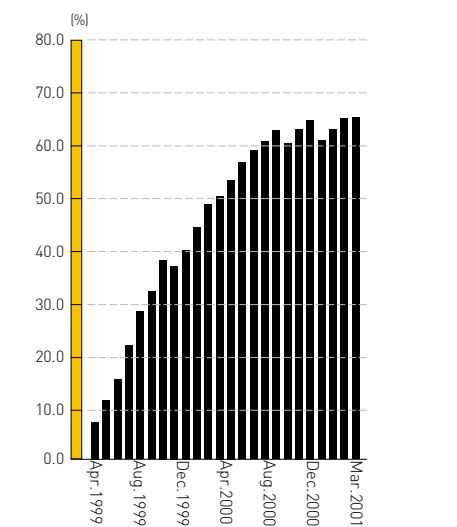
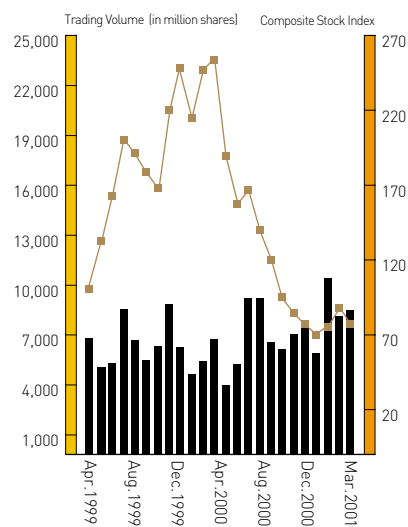
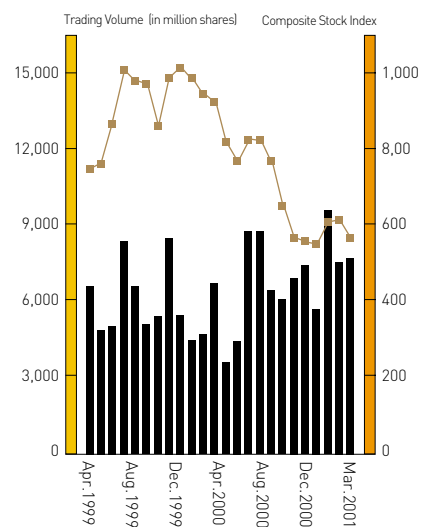
FY2000 saw relatively dull conditions around the world markets as concerns about the slowing of the once vibrant U.S. economy overtook positive sentiments. In line with the growing uneasiness, corporate IT and other infrastructural spendings were cut or delayed, thus effecting a drop in earnings for the IT sector and a contraction of consumer spending, while causing the U.S. and world bourses to continue a rather depressed run throughout the fiscal year. In addition to the outside factors, several unresolved problems within Korea such as the liquidity crunch at Korea's largest conglomerate Hyundai Group and the delay in the sale of Daewoo Motors, gave rise to serious challenges. Also, lower domestic demand resulting from continued corporate restructuring measures and the series of bankruptcies among KOSDAQ-listed companies impeded the Korean domestic market.



The two Korean benchmark indices, KOSPI and KOSDAQ, both dropped substantially during the fiscal year, reflecting the troubles inside and out. The wider KOSPI index dropped from the 866.7 mark of the start of April 2000 down to 523.2 at the end of March 2001 or down 39.6% YoY, while the tech-heavy KOSDAQ index ended FY2000 at 68.4 or down 69.2% YoY from the 222.5 mark at the start of the year. Annual trading value, significant to the revenue of brokerages, fell 22.7% YoY from 1,318 trillion won in FY1999 to 1,019 trillion won in FY2000, reflecting the drop in stock prices and trading volume. Noteworthy of FY2000 is the increasing percentage of all trades occurring online, which continues the trend from the robust growth the previous fiscal year. Online transactions accounted for 61.7% of total trading value, up from 34.9% the previous year.

The bearish market conditions of the fiscal year resulted in not only decreased trading value, but also reductions in initial public offerings and new rights offerings. This, in addition to the rise in online trading, resulted in substantial reduction in profits compared to the previous year, or in some cases even losses for securities firms.

**■ KOSPI Composite Index      ■ KOSDAQ Composite Index      ■ Percentage of Online Trading**



## Operation Overview

In FY2000, Daewoo Securities recorded net income of 60.5 billion won. This was an impressive performance in light of the fact that the company suffered a huge net loss of 1.2 trillion won in just the previous fiscal year. Moreover, the turnaround was achieved amidst worsening market conditions, sluggish global economy, and consequent reductions in trading value. The unfavorable market condition caused 23 listed securities firms to suffer a 80% drop (to 392.6 billion won) in operating income YoY and a total net loss of 84.5 billion won in FY2000. Daewoo Securities' performance is all the more impressive compared to these industry results. Both our net income and ROE were among the highest in the industry. For FY2000, Daewoo Securities' ROE was 6.7%. Strictly speaking, the 60.5 billion won does not meet the 210.0 billion won net income we had projected for FY2000, however, without the extraordinary losses and additional provisions for bad debts we had to allocate this year, our net income would have exceeded projections, thus proving FY2000 to have been a satisfactory year for us.

Daewoo Securities succeeded in raising 235 billion won in capital with general subscription and third-party allocated rights issues last year. Daewoo Securities also raised adequate operating capital by successfully issuing corporate bonds. Particularly, Korea Development Bank's participation in these capital restructuring made it the majority shareholder of the Company with a 25% stake since May 2000.

With restored operational strength and competitive edge, Daewoo Securities expects to realize 200 billion won in operating income for FY2001 by focusing on improving customer service, diversifying revenue sources, and improving profitability and efficiency.

### Operations Overview

| Classification              | (in billion won, billion accounts) |           |          |
|-----------------------------|------------------------------------|-----------|----------|
|                             | FY 2000                            | FY 1999   | FY 1998  |
| Stock brokerage             | 181,950.6                          | 263,713.4 | 57,289.6 |
| Bond brokerage              | 63,015.4                           | 86,508.3  | 55,093.7 |
| Corporate bond underwriting | 3,748.4                            | 3,407.7   | 14,728.2 |
| BC sales balance            | 4,914.3                            | 6,150.1   | 18,429.1 |
| Asset under management ::   | 14,316.2                           | 20,059.6  | 31,757.8 |

:: Assets under management refers to securities in custody(including beneficiary certificates) and deposits, valued at substitution prices.

### Profit and Loss Overview

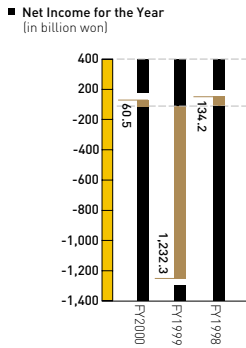
| Classification                          | (in billion won) |          |         |          |         |          |
|---|------------------|----------|---------|----------|---------|----------|
|   | FY 2000          |          | FY 1999 |          | FY 1998 |          |
| Operating revenue                       | 1,022.3          | (100.0%) | 1,630.8 | (100.0%) | 1,054.2 | (100.0%) |
| Commission income                       | 526.9            | (51.5%)  | 1,079.3 | (66.1%)  | 511.2   | (48.5%)  |
| Interest income                         | 177.9            | (17.4%)  | 199.0   | (12.2%)  | 147.3   | (14.0%)  |
| Dividends income                        | 2.6              | (0.3%)   | 2.7     | (0.2%)   | 2.1     | (0.2%)   |
| Distribution income                     | 9.4              | (0.9%)   | 20.4    | (1.3%)   | 29.0    | (2.7%)   |
| Gain on sales of trading securities     | 157.8            | (15.4%)  | 227.4   | (14.0%)  | 143.5   | (13.6%)  |
| Gain on valuation of trading securities | 40.8             | (4.0%)   | 13.2    | (0.8%)   | 85.5    | (8.1%)   |
| Gain on derivatives transactions        | 104.5            | (10.2%)  | 88.8    | (5.4%)   | 135.6   | (12.9%)  |
| Others                                  | 2.4              | (0.3%)   | -       | (-)      | -       | (-)      |
| Operating expenses                      | 921.8            | (100.0%) | 2,901.5 | (100.0%) | 849.7   | (100.0%) |
| Commissions expense                     | 33.3             | (3.6%)   | 64.9    | (2.2%)   | 18.5    | (2.2%)   |
| Interest expenses                       | 163.9            | (17.8%)  | 179.8   | (6.2%)   | 173.5   | (20.4%)  |
| Loss on sales of trading securities     | 164.3            | (17.8%)  | 774.3   | (26.7%)  | 212.4   | (25.0%)  |
| Loss on valuation of trading securities | 33.1             | (3.6%)   | 712.7   | (24.6%)  | 11.3    | (1.3%)   |
| Loss on derivatives transactions        | 82.8             | (9.0%)   | 88.5    | (3.1%)   | 142.1   | (16.7%)  |
| Selling and administrative expenses     | 444.5            | (48.2%)  | 1,081.3 | (37.2%)  | 291.9   | (34.4%)  |
| Others                                  | -                | (-)      | -       | (-)      | -       | (-)      |

## Income Statement Overview

### Operating Revenue

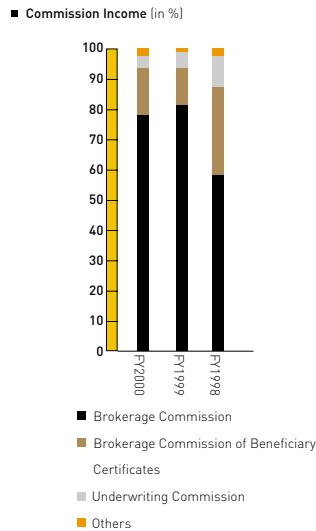
#### Net Income for the Year

Net income for FY 2000 was 60.5 billion won, a major turnaround from a loss of 1.2 trillion won in the previous year. Excluding additional allowances of 61.5 billion won for bad debts and extraordinary losses of 88.7 billion won stemming from losses on valuation and disposition of investment securities during the year, net income for the year would be around 210 billion won.



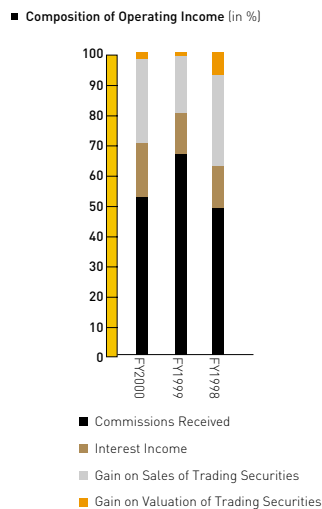
#### Commission Income

The sluggish performance of the stock market, contraction in the company's market share after the failure of Daewoo Group, and growth of online trading drove commission income down 51% YoY from 1.8 trillion won in 1999 to 526.9 billion won in 2000. Commission income for the company in FY 2000 included brokerage commissions (77%), brokerage commissions of beneficiary certificates (15%), underwriting commissions (5%), and others (3%). Brokerage commissions were down because of the rise in online trading and customers' concern regarding the Daewoo Group failure. Online trading commissions are about one-third of general commissions for consignment. Altogether, brokerage commissions fell 54% YoY from 871.1 billion won in 1999 to 404.1 billion won in 2000.



Brokerage commissions of beneficiary certificates fell 41% from 137.5 billion won to 80.5 billion won YoY owing to a decline in assets in trust after the liquidity crisis of the Daewoo and Hyundai Groups and the resulting contraction in the balance of beneficiary certificates. Growth in commission income from beneficiary certificates is expected in FY2001 because the company's credit rating was regained somewhat when Korea Development Bank became the majority shareholder. Daewoo Securities' introduction of new comprehensive financial planning service which includes private banking and wrap accounts sales, is also expected to promote growth of commission income from beneficiary certificates.

Underwriting commissions were recorded at 28.2 billion won, down 54% YoY from 61.6 billion won during the previous year. The sluggish stock market led to a reduction in new rights offerings and discouraged paid-in capital increases. The increasing sales of derivative products like ABS's and CBO's, however, will not likely serve to increase commission income significantly.



#### Income from Trading Securities

Income from trading securities was 23 billion won, which compares starkly with the loss of 1.2 trillion won in the previous year. Despite the healthy performance of the stock and bond markets in FY1999, Daewoo Securities recorded substantial losses that year. It suffered heavy losses from the redemption of Daewoo Group beneficiary certificates. In FY2000, the company reduced the ownership ratio of trading securities to control liquidity. Despite the bearish stock market performance of FY2000, Daewoo's stock and bond holdings generally bucked the trend, allowing a modest gain.

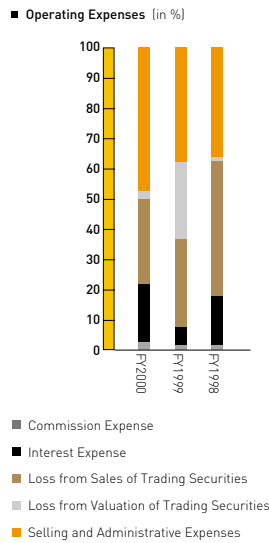
#### Interest and Dividend Income

A reduction in the volume of beneficiary certificates traded and a contraction in customer deposits led to 39% YoY decline in interest and dividend income from 42.3 billion won the previous year to 26 billion won in FY2000.

## Operating Expenses (Excluding Interest Expenses)

### Operating Expenses

Operating expenses fell 58% YoY from 1.1 trillion won in FY1999 to 477.8 billion won in FY2000. Ordinary operating expenses excluding write-offs for FY1999 were down 27% YoY in FY1999 from 508 billion won to 373.2 billion won in FY2000 due to payroll reductions. Ordinary operating expenses are 47% wages and other labor costs, 20% fixed costs such as depreciation, and 33% operating activity costs including commission expenses, etc.



### Fixed and Operating Activity Costs

Fixed costs rose 35% YoY from 55.7 billion won to 74.8 billion won due to expansion of IT investment and increases in lease expenses from the opening of new branches. IT investment is expected to continue to rise owing to the heightening competition in the securities industry and the fundamental change occurring in the market. Operation activity costs were down 30% YoY to 121.7 billion won from 174.6 billion won. The reduction came about as expenses for paid commissions fell and advertisement and entertainment costs were cut back.

### Income Tax Expense

Income tax is not applicable to FY2000 earnings due to the carryover from the 1.2 trillion won loss of FY1999. We expect this carryover will effect in no income tax expenses for several years going forward.

## Balance Sheet Overview

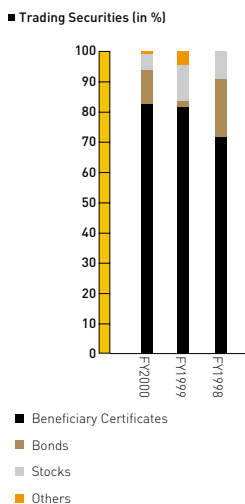
### Asset

#### Overview

Total asset of Daewoo Securities in FY2000 was down 30% YoY from the previous year's 4.9 trillion won to 3.4 trillion won. Current assets 1.8 trillion won, and fixed assets made up the remaining 1.5 trillion won. The reduction was stemmed from the contraction in customer deposits and a decrease in the amount of unsold beneficiary certificates. The assets were substantially less liquid compared to the previous year because 964.4 billion won in loans to Daewoo Group, now in the process in liquidation, were re-classified as fixed assets.

#### Trading Securities

Trading securities volume fell 17% YoY from 928.5 billion won in FY 1999 to 768.4 billion won in FY2000. Of the total amount, 84% are beneficiary certificates, 6% stocks, 8% bonds, and 2% others. The volume of beneficiary certificates was recorded at 641.9 billion won, 15% less than the 759 billion won during the previous year. Stocks were recorded at 46.5 billion won, 45% below the 84.2 billion won of the previous year, and bonds were recorded at 64.1 billion won, 2% less than the 65.5 billion won of the previous year. Ownership of stocks and bonds will be maintained at the current levels, and the volume of beneficiary certificates will be reduced through cancellation.



#### Investment Securities

Investment securities totaled 408.1 billion won, a 45% YoY reduction from 713 billion won in FY1999. There were numerous sales of tradable investment securities such as investment stocks, the Stock Market Stabilization Fund, and foreign currency denominated bonds in FY2000, and there was a 184.9 billion won valuation loss in marketable equities. In particular, the loss on valuation of investment securities for Hanaro Telecom rose to 172.7 billion won, however, the stock is seeing a slight rise since the end of March 2001. Securities in affiliated companies rose from 134.4 billion won to 157.7 billion won thanks to improvement in operational performance and foreign currency translation gains. By continuing restructuring efforts, Daewoo Securities plans to recover funds through the sale or dividend distribution of subsidiaries that have no direct correlations with core operations.

## Liabilities

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### Overview

Total liabilities fell 38% YoY from 4.1 trillion won to 2.5 trillion won owing to the decrease in customer deposits and short-term borrowings.

### Issuance of Debentures

A total of 918 billion won in debentures were issued, including 668 billion won in subordinated ordinary bonds and 250 billion won in subordinated convertible bonds. Daewoo Securities plans to leverage the rising external credibility of the company to refund debentures nearing their maturity as low-rated debentures.

### Liquidity Management

To increase liquidity, Daewoo Securities will continue its restructuring efforts of FY2000 and focus on stabilizing operating income while selling off fixed assets such as real estate and investment securities. In particular, the full liquidation of Daewoo Group bonds, which is currently underway, will allow the company a more stable source of liquidity.

## Shareholders' Equity

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Shareholders' equity stood at 848.5 billion won, a 16% increase from the previous year's 731.7 billion won. An increase of 295.5 billion won came from paid-in capital increases and conversion of convertible bonds. This was partly offset by a 177.4 billion won reduction stemming from capital adjustments including losses on valuation of investment securities.

## Risk Management

### Overview

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Daewoo Securities is putting high priority on improving risk management. Efficient risk analysis will allow proactive response to appropriate opportunities. Daewoo Securities firmly believes that this is the key to ensuring financial viability and in maximizing corporate profits while protecting shareholders and customers. The CEO, Risk Management Committee, the Risk Management Department, and Risk Manager all take proactive roles in managing risk pertaining to managing the company's assets. The Risk Management Department, which is a separate unit from asset management, analyzes asset management status and monitors compliance to set risk ceilings and makes regular and frequent reports on its findings. To increase the effectiveness of risk estimation and analysis, the Company uses KRM (Kamakura Risk Manager) to prepare various risk indices. KRM is also complemented by various proprietary systems developed to enhance the Company's risk management.

## Capital Adequacy Ratio

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As of March 31, 2001, the Capital Adequacy Ratio of Daewoo Securities was 254.5%.

Net working capital totaled 813.2 billion won, and risk weighted assets totaled 319.6 billion won.

# Financial Statements |

## Balance Sheets

<<< as of March 31, 2001 and 2000 >>>

|   | Thousands of Korean Won |                        | U.S. Dollars(Note 3)    |                         |
|---|-------------------------|------------------------|-------------------------|-------------------------|
|   | 2001                    | 2000                   | 2001                    | 2000                    |
| <b>ASSETS</b>   |                         |                        |                         |                         |
| <b>Current assets ::</b>  |                         |                        |                         |                         |
| Cash and bank deposits (Note 4 and 7)   | ₩ 136,187,310           | ₩ 200,525,226          | \$ 102,550,686          | \$ 150,997,912          |
| Deposits with KSFC (Note 5)   | 807,817,940             | 1,423,436,768          | 608,296,642             | 1,071,865,036           |
| Trading securities (Notes 6,7,15 and 19)  | 768,441,869             | 928,459,967            | 578,645,986             | 699,141,541             |
| Call loans (Note 8)   | -                       | 103,342,000            | -                       | 77,817,771              |
| Loans to customers, less allowance for<br>doubtful accounts of ₩464,051<br>thousand in 2001 and ₩504,913,412<br>thousand in 2000(Notes 2 and 8)   | 37,887,579              | 522,870,526            | 28,529,803              | 393,727,806             |
| Accounts receivable from customers,<br>less allowance for doubtful accounts<br>of ₩2,381,222 thousand in 2001 and<br>₩5,398,897 thousand in 2000  | 45,606,795              | 80,464,960             | 34,342,466              | 60,591,084              |
| Accrued income  | 28,295,592              | 40,467,556             | 21,306,922              | 30,472,557              |
| Advance payments  | 13,609,776              | 6,106,622              | 10,248,325              | 4,598,360               |
| Prepaid income tax  | 3,466,667               | 75,867,555             | 2,610,442               | 57,129,183              |
| Prepaid expenses  | 1,644,332               | 1,603,575              | 1,238,202               | 1,207,511               |
| Other   | 3,339,663               | 37,430,909             | 2,514,805               | 28,185,926              |
| <b>Total current assets</b>   | <b>1,846,297,523</b>    | <b>3,420,575,664</b>   | <b>1,390,284,279</b>    | <b>2,575,734,687</b>    |
| Investment securities (Notes 7 and 9)   | 383,382,701             | 694,804,223            | 288,691,793             | 523,195,951             |
| Long-term financial instrument(Note 4)  | 4,274,763               | 6,142,752              | 3,218,948               | 4,625,566               |
| Long-term loans, less allowance for<br>doubtful accounts of ₩440,012 thousand<br>in 2001 and ₩399,100 thousand in 2000  | 75,614,722              | 75,712,770             | 56,938,797              | 57,012,628              |
| Guarantee deposits  | 90,077,549              | 76,620,106             | 67,829,480              | 57,695,863              |
| Troubled loans, less allowance for<br>doubtful accounts of ₩81,402,702<br>thousand in 2001 and ₩112,596,793<br>thousand in 2000(Notes 2,11 and 12)  | 111,517,260             | 166,423,685            | 83,973,840              | 125,319,040             |
| Collective fund for default loss  | 8,733,913               | 8,765,069              | 6,576,742               | 6,600,203               |
| Property and equipment, net of<br>accumulated depreciation (Note 10)<br>Other less allowance for doubtful accounts<br>of ₩567,862,198 thousand in 2001 and<br>₩28,558,998 thousand in 2000(Note2 and14) | 353,618,079             | 385,354,770            | 266,278,674             | 290,176,785             |
|   | 518,752,559             | 26,064,292             | 390,626,927             | 19,626,725              |
| <b>Total assets</b>   | <b>₩ 3,392,269,069</b>  | <b>₩ 4,860,463,331</b> | <b>\$ 2,554,419,480</b> | <b>\$ 3,659,987,448</b> |
| <b>LIABILITIES AND SHRE HOLDERS' EQUITY</b>   |                         |                        |                         |                         |
| <b>Current liabilities ::</b>   |                         |                        |                         |                         |
| Call money (Note 15)  | ₩ 141,000,000           | ₩ 142,300,000          | \$ 106,174,699          | \$ 107,153,614          |
| Short-term borrowings (Note 15)   | 267,596,114             | 1,597,429,249          | 201,503,098             | 1,202,883,471           |
| Securities sold under<br>repurchase agreements  | 85,302,995              | 16,868,408             | 64,234,183              | 12,702,114              |
| Deposits from customers (Note 16)   | 899,363,179             | 1,657,108,813          | 677,231,309             | 1,247,822,901           |
| Securities sold   | 300,300                 | 250,606                | 226,130                 | 188,709                 |
| Accrued expenses  | 27,204,028              | 66,511,442             | 20,484,961              | 50,083,917              |
| Guarantee deposits received   | 6,275,253               | 10,365,021             | 4,725,341               | 7,804,986               |
| Current portion of long term<br>debts (Note 17)   | 673,460,220             | 220,000,000            | 507,123,660             | 165,662,651             |
| Other   | 133,324,619             | 361,654,869            | 100,395,044             | 272,330,474             |
| <b>Total current liabilities</b>  | <b>2,233,826,708</b>    | <b>4,072,488,408</b>   | <b>1,682,098,425</b>    | <b>3,066,632,837</b>    |



&lt;&lt;&lt; as of March 31, 2001 and 2000 &gt;&gt;&gt;

|  | Thousands of Korean Won | Thousands of Korean Won | U.S. Dollars(Note 3)    | U.S. Dollars(Note 3)    |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
|  | 2001                    | 2000                    | 2001                    | 2000                    |
| Debenture (Note 17)  | 244,524,660             | 8,380,177               | 184,130,015             | 6,310,374               |
| Long-term borrowing (Note 17)  | 284,000                 | 284,000                 | 213,855                 | 213,855                 |
| Allowance for guarantees (Note 19)   | 31,878,391              | 34,286,350              | 24,004,813              | 25,818,035              |
| Reserve for severance<br>and retirement benefits (Note 18)   | 19,259,400              | 13,290,929              | 14,502,560              | 10,008,230              |
| Other  | 14,041,692              | 3,310                   | 10,573,563              | 2,493                   |
| <b>Total liabilities</b>   | <b>2,543,814,851</b>    | <b>4,128,733,174</b>    | <b>1,915,523,231</b>    | <b>3,108,985,824</b>    |
| -----  |                         |                         |                         |                         |
| Commitments and contingencies (Note 19)  |                         |                         |                         |                         |
| <b>Shareholders' equity ::</b>   |                         |                         |                         |                         |
| Capital stock, par value : ₩ 5,000,<br>Authorized : 600,000,000 shares,<br>Issued and outstanding (Note 20): |                         |                         |                         |                         |
| Common stock : 154,388,291 shares  | 771,941,455             | 536,960,350             | 581,281,216             | 404,337,613             |
| Preferred stock : 14,075,750 shares  | 70,378,750              | 70,378,750              | 52,996,047              | 52,996,047              |
| Capital surplus  | 173,282,729             | 174,637,675             | 130,483,983             | 131,504,273             |
| Retained earnings (Note 21)  | 72,040,021              | 11,522,856              | 54,247,004              | 8,676,849               |
| Capital adjustments (Note 24)  | (239,188,737)           | (61,769,474)            | (180,112,001)           | (46,513,158)            |
| <b>Total shareholders' equity</b>  | <b>848,454,218</b>      | <b>731,730,157</b>      | <b>638,896,249</b>      | <b>551,001,624</b>      |
| <b>Total liabilities and shareholders' equity</b>  | <b>₩ 3,392,269,069</b>  | <b>₩ 4,860,463,331</b>  | <b>\$ 2,554,419,480</b> | <b>\$ 3,659,987,448</b> |

## FOOT NOTES

## Securities in custody ::

|                                   |                 |                  |                  |                  |
|-----------------------------------|-----------------|------------------|------------------|------------------|
| Trustor securities in custody     | ₩ 8,276,741,736 | ₩ 11,473,500,892 | \$ 6,232,486,247 | \$ 8,639,684,407 |
| Saver securities in custody       | 232,928,391     | 473,877,166      | 175,397,885      | 356,835,215      |
| Beneficiary securities in custody | 4,914,312,123   | 6,150,108,132    | 3,700,536,237    | 4,631,105,521    |
| Other                             | 3,143,205       | 316,755,579      | 2,366,871        | 238,520,767      |
|                                   | 13,427,125,455  | 18,414,241,769   | 10,110,787,240   | 13,866,145,910   |

## Negotiable certificate of deposits in custody

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
|  | 1,333,534 | 5,112,600 | 1,004,167 | 3,849,849 |
|--|-----------|-----------|-----------|-----------|

## Guarantees on bonds

|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
|  | 201,461,375 | 404,825,430 | 151,702,843 | 304,838,426 |
|--|-------------|-------------|-------------|-------------|

## Deposits on exchange ::

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Deposits in foreign currency on exchange | 862,389 | 825,337 | 649,389 | 621,489 |
|--|---------|---------|---------|---------|

## Derivatives contracts

|  |            |            |            |            |
|--|------------|------------|------------|------------|
|  | 47,481,475 | 22,448,056 | 35,754,123 | 16,903,657 |
|--|------------|------------|------------|------------|

## Stock index futures ::

|                |            |            |            |            |
|----------------|------------|------------|------------|------------|
| Long position  | 20,586,375 | 6,215,000  | 15,501,788 | 4,679,970  |
| Short position | 20,749,500 | 15,755,200 | 15,624,623 | 11,863,855 |
|                | 41,335,875 | 21,970,200 | 31,126,411 | 16,543,825 |

## Stock index options ::

|                |           |         |           |         |
|----------------|-----------|---------|-----------|---------|
| Long position  | 1,466,400 | 227,250 | 1,104,217 | 171,122 |
| Short position | 300,300   | 250,606 | 226,130   | 188,709 |
|                | 1,766,700 | 477,856 | 1,330,347 | 359,831 |

## Other

|                                     |           |   |           |   |
|-------------------------------------|-----------|---|-----------|---|
| Interest rate futures long position | 1,024,000 | - | 771,084   | - |
| Currency forward long position      | 3,354,900 | - | 2,526,280 | - |

he accompanying notes are an integral part of these financial statements.

## Income Statement of Operations

<<< For the years ended March 31, 2001 and 2000 >>>

|  | Thousands of Korean Won |                         | U.S. Dollars(Note 3) |                         |
|--|-------------------------|-------------------------|----------------------|-------------------------|
|  | 2001                    | 2000                    | 2001                 | 2000                    |
| <b>Operating revenue (Note 26) ::</b>                              |                         |                         |                      |                         |
| Commissions received   | ₩ 526,928,485           | ₩ 1,079,333,800         | \$ 396,783,498       | \$ 812,751,355          |
| Interest and dividends   | 180,518,781             | 201,731,320             | 135,932,817          | 151,906,114             |
| Gain on sales of trading securities                                | 157,818,282             | 227,370,473             | 118,839,068          | 171,212,706             |
| Gain on derivatives transactions                                   | 104,464,168             | 88,799,526              | 78,662,777           | 66,867,113              |
| Gain on valuation of trading securities                            | 40,843,203              | 13,161,293              | 30,755,424           | 9,910,612               |
| Other  | 11,774,858              | 20,443,263              | 8,866,610            | 15,394,024              |
|  | <b>1,022,347,777</b>    | <b>1,630,839,675</b>    | <b>769,840,194</b>   | <b>1,228,041,924</b>    |
| <b>Operating expenses (Note 26) ::</b>                             |                         |                         |                      |                         |
| Commission expense   | 33,256,723              | 64,864,501              | 25,042,713           | 48,843,751              |
| Interest expense   | 163,897,174             | 179,836,323             | 123,416,547          | 135,418,918             |
| Loss on sales of trading securities                                | 164,264,798             | 774,291,992             | 123,693,372          | 583,051,199             |
| Loss on derivatives transactions                                   | 82,806,574              | 88,540,843              | 62,354,348           | 66,672,322              |
| Loss on valuation of trading securities                            | 33,061,544              | 712,653,859             | 24,895,741           | 536,636,942             |
| Selling and administrative expenses                                | 444,494,032             | 1,081,308,800           | 334,709,361          | 814,238,554             |
|  | <b>921,780,845</b>      | <b>2,901,496,318</b>    | <b>694,112,082</b>   | <b>2,184,861,686</b>    |
| <b>Operating income(loss)</b>                                      | <b>100,566,932</b>      | <b>(1,270,656,643)</b>  | <b>75,728,112</b>    | <b>(956,819,762)</b>    |
| <b>Other income (expenses) ::</b>                                  |                         |                         |                      |                         |
| Office rental income   | 7,800,578               | 7,830,247               | 5,873,929            | 5,896,270               |
| Gain on equity method valuation (Note 9)                           | 9,453,124               | 18,458,912              | 7,118,316            | 13,899,783              |
| Gain on foreign currency transactions, net                         | 309,212                 | (127,533)               | 232,840              | (96,034)                |
| Gain on foreign currency translation, net                          | 17,779,269              | (7,808,731)             | 13,388,004           | (5,880,069)             |
| Gain on valuation of investment in stock market stabilization fund | -                       | 20,798,730              | -                    | 15,661,694              |
| Investment securities valuation loss                               | (38,185,352)            | (6,717,525)             | (28,754,030)         | (5,058,377)             |
| Loss on disposition of tangible assets, net                        | (214,280)               | (822,678)               | (161,355)            | (619,486)               |
| Gain on disposition of investment securities, net                  | (27,521,350)            | 3,880,757               | (20,723,908)         | 2,922,257               |
| Other, net   | (8,767,289)             | (1,840,314)             | (6,601,874)          | (1,385,779)             |
|  | <b>(39,346,088)</b>     | <b>33,651,865</b>       | <b>(29,628,078)</b>  | <b>25,340,259</b>       |
| <b>Ordinary income(loss)</b>                                       | <b>61,220,844</b>       | <b>(1,237,004,778)</b>  | <b>46,100,034</b>    | <b>(931,479,503)</b>    |
| <b>Extraordinary gain</b>  | <b>₩ 1,218,849</b>      | <b>₩ 1,034,054</b>      | <b>\$ 917,807</b>    | <b>\$ 778,657</b>       |
| <b>Extraordinary loss</b>  | <b>1,959,048</b>        | <b>1,802,089</b>        | <b>1,475,187</b>     | <b>1,356,995</b>        |
| <b>Income (loss) before income taxes</b>                           | <b>60,480,645</b>       | <b>(1,237,772,813)</b>  | <b>45,542,654</b>    | <b>(932,057,841)</b>    |
| <b>Income tax (expense) benefit (Note 25)</b>                      | <b>-</b>                | <b>(5,489,118)</b>      | <b>-</b>             | <b>(4,133,372)</b>      |
| <b>Net Income (loss) for the year</b>                              | <b>₩ 60,480,645</b>     | <b>₩(1,232,283,695)</b> | <b>\$ 45,542,654</b> | <b>\$ (927,924,469)</b> |
| Income(loss) per share   |                         |                         |                      |                         |
| (in Korean Won and U.S. Dollar) (Note 27)                          | ₩ 406                   | ₩ (13,835)              | \$ 0.306             | \$ (10,418)             |
| Ordinary income(loss) per share                                    |                         |                         |                      |                         |
| (in Korean Won and U.S. Dollar) (Note 27)                          | ₩ 411                   | ₩ (13,826)              | \$ 0.309             | \$ (10,411)             |

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

## Statements of Appropriations of Retained Earnings

<<< For the years ended March 31, 2001 and 2000 >>>

|  | Thousands of Korean Won |                 | U.S. Dollars(Note 3) |               |
|--|-------------------------|-----------------|----------------------|---------------|
|  | 2001                    | 2000            | 2001                 | 2000          |
| <b>Accumulated deficit before disposition ::</b> |                         |                 |                      |               |
| Unappropriated retained earnings                 |                         |                 |                      |               |
| carried-forward from prior year                  | ₩ -                     | ₩ 34,565,676    | \$ -                 | \$ 26,028,370 |
| Cumulative effect of retroactive                 |                         |                 |                      |               |
| applications of changes                          |                         |                 |                      |               |
| in accounting standards                          | -                       | (9,400,884)     | -                    | (7,078,979)   |
| Effect of valuation of                           |                         |                 |                      |               |
| equity-method investments                        | 36,520                  | -               | 27,500               | -             |
| Loss on prior period error correction            | -                       | (29,064,628)    | -                    | (21,886,015)  |
| Net income(loss)                                 | 60,480,645              | (1,232,283,695) | 45,542,654           | (927,924,469) |
|  | 60,517,165              | (1,236,183,531) | 45,570,154           | (930,861,093) |
| Transfers from voluntary reserves                |                         |                 |                      |               |
| Transfer from reserve for losses on              |                         |                 |                      |               |
| securities transactions                          | 4,369,888               | 3,063,064       | 3,290,578            | 2,306,524     |
| Transfer from other voluntary reserves           | -                       | 1,233,120,467   | -                    | 928,554,569   |
|  | 4,369,888               | 1,236,183,531   | 3,290,578            | 930,861,093   |
| Appropriations of retained earnings              |                         |                 |                      |               |
| Reserve for losses on                            |                         |                 |                      |               |
| securities transactions                          | 46,144,101              | -               | 34,747,064           | -             |
| Reserve for business rationalization             | 4,000,000               | -               | 3,012,048            | -             |
|  | 50,144,101              | -               | 37,759,112           | -             |
| Unappropriated retained earnings                 |                         |                 |                      |               |
| to be carried over to subsequent year            | ₩ 14,742,952            | ₩ -             | \$ 11,101,620        | \$ -          |

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

## Statement of Cash Flows

<<< For the years ended March 31, 2001 and 2000 >>>

|   | Thousands of Korean Won | Thousands of Korean Won | U.S. Dollars(Note 3) | U.S. Dollars(Note 3)    |
|---|-------------------------|-------------------------|----------------------|-------------------------|
|   | 2001                    | 2000                    | 2001                 | 2000                    |
| <b>Cash flows from operating activities ::</b>                        |                         |                         |                      |                         |
| Net income(loss)  | ₩ 60,480,645            | ₩(1,232,283,695)        | \$ 45,542,654        | \$ (927,924,469)        |
| <b>Transactions not involving operating cash flows ::</b>             |                         |                         |                      |                         |
| Provision for severance and retirement benefits                       | 13,353,733              | 10,788,700              | 10,055,522           | 8,124,021               |
| Depreciation  | 36,117,869              | 20,060,491              | 27,197,191           | 15,105,791              |
| Provision for doubtful accounts                                       | 104,556,156             | 629,649,123             | 78,732,045           | 474,133,376             |
| Provision for guarantees  | -                       | 8,466,001               | -                    | 6,375,001               |
| Loss from trading securities valuation                                | 33,061,544              | 712,653,859             | 24,895,741           | 536,636,942             |
| Loss on disposition of investments                                    | 34,392,399              | 1,813,353               | 25,897,891           | 1,365,477               |
| Loss on valuation of investments                                      | 38,185,352              | 6,717,525               | 28,754,030           | 5,058,377               |
| Loss on foreign currency translation                                  | 9,930,051               | 6,921,749               | 7,477,448            | 5,212,160               |
| Loss on valuation of investment<br>in stock market stabilization fund | 16,136,423              | -                       | 12,150,921           | -                       |
| Gain on trading securities valuation                                  | (40,843,203)            | (13,161,293)            | (30,755,424)         | (9,910,612)             |
| Gain on disposition of investments                                    | (6,871,049)             | (5,694,110)             | (5,173,983)          | (4,287,733)             |
| Gain on equity method valuation                                       | (9,453,124)             | (18,458,912)            | (7,118,316)          | (13,899,783)            |
| Gain on valuation of investment<br>in stock market stabilization fund | -                       | (20,798,730)            | -                    | (15,661,694)            |
| Gain on foreign currency translation                                  | (12,785,849)            | (66,465)                | (9,627,898)          | (50,049)                |
| Income tax benefit  | -                       | (5,489,118)             | -                    | (4,133,372)             |
| Amortization of present value discounts                               | (40,659,871)            | (17,027,545)            | (30,617,373)         | (12,821,947)            |
| Other   | (1,824,196)             | 7,670,361               | (1,373,642)          | 5,775,874               |
|   | <b>173,296,235</b>      | <b>1,324,044,989</b>    | <b>130,494,153</b>   | <b>997,021,829</b>      |
| <b>Changes in operating assets and liabilities ::</b>                 |                         |                         |                      |                         |
| Decrease in deposits with KSFC  | 615,618,828             | (1,218,542,768)         | 463,568,395          | (917,577,386)           |
| Decrease in trading securities  | 148,288,854             | (57,012,011)            | 111,663,294          | (42,930,731)            |
| Decrease in other receivables   | 35,140,649              | (63,123,421)            | 26,461,332           | (47,532,697)            |
| Decrease in accrued income  | 11,580,985              | 29,697,696              | 8,720,621            | 22,362,723              |
| Decrease in prepaid income tax  | 72,400,888              | (61,055,043)            | 54,518,741           | (45,975,183)            |
| Decrease in advances for customers                                    | 18,396,574              | (145,460,932)           | 13,852,842           | (109,533,834)           |
| Increase in customers' deposits                                       | (757,745,634)           | 741,144,869             | (570,591,592)        | 558,091,016             |
| Decrease in accounts payable  | (1,403,537)             | (20,571,846)            | (1,056,880)          | (15,490,848)            |
| Increase in accrued expenses  | (39,307,414)            | 33,605,066              | (29,598,956)         | 25,305,020              |
| Increase in withholding income taxes                                  | 2,711,902               | (27,814,853)            | 2,042,095            | (20,944,919)            |
| Decrease in deposits for rent   | (8,096,321)             | (4,048,776)             | (6,096,627)          | (3,048,777)             |
| Payments of severance and retirement benefits                         | (7,781,629)             | (3,440,656)             | (5,859,660)          | (2,590,855)             |
| Loss on prior period error correction                                 | -                       | (29,064,628)            | -                    | (21,886,015)            |
| Other   | (240,901,288)           | (28,343,471)            | (181,401,574)        | (21,342,976)            |
|   | <b>(151,097,143)</b>    | <b>(854,030,774)</b>    | <b>(113,777,969)</b> | <b>(643,095,462)</b>    |
|   | <b>₩ 82,679,737</b>     | <b>₩ (762,269,480)</b>  | <b>\$ 62,258,838</b> | <b>\$ (573,998,102)</b> |

&lt;&lt;&lt; For the years ended March 31, 2001 and 2000 &gt;&gt;&gt;

|   | Thousands of Korean Won | Thousands of Korean Won | U.S. Dollars(Note 3)    | U.S. Dollars(Note 3)    |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
|   | 2001                    | 2000                    | 2001                    | 2000                    |
| <b>Cash flows from investing activities ::</b>                  |                         |                         |                         |                         |
| Decrease in call loans  | ₩ 11,750,008,760        | ₩9,597,958,000          | \$ 8,847,898,163        | \$ 67,468,341,867       |
| Decrease in broker's loans                                      | 354,412,946             | 1,193,813,349           | 266,877,218             | 898,955,835             |
| Decrease in bonds purchased<br>under resale agreements          | -                       | 144,564,405             | -                       | 108,858,739             |
| Disposal of investment securities                               | 178,491,794             | 90,445,438              | 134,406,471             | 68,106,505              |
| Decrease in long-term bank deposits                             | 2,297,183               | 66,727,790              | 1,729,806               | 50,246,830              |
| Decrease in long-term loans                                     | 45,131,969              | 28,638,518              | 33,984,916              | 21,565,149              |
| Disposal of property and equipment                              | 52,630,978              | 546,217                 | 39,631,761              | 411,308                 |
| Increase in call loans  | (11,646,666,760)        | (90,576,500,000)        | (8,770,080,392)         | (68,205,195,783)        |
| Increase in broker's loans                                      | (322,231,615)           | (1,184,720,064)         | (242,644,288)           | (892,108,482)           |
| Increase in bonds purchased<br>under resale agreements          | -                       | (154,400,000)           | -                       | (116,265,060)           |
| Acquisition of investment securities                            | (119,007,481)           | (95,770,915)            | (89,614,067)            | (72,116,653)            |
| Increase in long-term loans                                     | (45,074,832)            | (74,551,293)            | (33,941,892)            | (56,138,022)            |
| Increase in guarantee deposits                                  | (27,197,485)            | (26,918,807)            | (20,480,034)            | (20,270,186)            |
| Acquisition of property and equipment                           | (56,904,973)            | (44,545,007)            | (42,850,130)            | (33,542,927)            |
| Other   | <b>12,978,787</b>       | <b>(14,523,325)</b>     | <b>9,773,184</b>        | <b>(10,936,239)</b>     |
|   | <b>178,869,271</b>      | <b>(1,049,235,694)</b>  | <b>134,690,716</b>      | <b>(790,087,119)</b>    |
| <b>Cash flows from financing activities ::</b>                  |                         |                         |                         |                         |
| Increase in call money  | 44,145,770,000          | 99,249,700,000          | 33,242,296,687          | 74,736,219,880          |
| Increase in short-term borrowings                               | 25,145,438,154          | 64,050,100,522          | 18,934,817,887          | 48,230,497,381          |
| Increase in bonds sold under resale agreements                  | 323,474,819             | 1,145,581,753           | 243,580,436             | 862,636,862             |
| Issuance of common stocks                                       | 234,983,465             | 748,606,652             | 176,945,380             | 563,709,828             |
| Decrease in call money  | (44,147,070,000)        | (99,506,900,000)        | (33,243,275,602)        | (74,929,894,578)        |
| Decrease in short-term borrowings                               | (26,475,271,289)        | (62,776,139,931)        | (19,936,198,260)        | (47,271,189,707)        |
| Decrease in bonds sold under resale agreements                  | (255,040,231)           | (1,271,077,145)         | (192,048,367)           | (957,136,404)           |
| Repayment of current portion of long-term debts                 | (8,947,148)             | (24,000,000)            | (6,737,310)             | (18,072,289)            |
| Repayment of subordinated current portion<br>of long-term debts | (220,000,000)           | (177,000,000)           | (165,662,651)           | (133,283,133)           |
| Other   | <b>930,775,306</b>      | <b>(29,777,814)</b>     | <b>700,885,020</b>      | <b>(22,423,053)</b>     |
|   | <b>₩ (325,886,924)</b>  | <b>₩1,409,094,037</b>   | <b>\$ (245,396,780)</b> | <b>\$ 1,061,064,787</b> |
| Decrease in cash and cash equivalents                           | ₩ (64,337,916)          | ₩ (402,411,137)         | \$ (48,447,226)         | \$ (303,020,434)        |
| Cash and cash equivalents<br>at beginning of the year           | 200,525,226             | 602,936,363             | 150,997,912             | 454,018,346             |
| Cash and cash equivalents at end of the year                    | <b>₩ 136,187,310</b>    | <b>₩ 200,525,226</b>    | <b>\$ 102,550,686</b>   | <b>\$ 150,997,912</b>   |

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

# | Notes to Financial Statements |

< March 31, 2001 and 2000 >

## 1. The Company ●●●

Daewoo Securities Co., Ltd. (hereinafter, the Company) was originally incorporated in September 1970 under the name of Orient 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, 2001 is ₩842,320 million. The Company changed its name to Daewoo Securities Co., Ltd. and merged with Sambo Securities Co., Ltd. on December 19, 1983, and has 145 branches as of March 31, 2001.

At March 31, 2001, the Company's major shareholders are as follows:

|                        | Number of Shares | Percentage of Ownership(%) |
|------------------------|------------------|----------------------------|
| Korea Development Bank | 38,596,652       | 22.91%                     |
| Korea First Bank       | 8,228,377        | 4.88%                      |
| Bank of Seoul          | 3,130,000        | 1.86%                      |
| Korea Exchange Bank    | 3,130,000        | 1.86%                      |
| Chohung Bank           | 3,130,000        | 1.86%                      |
| Hanvit Bank            | 3,130,000        | 1.86%                      |
| Koram Bank             | 3,130,000        | 1.86%                      |
| Kookmin Bank           | 3,040,000        | 1.80%                      |
| Employees              | 9,120,711        | 5.41%                      |
| POSTEL                 | 3,191,000        | 1.89%                      |
| BBHK-A.P               | 2,930,000        | 1.74%                      |
| Other                  | 87,707,301       | 52.07%                     |
|                        | 168,464,041      | 100%                       |

Under the Articles of Incorporation, the Company is authorized to issue convertible debenture and debenture with stock purchase options up to ₩1,200,000 million respectively. Through March 31, 2001, ₩150,000 million of convertible debentures and ₩250,000 million of subordinated convertible debentures have been issued. ₩141,460 million of convertible debentures and ₩12 million of subordinated convertible debentures have been converted into common stock and convertible debentures amounting ₩8,540 million have been redeemed. Consequently, as of March 31, 2001, the balance of subordinated convertible debentures is ₩249,988 million.

Under the 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, 2001, the number of granted stock option is 340,000 shares.

According to the Regulation on the Financial Soundness of Securities Companies prescribed by the Korean Securities and Exchange Law, the Company is restricted in ownership of 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 financial statements in accordance with financial accounting standards of the Republic of Korea, and the supervisory Regulation on Securities Companies prescribed by the Korean Securities and Exchange Law are summarized below. Also according to the supervisory Regulation, the Company presented some items following the balance sheets regarding securities in custody, guarantee on bonds, derivative contracts and others.

### Basis of Financial Statement Presentation -

The official accounting records of the Company, on which the Korean language financial statements are based, are maintained in Korean Won in accordance with the laws and regulations of the Republic of Korea.

The accompanying financial statements have been extracted from the Company's Korean language financial statements that were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of Korea. These standards may vary from accounting principles generally accepted in the country of the reader. The financial statements have been translated from Korean into English, and have been formatted in a manner different from the presentation under Korean financial statement practices.

Certain supplementary information included in the Korean language statutory 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 financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea.

The preparation of financial statements requires management to make estimates and assumptions that effect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

### Trading Securities -

Trading securities are stated at fair value. Trading securities other than bonds and beneficiary certificates are recorded at the closing price of relevant 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 earning rate published by the Korea Securities Dealers Association.

Beneficiary certificates are stated at fair value published by investment trust management companies.

At March 31, 2001, the aggregate market value of trading equity securities is lower than book value by ₩32,093 million, and the Company recognized valuation gains and losses thereon by ₩466 million and ₩32,539 million, respectively. All losses and gains were directly added to and deducted from trading equity securities.

At March 31, 2001, the aggregate market value of bonds is higher than book value by ₩353 million, and the Company recognized valuation gains and losses thereon of ₩876 million and ₩ 523 million, respectively. All losses and gains were directly added to and deducted from bonds.

At March 31, 2001, the aggregate market value of beneficiary certificates is higher than book value by ₩35,394 million, and the Company recognized valuation gains thereon of ₩35,394 million. All gains were directly added to beneficiary certificates.

At March 31, 2001, the aggregate market value of long and short position trading securities option is higher than book value by ₩376 million, and the Company recognized valuation losses of ₩113 million and valuation gains of ₩489 million. All losses and gains are directly added to and deducted from long and short trading securities options.

#### Accounting for Derivatives -

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

Stock index futures are recorded at footnote in balance sheet. Losses or gains on sales or settlement of stock index futures are recorded as operating expenses or revenue.

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

#### Allowance for Valuation and Bad debts -

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

| Classification  | The ratio of allowance for bad debt |
|-----------------|-------------------------------------|
| Current         | over 0.5%                           |
| Special mention | over 2%                             |
| Substandard     | over 20%                            |
| Doubtful        | over 75%                            |
| Loss            | 100%                                |

For this purpose, the Company classified accounts receivable as of March 31, 2001 as follows (Millions of Won) :

| Accounts          | Current  | Special Mention | Substandard | Doubtful | Loss (*) | Totals     |
|-------------------|----------|-----------------|-------------|----------|----------|------------|
| Fiduciary loans   | ₩ 21,194 | ₩ -             | ₩ -         | ₩ -      | ₩ -      | ₩ 21,194   |
| Loans             | -        | -               | -           | -        | 15       | 15         |
| Other receivables | 44,186   | 1,520           | -           | -        | 2,282    | 47,988     |
| Accrued income    | 28,438   | -               | -           | -        | 1,190    | 29,628     |
| Corporate bonds   | -        | 30,559          | 45,785      | 17,577   | -        | 93,921     |
| Advances for      |          |                 |             |          |          |            |
| customers         | 3,285    | 81,887          | 18,662      | 33,505   | 76,510   | 213,849    |
| Dishonored bills  | -        | 438             | -           | 122      | 562      | 1,122      |
| Dishonored        |          |                 |             |          |          |            |
| bonds             | 2,802    | -               | 16,442      | -        | 6,089    | 25,333     |
| Other receivables | -        | 17,142          | -           | -        | -        | 17,142     |
| Other non-current |          |                 |             |          |          |            |
| assets            | 381,509  | -               | 200,306     | 38,155   | 465,763  | 1,085,733  |
| Totals            | ₩481,414 | ₩ 131,546       | ₩281,195    | ₩ 89,359 | ₩552,411 | ₩1,535,925 |

(\*)The amount includes ₩47,384 million of present value discount account.

In accordance with supervisory regulations for securities companies provided by the Korean Financial Supervisory Commission, troubled loans restructured unfavorably under workout plans or other similar restructuring agreements are stated at present value. The difference between the nominal amount and present value was recorded in the balance sheet as present value discount account. Amortization of present value discount account is included in other interest income. As of March 31, 2001, troubled debts, which are restructured by a reorganization plan, approved by the court or agreed to by creditors comprise the following :

| Accounts                             | Description             | Date of Approval | Date of Maturity | Discount Rate (%) | Nominal Value | Millions of Won |            |
|--------------------------------------|-------------------------|------------------|------------------|-------------------|---------------|-----------------|------------|
|                                      |                         |                  |                  |                   |               | Present Value   | Difference |
| <b>(1) Advances to customers</b>     |                         |                  |                  |                   |               |                 |            |
| Shinhan Eng. & Const. Co., Ltd.      | Court Receivership      | 00.09.01         | 10.12.31         | 7.0-16.0          | ₩5,357        | ₩2,710          | ₩2,647     |
| Koryo Cement Manufacturing Co., Ltd. | Court Receivership      | 99.10.17         | 11.06.30         | 11                | 11,375        | 8,811           | 2,564      |
| Duksan Development                   | Court Receivership      | 97.10.10         | 11.06.30         | 11                | 5,825         | 2,571           | 3,254      |
| Hanbo Energy Co., Ltd.               | Court Receivership      | 98.10.04         | 14.12.31         | 11                | 11,100        | 6,459           | 4,641      |
| Nasan Co., Ltd.                      | Court Receivership      | 99.01.27         | 08.12.30         | 10                | 6,672         | 4,184           | 2,488      |
| Segye Corporation                    | Court Receivership      | 00.11.23         | 10.12.31         | 11                | 5,361         | 2,597           | 2,764      |
| Sammi Steel Co., Ltd.                | Court Receivership      | 98.08.21         | 08.11.30         | 12                | 5,263         | 3,213           | 2,050      |
| Hanshin Construction Co., Ltd.       | Court Receivership      | 98.06.30         | 09.05.31         | 10.0-11.0         | 21,965        | 14,532          | 7,433      |
| Shin Won Development                 | Court Receivership      | 99.07.21         | 09.12.30         | 10                | 7,087         | 3,892           | 3,195      |
| Newcore Department Store             | Composition Proceedings | 99.12.03         | 09.12.31         | 11                | 3,499         | 1,748           | 1,751      |
| Other                                |                         |                  |                  |                   | 36,360        | 28,412          | 7,948      |
|                                      |                         |                  |                  |                   | 119,864       | 79,129          | 40,735     |
| <b>(2) Dishonored bonds</b>          |                         |                  |                  |                   |               |                 |            |
| Segye Corporation                    | Court Receivership      | 00.11.23         | 10.12.31         | 11                | 1,244         | 625             | 619        |
| Han Shin Construction Co., Ltd.      | Court Receivership      | 98.06.30         | 08.12.31         | 11                | 1,850         | 929             | 921        |
| Shinsung Tongsang Co., Ltd.          | Court Receivership      | 00.09.07         | 10.06.30         | 17                | 5,073         | 3,770           | 1,303      |
| Hai Tai Confectionery Co., Ltd.      | Composition Proceedings | 99.09.15         | 10.01.04         | 12.5              | 14,207        | 11,119          | 3,088      |
|                                      |                         |                  |                  |                   | 22,374        | 16,443          | 5,931      |
| <b>(3) Corporate bonds</b>           |                         |                  |                  |                   |               |                 |            |
| Shinhan Eng. & Const. Co., Ltd.      | Court Receivership      | 00.09.01         | 10.12.31         | 13                | 1,000         | 437             | 563        |
| <b>(4) Receivables</b>               |                         |                  |                  |                   |               |                 |            |
| Pusan Lease Co., Ltd.                | Composition Proceedings | 99.02.18         | 03.12.15         | 12.35             | 1,675         | 1,520           | 155        |
|                                      |                         |                  |                  |                   | ₩144,913      | ₩97,529         | ₩47,384    |

Among the classification of "Probably Loss" the accounts of receivable with recourse comprise the following (Millions of Won) :

| Accounts              | Companies                                | Balance  | Claim rights | Extinctive Prescription |
|-----------------------|--|----------|--------------|-------------------------|
| Short-term loans      | (*)                                      | ₩15      | ₩15          | 2005. 8.24              |
| Other receivables     | (*)                                      | 607      | 607          | 2005. 9.14              |
|                       | Pusan Lease Co., Ltd.                    | 1,675    | 1,675        | 2004. 2.18              |
| Accrued income        | (*)                                      | 1,190    | 1,190        | 2006. 03.31             |
| Advance for customers | Shinhan Eng. & Const. Co., Ltd.          | 2,647    | 2,647        | 2010. 12.31             |
|                       | Koryo Cement Manufacturing Co., Ltd.     | 2,564    | 2,564        | 2011. 06.30             |
|                       | Duksan Development                       | 3,254    | 3,254        | 2011. 06.30             |
|                       | Hanbo Energy Co., Ltd.                   | 4,641    | 4,641        | 2014. 12.31             |
|                       | Nasan Co., Ltd.                          | 2,487    | 2,487        | 2008. 12.30             |
|                       | Segye Corporation                        | 2,764    | 2,764        | 2010. 12.31             |
|                       | Sammi Steel Co., Ltd.                    | 2,050    | 2,050        | 2008. 11.30             |
|                       | Hanshin Construction Co., Ltd.           | 7,433    | 7,433        | 2009. 05.31             |
|                       | Shinwon Development                      | 3,195    | 3,195        | 2009. 12.30             |
|                       | Newcore Department Store                 | 1,751    | 1,751        | 2009. 12.31             |
|                       | Borneo International Furniture Co., Ltd. | 4,087    | 4,087        | 2009. 03.29             |
|                       | Other                                    | 39,636   | 39,636       |                         |
|                       |  | 76,509   | 76,509       |                         |
| Dishonored bonds      | Segye Corporation                        | 777      | 777          | 2010. 12.31             |
|                       | Hanshin Construction Co., Ltd.           | 921      | 921          | 2008. 12.31             |
|                       | Shinsung Tongsang Co., Ltd.              | 1,303    | 1,303        | 2010. 06.30             |
|                       | Haitai Confectionery Co., Ltd.           | 3,088    | 3,088        | 2010. 01.04             |
|                       |  | 6,089    | 6,089        |                         |
| Corporate bonds       | Shinhan Eng. & Const. Co., Ltd.          | 563      | 563          | 2010.12.31              |
|                       | Daewoo Capital Corporation (**)          | 464,597  | 464,597      | 2004.12.31              |
|                       | Newcore Department Store                 | 1,166    | 1,166        |                         |
|                       |  | 466,326  | 466,326      |                         |
|                       |  | ₩552,411 | ₩552,411     |                         |

(\*) These consist of a number of individual clients.

(\*\*) Corporate bonds are estimated by purchasing rate of the Korea Asset Management Corporation.



The Company provides an allowance for doubtful accounts based on the aggregate estimated collectibility of amount receivable. In the last three years, the allowance for doubtful accounts and percentage to total receivables are as follows (Millions of Won) :

| Balance Sheet Date | Receivables Balances | Allowance for Doubtful Accounts | Rates  |
|--------------------|----------------------|---------------------------------|--------|
| 1999. 3. 31        | 689,486              | 227,115                         | 32.94% |
| 2000. 3. 31        | 1,706,690            | 747,625(*)                      | 43.81% |
| 2001. 3. 31        | 1,535,925            | 726,020(**)                     | 47.27% |

(\*) The amount includes ₩71,708 million of present value discount account.

(\*\*) The amount includes ₩47,384 million of present value discount account.

#### Investment Securities -

All investments in equity and debt securities are initially carried at cost, including incidental expenses. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase. The following paragraphs describe the subsequent accounting for securities by the type of security.

Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of stockholders' equity. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Company's proportionate ownership of the underlying book value of the investee which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Investments in equity securities of companies over which the Company exerts significant control or influence (controlled investees) are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership of the book value of the investee as current operations, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investments in debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Declines in the fair value of debt securities which are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the amortized cost of the investment.

#### Property and Equipment -

Property and equipment are recorded at cost except for upward revaluation in accordance with the Korean Asset Revaluation Law. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as described below.

##### **Estimated Useful Lives**

|                         |          |
|-------------------------|----------|
| Buildings               | 40 years |
| Vehicles                | 4 years  |
| Furniture and equipment | 4 years  |

#### Foreign Currency Translation -

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the exchange rates prevailing at the balance sheet date. Resulting exchange losses and gains are currently recognized.

#### Accounting for 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 liability. Also the Company recorded the difference between the repurchase price and the bonds sold price as interests from bonds sold under repurchase agreements.

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 acquisition cost as interests from bonds purchased under resale agreements.

#### Reserve for Severance and Retirement Benefits -

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company, based on their length of service and rate of pay at the time of termination. The accrued severance benefit liability represents 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 entered into contracts for group severance insurance with two insurance companies including Samsung Life Insurance Co., Ltd. Related deposit payments made under these agreements are recorded as noncurrent bank deposits.

Actual payments of severance benefits during the current year were ₩7,782 million.

#### Reserve for Losses on Securities Transactions -

In accordance with the Korean Securities and Exchange Law, the Company provides a reserve for losses on securities transactions in an amount equal to 60% of the net gain on securities traded during the year, and a reserve for accidental losses on the trading of securities in an amount equal to 0.002% (except for bonds and beneficiary certificate which require a 0.0002% reserve and stock index futures and stock index options which require a 0.0006% reserve) of the total trading value during the year. These reserves may only be utilized for trading losses and accidental losses incurred in the trading of securities, if any. Reserve for losses on securities transactions are made through the appropriation of retained earnings. If not used within three years, these reserves are to be reversed and transferred to unappropriated retained earnings.

#### Translation of Foreign Currency Statements -

Financial accounts of overseas business locations are maintained in the currencies of the countries in which they operate. In translating the foreign currency financial statements of these overseas business locations into Korean Won, income and expenses are translated at the average rate for the year and assets and liabilities are translated at the rate prevailing at the balance sheet date. Resulting translation gains and losses are offset and the net amount is recorded as overseas business translation gain or loss, which is presented as an addition to or deduction from capital. Overseas business translation gains or losses are offset against those incurred in future periods.

As of March 31, 2001, the condensed financial information of the Tokyo branch is as follows :

|                         | Millions of Won |
|-------------------------|-----------------|
| Current assets          | ₩ 7,742         |
| Non-current assets      | 598             |
| Current liabilities     | 6,681           |
| Non-current liabilities | 25              |
| Operating revenue       | 460             |
| Operating expense       | 2,372           |

#### Deferred Income Taxes -

The Company has adopted the deferred method of accounting for income taxes. Under this method, the future tax effects on temporary differences between the financial and tax bases of assets and liabilities are reflected in the balance sheet. As the realizability of future tax effects on temporary differences and undisposed accumulated deficits cannot be assured, the Company recognized the deferred income taxes assets within the limit of deferred income taxes liabilities. Therefore, as of March 31, 2001, the Company has not recognized deferred tax assets (liabilities).

### 3. United States Dollar Amounts ●●●

The Company operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Won amounts are expressed in U.S. Dollars at the rate of ₩1,328.00:US\$1, the rate in effect on March 31, 2001. This presentation is not in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in U.S. Dollars at this rate.

The 2000 U.S. Dollars amounts, which were previously expressed at ₩1,108.30:US\$1, the rate prevailing on March 31, 2000, have been restated to reflect the exchange rate in effect on March 31, 2001.

### 4. Cash and Bank Deposits ●●●

Cash and bank deposits at March 31, 2001 and 2000 comprise the following :

|                                    | Annual Interest Rate (%) | Millions of Won |           |
|------------------------------------|--------------------------|-----------------|-----------|
|                                    |                          | 2001            | 2000      |
| Cash on hand and checking accounts | -                        | ₩ 18            | ₩ 191     |
| Passbook accounts                  | 1.0                      | 560             | 777       |
| Time deposits                      | 7.2 - 8.2                | 94              | 748       |
| Group severance insurance deposits | 7.5                      | 4,161           | 6,081     |
| Other deposits                     | -                        | 135,579         | 198,871   |
|                                    |                          | 140,412         | 206,668   |
| Non-current portion                |                          | (4,225)         | (6,143)   |
|                                    |                          | ₩ 136,187       | ₩ 200,525 |

Non-current cash and bank deposits include ₩4,161 million of group severance insurance deposits, ₩64 million of passbook accounts which represent deposits required to maintain checking accounts and ₩67,747 million of other deposits which designated a European bank with relation to the transfer of rights of the off-shore funds. Withdrawal of these amounts is restricted.

## 5. Deposits with KSFC ●●●

Deposits with Korea Securities Finance Corporation (KSFC) at March 31, 2001 and 2000, comprise the following :

|   | Annual Interest Rate (%) | Millions of Won |             |
|---|--------------------------|-----------------|-------------|
|   |                          | 2001            | 2000        |
| Subscription deposits                     | 3.0                      | ₩ -             | ₩ 340,300   |
| Reserve for claims of customers' deposits | Floating rate            | 799,300         | 1,073,500   |
| Other deposits                            | -                        | 8,518           | 9,637       |
|   |                          | ₩ 807,818       | ₩ 1,423,437 |

## 6. Trading Securities ●●●

Trading securities at March 31, 2001 and 2000, comprise the following :

|                                   | Millions of Won |           |
|-----------------------------------|-----------------|-----------|
|                                   | 2001            | 2000      |
| Stocks                            | ₩ 52,996        | ₩ 89,280  |
| Government & Public bonds         | 64,069          | 30,083    |
| Corporate bonds                   | 3,667           | 49,916    |
| Beneficiary certificates          | 641,930         | 758,954   |
| Long position stock index options | 1,466           | 227       |
| Other                             | 4,314           | -         |
|                                   | ₩ 768,44        | ₩ 928,460 |

The Company has beneficiary certificate amounting to ₩641,930 million of which related funds contain Daewoo Group's bonds. These beneficiary certificates have been repurchased from the customers after named "Daewoo Group's Bankruptcy" based on the measures for repurchasing prepared by the related authority. The funds related to the repurchased beneficiary certificates comprise of non-guaranteed bonds issued by the Daewoo Group (hereinafter, Daewoo non-guaranteed bonds), the Daewoo Group's bonds guaranteed by the Seoul Guarantee Insurance(hereinafter, Daewoo guaranteed bonds) and other assets, amounting to ₩250,100million, ₩76,100 million and ₩315,700 million, respectively. These securities are recorded on the balance sheet date at the prices which were announced by the investment trust management companies and fund managers. In determining the price at March 31, 2001, the Daewoo non-guaranteed bonds have been reduced by 60%-70%, the same ratio that was applied when the Korea Asset Management Corporation took over similar bonds in previous cases of 2000. And Daewoo guaranteed bonds classified as normal based on the fact that Korea Deposit Insurance Corporation will invest ₩5,600 billion of governmental fund. The ultimate amount of Daewoo bonds to be recovered continues to be uncertain. The Company has not recognized any additional potential losses related to the outcome of this uncertainty. And other debts securities have been recorded at book value rather than fair value according to the Additional Clause of Trust Business Act, which is acquisition cost plus the accrued interest income. Accordingly, the amounts collected on such securities may differ from book-value. No adjustments have been made in the accompanying financial statements related to such uncertainties.

## 7. Assets Denominated in Foreign Currency ●●●

Assets denominated in foreign currency at March 31, 2001 and 2000 comprise the following :

|                               | 2001                       |                        | 2000                       |                        |
|-------------------------------|----------------------------|------------------------|----------------------------|------------------------|
|                               | Thousands of U. S. Dollars | Millions of Korean Won | Thousands of U. S. Dollars | Millions of Korean Won |
| Asset :                       |                            |                        |                            |                        |
| Deposits                      | \$ 77,254                  | ₩ 102,593              | \$ 7,476                   | ₩ 8,286                |
| Stocks (Trading securities)   | 4,887                      | 6,490                  | 4,562                      | 5,056                  |
| Bonds (Trading securities)    | 2,880                      | 3,825                  | 13,008                     | 14,416                 |
| Bonds (Investment securities) | 10,000                     | 13,280                 | 66,212                     | 73,383                 |
| Other non-current asset       | 53,000                     | 70,384                 | -                          | -                      |
|                               | \$ 148,021                 | ₩ 196,572              | \$ 91,258                  | ₩ 101,141              |

Liabilities :

|                           |           |          |   |   |
|---------------------------|-----------|----------|---|---|
| Other Current Liabilities | \$ 53,000 | ₩ 70,384 | - | - |
|---------------------------|-----------|----------|---|---|

Above assets are composed of multiple currencies and converted into U.S. Dollars using basic rate of exchange at March 31, 2001 and 2000.

## 8. Loans ●●●

Loans at March 31, 2001 and 2000 comprise the following

|                                 | Millions of Won |           |
|---------------------------------|-----------------|-----------|
|                                 | 2001            | 2000      |
| Call loans:                     | ₩ -             | ₩ 103,342 |
| Loans to customer:              |                 |           |
| Broker's loans                  | 21,194          | 53,376    |
| Short-term loans                | 15              | 8         |
| Other loans                     | 17,142          | 974,400   |
|                                 | 38,351          | 1,131,126 |
| Allowance for doubtful accounts | (464)           | (504,913) |
|                                 | ₩ 37,887        | ₩ 626,213 |

## 9. Investment Securities

Investment Securities at March 31, 2001 and 2000, comprise the following

| Investments                                     | Number of Shares | Ownership Percentage(%) | 2001             |            | 2000       |            |
|---|------------------|-------------------------|------------------|------------|------------|------------|
|   |                  |                         | Acquisition Cost | Fair Value | Book Value | Book Value |
| <b>(1) Non-marketable equity securities</b>     |                  |                         |                  |            |            |            |
| Korea securities Computer Corp.                 | 217,563          | 4.07%                   | ₩ 1,097          | ₩ 3,473    | ₩ 1,097    | ₩ 1,097    |
| Korea Securities Finance Corp.                  | 2,753,687        | 4.05%                   | 13,788           | 10,494     | 13,788     | 10,017     |
| Korea Investment Trust Co., Ltd.                | 135,000          | 0.01%                   | 13,928           | -          | -          | 13,928     |
| Daehan Investment Trust Co., Ltd.               | 198,000          | 0.03%                   | 21,659           | -          | -          | 21,659     |
| Hyundai Investment Trust & Securities Co., Ltd. | 240,000          | 0.15%                   | 2,598            | -          | -          | 2,598      |
| Korea Economic Daily                            | 3,191            | 0.03%                   | 20               | 17         | 20         | 20         |
| Korea Securities Depository                     | 83,214           | 2.31%                   | 1,217            | 5,551      | 1,217      | 1,217      |
| C.E.I.M.  | 1,379,552        | 10.00%                  | 202              | 1,155      | 202        | 202        |
| Tongyang Orion Investment Trust Corp.           | 100,000          | 0.83%                   | 500              | -          | 500        | 500        |
| Korea Real Estate Investment                    | 21,812,300       | 12.12%                  | 22,527           | 22,190     | 22,527     | 10,812     |
| Other   |                  |                         | 7,940            | 7,572      | 7,940      | 4,332      |
|   |                  |                         | 85,476           | 50,452     | 47,291     | 66,382     |
| <b>(2) Marketable equity securities</b>         |                  |                         |                  |            |            |            |
| Hanaro Telecom Inc.                             | 12,000,000       | 4.55%                   | 243,352          | 36,120     | 36,120     | 208,800    |
| Haitai Confectionery Co., Ltd.                  | -                | -                       | -                | -          | -          | 38,695     |
| Platinum 2000                                   | -                | -                       | -                | -          | -          | 810        |
| Keangnam Enterprises Co., Ltd.                  | 1,460,000        | 7.47%                   | 7,300            | 2,175      | 2,175      | -          |
| Shin Won Development                            | 1,545,400        | 1.25%                   | 7,727            | 1,306      | 1,306      | -          |
| Other   |                  |                         | 1,736            | 1,032      | 1,032      | 2,755      |
|   |                  |                         | 260,115          | 40,633     | 40,633     | 251,060    |
| <b>(3) Beneficiary certificates</b>             |                  |                         |                  |            |            |            |
| C.E.D.F   | 1,120,448        | -                       | 1,471            | 2,678      | 1,471      | 1,471      |
| <b>(4) Investment in partnerships</b>           |                  |                         |                  |            |            |            |
| Korea Stock Exchange                            | -                | 3.3%                    | ₩ 1,784          | ₩ 18,359   | ₩ 1,784    | ₩ 1,845    |
| Stock Market Stabilization Fund                 | -                | 14.0%                   | 78,482           | 50,044     | 50,044     | 110,976    |
| Firstvina Bank                                  | -                | 10.0%                   | 1,542            | 2,820      | 1,542      | 1,542      |
|   |                  |                         | 81,808           | 71,223     | 53,370     | 114,363    |
| <b>(5) Securities in affiliated company</b>     |                  |                         |                  |            |            |            |
| Daewoo Capital Management Co., Ltd.             | 999,964          | 100.0%                  | 5,000            | 10,572     | 10,572     | 8,449      |
| Seoul Investment Trust Co., Ltd.                | 2,274,596        | 81.9%                   | 17,350           | 9,903      | 9,903      | 1,372      |
| Daewoo Bank(Hungary)                            | 468,680          | 100.0%                  | 39,768           | 35,448     | 35,448     | 31,017     |
| Daewoo Sec.(Europe) Ltd.                        | 18,364,700       | 100.0%                  | 18,628           | 27,712     | 27,712     | 26,479     |
| Daewoo Sec.(America) Inc.                       | 12,000           | 100.0%                  | 9,621            | 15,919     | 15,919     | 11,623     |
| Daewoo Finance(India)                           | 3,000,000        | 50.0%                   | -                | -          | -          | -          |
| Daewoo Sec. (Hong Kong) Ltd.                    | 10,000,000       | 100.0%                  | 7,775            | 18,953     | 18,953     | 19,192     |
| Daewoo Invest.Kft                               | 1                | 100.0%                  | -                | -          | -          | -          |
| Uz Daewoo Bank                                  | 5,500            | 55.0%                   | 4,747            | 6,586      | 6,586      | 6,822      |
| Daewoo Bank (Romania) S.A                       | 749,960          | 100.0%                  | 20,459           | 32,578     | 32,578     | 28,715     |
| Daewoo Finance (India)                          | -                | -                       | 2,717            | -          | -          | -          |
| Other   | -                | -                       | -                | -          | -          | 709        |
|   |                  |                         | 126,065          | 157,671    | 157,671    | 134,378    |
| <b>(6) Corporate bonds</b>                      |                  |                         |                  |            |            |            |
|   | -                | -                       | 93,921           | 69,167     | 69,167     | 53,267     |
| <b>(7) Bonds in foreign currency</b>            |                  |                         |                  |            |            |            |
|   | -                | -                       | 11,084           | 13,280     | 13,280     | 73,383     |
| <b>(8) Other Investments</b>                    |                  |                         |                  |            |            |            |
|   | 500              | 8.33%                   | 500              | 504        | 500        | 500        |
|   |                  |                         | ₩ 660,440        | ₩ 405,608  | ₩ 383,383  | ₩ 694,804  |

Investment in marketable equity securities are valued by fair value, and the resulting unrealized valuation losses of ₩219,482 million are recorded as a separate component of shareholders' equity ("capital adjustment").

As of March 31, 2001, non-marketable equity securities of Daehan Investment Trust Co., Ltd., Korean Investment Trust Co., Ltd., and Hyundai Investment Trust & Securities Co., Ltd. are recognized investment securities reduction loss amounting to ₩38,158 million. Consequently, the book value of these securities is zero.

Investments in equity securities of companies over which the Company exerts significant control or influence (controlled investees) are recorded using the equity method of accounting. Differences between acquisition cost and the Company's proportionate net asset value of the investee are amortized as incurred.

At March 31, 2001, the investment securities in affiliated companies valued using the equity method are as follows (Millions of Won)

|                                     | Adjustments      |                   |                    |                      |           | Book Value |
|-------------------------------------|------------------|-------------------|--------------------|----------------------|-----------|------------|
|                                     | Acquisition Cost | Retained Earnings | Capital Adjustment | Valuation Gain(Loss) | Dividends |            |
| Daewoo Capital Management Co., Ltd. | ₩ 8,449          | ₩ -               | ₩ -                | ₩ 2,123              | ₩ -       | ₩ 10,572   |
| Seoul Investment Trust Co., Ltd.    | 11,373           | -                 | 1,397              | (2,867)              | -         | 9,903      |
| Daewoo Bank (Hungary)               | 31,017           | -                 | 2,069              | 2,362                | -         | 35,448     |
| Daewoo Securities (Europe)          | 26,480           | -                 | 5,380              | 879                  | (5,026)   | 27,713     |
| Daewoo Securities (America)         | 11,623           | -                 | 2,546              | 1,750                | -         | 15,919     |
| Daewoo Securities (Hong Kong)       | 19,191           | 9                 | 4,065              | 2,235                | (6,547)   | 18,953     |
| Uz Daewoo Bank                      | 6,822            | -                 | 959                | (938)                | (258)     | 6,585      |
| Daewoo Bank(Romania)                | 28,715           | -                 | 2,976              | 3,909                | (3,022)   | 32,578     |
|                                     | ₩ 143,670        | ₩ 9               | ₩ 19,392           | ₩ 9,453              | ₩(14,853) | ₩157,671   |

At March 31, 2001 and 2000, the corporate bonds included in investment securities comprise the following (Millions of Won) :

|                                     | 2001       |                                |                         |                | 2000     |            |
|-------------------------------------|------------|--------------------------------|-------------------------|----------------|----------|------------|
|                                     | Book Value | Present Value Discount Account | Allowance for Bad Debts | Net Book Value | Net      | Book Value |
| Private placement bonds             | ₩ 14,628   |                                | ₩ -                     | ₩ 2,539        | ₩ 12,089 | ₩ 16,476   |
| Private placement convertible bonds | 17,400     |                                | -                       | 14,839         | 2,561    | 12,046     |
| Warranted bonds                     | 52,716     |                                | -                       | 5,429          | 47,287   | 19,655     |
| Convertible bonds                   | 9,177      |                                | -                       | 1,947          | 7,230    | 5,090      |
|                                     | ₩ 93,921   |                                | ₩ -                     | ₩ 24,754       | ₩ 69,167 | ₩ 53,267   |

As March 31, 2001 and 2000, bonds denominated in foreign currency comprise the following (Millions of Won) :

|                              | 2001      |                  |            | 2000       |            |
|------------------------------|-----------|------------------|------------|------------|------------|
|                              | Par Value | Acquisition Cost | Fair Value | Book Value | Book Value |
| Emerging port investment     | ₩ 6,640   | ₩ 5,542          | ₩ 6,640    | ₩ 6,640    | ₩ 5,542    |
| Optimal assess investment    | 6,640     | 5,542            | 6,640      | 6,640      | 55,415     |
| Pacific portfolio investment | -         | -                | -          | -          | 12,426     |
|                              | ₩ 13,280  | ₩ 11,084         | ₩ 13,280   | ₩ 13,280   | ₩ 73,383   |

## 10. Property and Equipment ●●●

Property and equipment at March 31, 2001 and 2000, comprise the following :

|                                 | Millions of Won |           |
|---------------------------------|-----------------|-----------|
|                                 | 2001            | 2000      |
| Buildings                       | ₩ 146,705       | ₩ 171,413 |
| Vehicles                        | 134             | 136       |
| Furniture and equipments        | 151,379         | 117,409   |
|                                 | 298,218         | 288,958   |
|                                 | Millions of Won |           |
|                                 | 2001            | 2000      |
| Less : Accumulated depreciation | (86,888)        | (73,086)  |
|                                 | 211,330         | 215,872   |
| Land                            | 135,836         | 162,568   |
| Construction-in-progress        | 6,452           | 6,914     |
|                                 | ₩ 353,618       | ₩ 385,354 |

At March 31, 2001, the Company's land and buildings are pledged up to a maximum value of ₩249,831 million as collateral for short-term borrowings to financial institutions including Korea Development Bank. At March 31, 2001, buildings are insured against fire and other casualty losses up to approximately ₩144,459 million. In accordance with the Asset Revaluation Law, the Company revalued a substantial portion of its property and equipment on April 1, 1987 and on July 1, 1998. The asset revaluation surplus amounting to ₩114,894 million was recognized and offset against accumulated deficits.

At March 31, 2001, the value of the Company's land, as announced by the Korean local government for property tax assessment purposes, approximates ₩112,515 million.

## 11. Troubled Loans ●●●

Troubled Loans at March 31, 2001 and 2000 comprise the following :

|   | 2001      | Millions of Won<br>2000 |
|---|-----------|-------------------------|
| Advances for customers:                   |           |                         |
| Advances for payment on bonds guarantee   | ₩ 198,189 | ₩ 255,377               |
| Advances for payment on loss compensation | 2,415     | 2,686                   |
| Advances for payment for others           | 13,244    | 18,318                  |
| Dishonored bonds:                         | 25,333    | 70,198                  |
| Dishonored bills receivable:              | 1,122     | 4,122                   |
|   | 240,303   | 350,701                 |
| Less : Present value discount account     | (47,383)  | (71,681)                |
| Allowance for doubtful accounts           | (81,403)  | (112,596)               |
|   | ₩ 111,517 | ₩ 166,424               |

## 12. Advances for Customers ●●●

Pursuant to the Supervisory Regulation of Securities Companies provided by the Korean Financial Supervisory Service, the Company has classified accounts receivable relating to advances for customers into five categories ; current, special mention, substandard, doubtful and loss, and provided an allowance for bad debts (Note 2).

## 13. Present Value Discount Account ●●●

When interest rate and repayment period are changed unfavorably for the creditor by a court imposition such as commencement of reorganization or by mutual agreements and the difference between nominal value and present value is material, the book value is decreased to the present value, and the difference is recorded as bad debt expenses or offset against allowance accounts.

## 14. Other Non-Current Assets ●●●

At March 31, 2001 the Company provides ₩458,600 million as an allowance for doubtful accounts against ₩764,400 million included in other non-current assets offered to Daewoo Capital Co., Ltd. The Company is planning to dispose of the loan by transferring it to Korea Asset Management Corporation. In this regard, on May 6, 2000, the Company has agreed with Daewoo Capital Co., Ltd. that the Company underwrites unwarranted private placement bonds (annual rate of interest is 2.24%) amounting to ₩764,400 million issued by Daewoo Capital Co., Ltd. for offsetting the loan.

In 1999 the Company accepted a ₩200,000 million note receivables from the Daewoo Group of companies and in turn issues a ₩200,000 million note to Daehan Investment Trust Management & Securities Co., Ltd. (DITS). The proceeds from the note were passed from DITS to the Daewoo Group of companies through the Company. The Daewoo Group of companies has since defaulted on the note to the Company and the Company has estimated a ₩70,000 million reserve against the balance. The Company filed lawsuits for provisional arrangement to prohibit DITS from exercising its rights on the note issued by the Company, as the Company was attended to serve as only bridge in relation to call loans from DITS to the Daewoo Group of companies. The ultimate losses on such notes and call loan will be determined as a result of the workout plans for the Daewoo Group of companies and the related court decision.

## 15. Short-Term Borrowings ●●●

Short-term borrowings at March 31, 2001 and 2000, comprise the following :

|                                  | Present Annual Interest Rate (%) | 2001      | Millions of Won<br>2000 |
|----------------------------------|----------------------------------|-----------|-------------------------|
| Bank overdraft                   | variable interest rate           | ₩ -       | ₩ 3,352                 |
| Bank borrowings                  | 6.35~9.30                        | -         | 550,000                 |
| Other short-term borrowings (*2) | 8.00~19.00                       | 205,402   | 258,401                 |
| Borrowing from KSFC (*1)         | 5.00~5.25                        | 62,194    | 785,676                 |
|                                  |                                  | 267,596   | 1,597,429               |
| Call money                       | 5.1                              | 141,000   | 142,300                 |
|                                  |                                  | ₩ 408,596 | ₩ 1,739,729             |

(\*1) Certain securities pledged as collateral for borrowings from KSFC at March 31, 2001 are as follows :

|                          | Book value |           | Proxy value |           |
|--------------------------|------------|-----------|-------------|-----------|
|                          | 2001       | 2000      | 2001        | 2000      |
| Trading securities       |            |           |             |           |
| Stock                    | ₩ 63,286   | ₩ 352,606 | ₩ 44,322    | ₩ 246,824 |
| Beneficiary certificates | -          | 272,200   | -           | 190,540   |
|                          | ₩ 63,286   | ₩ 624,806 | ₩ 44,322    | ₩ 437,364 |

(\*2) Other short-term borrowings are related to the note of ₩ 200,000 million held by Daehan Investment Trust Co., Ltd.(see Note 14).

## 16. Deposits from Customers ●●●

Deposits from customers at March 31, 2001 and 2000, comprise the followings :

|   | 2001             | 2000               |
|---|------------------|--------------------|
| Customers' deposits for brokerage                   | ₩ 787,608        | ₩ 1,202,675        |
| Customers' deposits for futures and options trading | 38,183           | 59,926             |
| Customers' deposits for subscriptions               | -                | 340,135            |
| Customers' deposits for savings                     | 57,949           | 39,053             |
| Customers' deposits for beneficiary                 | 5,406            | 3,648              |
| Other   | 10,217           | 11,671             |
|   | <u>₩ 899,363</u> | <u>₩ 1,657,108</u> |

## 17. Debentures and Long-Term Borrowings ●●●

Debentures and long-term borrowings at March 31, 2001 and 2000, comprise the followings :

|   | Annual Interest Rate (%) | The Terms of Redemption | 2001             | 2000           |
|---|--------------------------|-------------------------|------------------|----------------|
| Convertible debentures (*1)                     | 5.00                     | 2001.3.31               | ₩ -              | ₩ 8,540        |
| Long-term borrowings                            | 7.00                     | 2006.6.15~2006.9.15     | 284              | 284            |
| Subordinate debentures (*2)                     | 8.30~13.25               | 2001.4.1~2002.6.30      | 667,997          | 220,000        |
| Subordinate convertible debentures              | 4.5                      | 2002.3.31               | 249,988          | -              |
|   |                          |                         | <u>918,269</u>   | <u>228,824</u> |
| Adjustment for Conversion rights                |                          |                         | -                | (160)          |
| Current portion of long-term subordinated debts |                          |                         | (673,460)        | (220,000)      |
|   |                          |                         | <u>₩ 244,809</u> | <u>₩ 8,664</u> |

(\*1) The Company issued the 22nd subordinate convertible debenture of ₩250,000 million with an interest rate of 6.5% per annum on June 30, 2000. These debentures are convertible into common stock of the Company at the conversion price of ₩7,000. At March 31, 2001, the portion converted into common stock is ₩12 million.

(\*2) The redemption of subordinate debentures (including subordinate convertible bond) will be performed only after other indebtednesses are cleared up in case the Company goes into bankruptcy.

The annual maturities of long-term borrowings and debentures outstanding at March 31, 2001 are as follows :

| Year               | Convertible Debentures | Long-term Borrowings |
|--------------------|------------------------|----------------------|
| 2002.4.1-2003.3.31 | ₩ 244,525              | ₩ -                  |
| After 2005. 3. 31  | -                      | 284                  |
|                    | <u>₩ 244,525</u>       | <u>₩ 284</u>         |

## 18. Reserve for Severance and Retirement Benefits ●●●

Reserve for severance and retirement benefits at March 31, 2001 and 2000 are as follows :

|   | 2001            | 2000            |
|---|-----------------|-----------------|
| Beginning balance   | ₩ 14,877        | ₩ 8,971         |
| Provisions  | 13,354          | 10,789          |
| Transfer-out to accounts payable                            | -               | (1,445)         |
| Severance payments  | (7,782)         | (3,441)         |
| Other   | 2               | 3               |
|   | <u>20,451</u>   | <u>14,877</u>   |
| National pension fund for severance and retirement benefits | (1,191)         | (1,586)         |
|   | <u>₩ 19,260</u> | <u>₩ 13,291</u> |

## 19. Commitments and Contingencies ●●●

At March 31, 2001, the Company has entered into bank overdraft agreements for borrowings up to ₩35,000 million with 3 banks including Korea First Bank.

As of March 31, 2001, the Company's total contract amounts for derivatives are ₩47,481 million. During the year ended March 31, 2001, realized gains under future and option contracts were ₩83,475 million and ₩20,989 million, respectively, and realized losses under future and option contracts were ₩67,087 million and ₩15,719 million, respectively. The Company has pledged cash amounting to ₩8,460 million and trading securities amounting to ₩4,901 million as collateral for futures and options proprietary trading.

As of March 31, 2001, the Company has pledged some blank checks and promissory notes as collateral for borrowings and repayment of loans. As of March 31, 2001, the Company has provided guarantees of indebtedness amounting to US\$92,000,000 for offshore funds.

As of March 31, 2001, the Company has been sued in 49 (total claim amount : ₩415,171 million) cases including claim for compensation loss on the beneficiary certificates. The ultimate outcome of the cases cannot presently be determined and accordingly, no adjustment has been made in the accompanying financial statements.

At March 31, 2001, the Company provides guarantees on bond approximately ₩186,531 million for the companies which is in reorganization procedures.

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 the right of claiming performance of an obligation. On April 4, 2001, the Company filed a suit amounting to USD 127 million against Korea Investment Trust Management & Securities Company and Hyundai Investment Trust & Securities Co., Ltd. as a claim for compensation. The ultimate outcome of the cases cannot presently be determined and accordingly, no adjustment has been made in the accompanying financial statements.

The Company has been repurchasing the beneficiary certificates, of which funds contain Daewoo Group's bonds based on the measures for repurchasing arranged by the Korean Financial Supervisory Commission after the "Daewoo Group Bankruptcy" in 1999. In repurchasing the beneficiary certificate, the Company has divided the customers into individual customers and financial institutions and then has applied different loss-sharing ratio of the beneficiary certificates according to the repurchasing timing. Accordingly, the Company has repurchased most beneficiary certificates related to Daewoo Group's bonds from the individual customers. The Company recorded and valued the amount of the beneficiary certificates at the price established by investment trust management companies and fund managers. Then, the Company has been repurchasing beneficiary certificates from financial institutions on the principle that customers should burden the loss from the beneficiary certificates. However, certain financial institutions didn't agree to the principle and have filed suits amounting to ₩387,900 million against the Company. As of the reporting date, since the ultimate outcome and its effect of the litigation is uncertain, these financial statements do not include any possible loss. In the meantime the total amount of beneficiary certificates sold to financial institutions is ₩2,8707,000 million and its related funds are comprised of the non-guaranteed bond issued by the Daewoo Group , and the guaranteed Daewoo Group bonds by Seoul Guarantee Insurance, and other debts securities valued per book value(see Note 6) amounting to ₩398,500million, ₩215,900 million and ₩,256,300 million, respectively.

The Company has filed a suit amounting to ₩951,500 million against Daewoo Motors Co., Ltd. for claiming the settlement of its credit. Daewoo Motors Co., Ltd. made the guarantee when the Company gave a call loan to Daewoo Capital Co., Ltd. in the prior year. As of the reporting date, the ultimate outcome of the litigation is uncertain. Accordingly, no adjustments have been made in the accompanying financial statements related to such uncertainties (see Note 14).

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

The Korean economy is currently experiencing additional difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidations and significant uncertainty exists with regards to the availability of short-term financing during the coming year. The Company may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

## 20. Capital Stock ●●●

The changes in capital stock during this year are as follows :

| Year   | Millions of Won |                 |
|--|-----------------|-----------------|
|  | Common Stock    | Preferred Stock |
| Beginning of the year                            | ₩ 536,960       | ₩ 70,379        |
| Issuance of common stock (2000.5.3-5.26)         | 234,973         | -               |
| Conversion of convertible debentures (2000.10.5) | 8               | -               |
| Ending of the year                               | ₩ 771,941       | ₩ 70,379        |

Preferred stock is non-participating, non-cumulative and non-voting. The Company can issue preferred stock that can be converted to common stock with time limit.

## 21. Retained Earnings ●●●

### Legal Reserve -

The Korean Commercial Code requires the Company to appropriate an amount equal to or greater than 10% of cash dividends as a legal reserve, until such reserve equals 50% of its capital stock. The reserve is not available for dividends but may be transferred to common stock or used to



offset accumulated deficit, if any, through suitable shareholders' approval. With approval of a general shareholder's meeting, the Company used ₩93,830 millions of legal reserve to offset accumulated deficit.

#### Reserve for Losses on Securities Transactions -

In accordance with the Korean Securities and Exchange Law, the Company provides a reserve for losses on securities transactions in an amount equal to 60% of the net gain on securities traded during the year, and a reserve for accidental losses on the trading of securities in an amount equal to 0.002% (except for bonds and beneficiary certificate which required a 0.0002% reserve and stock index futures and stock index options which require a 0.0006% reserve) of the total trading value during the year. These reserves may only be utilized for trading losses and accidental losses incurred in the trading of securities, if any.

As of March 31, 2001, ₩53,927 million of reserve for losses on securities transaction is recorded as reserve for losses on securities transactions.

#### Other Reserves -

The Tax Exemption and Reduction Control Law requires the Company to appropriate, as a reserve for business rationalization, an amount equal to the tax reduction arising in connection with the deduction from taxable income claimed with respect to capital increases. This reserve is not available for the payment of cash dividends, however, it may be transferred to common stock in connection with stock dividends or may be used to reduce the accumulated deficit.

As of March 31, 2001, ₩4,000 million of reserve for business rationalization is recorded as reserve for business rationalization.

## 22. Offset Deficit ●●●

With the approval of last fiscal year's general shareholders' meeting, the Company's disposition of deficit comprises the following.

|  | Millions of Won |
|--|-----------------|
| (1) Undisposed deficit   | ₩ 1,236,184     |
| (2) Disposition of deficit   | ₩ 1,236,184     |
| 1. Capital surplus   | 995,564         |
| 2. Retained Earnings   | 240,620         |
| (3) Undisposed accumulated deficit to be carried over to subsequent year | ₩ -             |

## 23. Stock Option ●●●

In accordance with a resolution of shareholders, the Company granted stock purchase options to certain employees and directors. The stock purchase options can be exercised from Jun 4, 2003 to Jun 4, 2010, and allow the employees and directors to purchase 340,000 shares at ₩7,000 per share. For the current year, the Company recognized ₩524 million as compensation expense and the Company will recognize ₩1,045 million as compensation expense in the following fiscal years. The fair value model is used to estimate the value of option and compensation expense, which is based on fair value of the option using a Black-Scholes Model, is determined by the assumptions described below

- Risk free interest rate : 8.07%
- Expected term of exercise : 10 year
- Expected volatility of the stock option : 72.71%

## 24. Capital Adjustments ●●●

At March 31, 2001 and 2000 capital adjustments are as follows :

|   | Millions of Korean Won |            |
|---|------------------------|------------|
|   | 2001                   | 2000       |
| Treasury stock                                      | ₩ (32,970)             | ₩( 32,970) |
| Overseas operation translation credit               | 2,817                  | 2,734      |
| Loss on valuation of investment securities (Note 9) | (209,560)              | (31,769)   |
| Other   | 524                    | 236        |
|   | ₩ (239,189)            | ₩(61,769)  |

At March 31, 2001, the Company owned 1,796,320 preferred stock as treasury stocks

## 25. Income Taxes

The Company adopted the deferred accounting method for its income tax expense by recognizing deferred tax assets or liabilities arising from the temporary difference between financial accounting and tax reporting purposes.

Income taxes for the year ending March 31, 2001, comprise the following :

|                       | Millions of Won |
|-----------------------|-----------------|
| Current income taxes  | ₩ -             |
| Deferred income taxes | -               |
| Income Tax benefits   | ₩ -             |

The following table reconciles the Company's pretax income to the taxable income:

|                       | Millions of Won |
|-----------------------|-----------------|
| Income before taxes   | ₩ 60,481        |
| Permanent differences | 1,045           |
| Temporary differences | (699,549)       |
| Loss carry forward    | ₩ (638,023)     |

The details of deferred taxes as of March 31, 2001 are as follows (Unit : Millions of Won) :

| Account   | Beginning Balance | Increases | Decreases | Ending Balance | Deferred Income          |
|---|-------------------|-----------|-----------|----------------|--------------------------|
|   |                   |           |           |                | Tax assets (liabilities) |
| Accrued interest receivables  | ₩ (7,115)         | ₩ (1,889) | ₩ (7,115) | ₩ (1,889)      | ₩ (582)                  |
| Gain on valuation of trading securities   | (13,161)          | (40,843)  | (13,161)  | (40,843)       | (12,579)                 |
| Loss on valuation of trading securities   | 712,654           | 33,062    | 712,654   | 33,062         | 10,183                   |
| Investment securities valuation loss  | 7,419             | 38,185    | -         | 45,604         | 14,046                   |
| Loss on valuation of investment securities<br>(stock market stabilization fund) | 33,100            | 16,136    | 33,100    | 16,136         | 4,970                    |
| Gain on valuation of investment securities<br>(stock market stabilization fund) | (20,799)          | -         | (20,799)  | -              | -                        |
| Allowance   | 20,354            | -         | 20,354    | -              | -                        |
| Present value discount account  | 71,708            | 16,336    | 40,660    | 47,384         | 14,594                   |
| Affiliated company securities   | (33,229)          | (9,490)   | (14,852)  | (27,867)       | (8,583)                  |
| Reserve for oversea investment loss   | (3,167)           | -         | (3,167)   | -              | -                        |
| Land revaluation surplus  | (61,823)          | -         | -         | (61,823)       | (19,041)                 |
| Allowance for payment guarantee   | 34,286            | -         | 2,408     | 31,878         | 9,818                    |
| Other   | 12,542            | (1,006)   | (42)      | 11,578         | 3,566                    |
| Accumulated temporary differences   | 752,769           | 50,491    | 750,040   | 53,220         | 16,392                   |
| Operating loss carry forward  | 433,622           | 638,023   | -         | 1,071,645      | 330,066                  |
|   | ₩1,186,391        | ₩ 688,514 | ₩ 750,040 | ₩1,124,865     | ₩ 346,458                |

As the realizability of future tax effects on temporary differences and operating loss carry forward cannot be assured, the Company does not recognize the tax benefits from operating loss carry forward and accumulated temporary differences.

The maturities of the future tax effects of temporary differences and operating loss carry forward that were not recognized as deferred tax assets are as follow :

|  | Millions of Won           |                     |           |
|--|---------------------------|---------------------|-----------|
|  | Temporary Difference, etc | Deferred Tax Assets | Maturity  |
| Deferred tax assets from temporary difference              | ₩ 53,220                  | ₩ 16,392            |           |
| Deferred tax assets from undisposed accumulated<br>Deficit |                           |                     |           |
| - 1998.3.31  | 34,748                    | 10,702              | 2003.3.31 |
| - 2000.3.31  | 398,874                   | 122,853             | 2005.3.31 |
| - 2001.3.31  | 638,023                   | 196,511             | 2006.3.31 |
|  | 1,071,645                 | 330,066             |           |
|  | ₩ 1,124,865               | ₩ 346,458           |           |

## 26. Related Party Transactions ●●●

Significant transactions with related parties for the year ended 31 March, 2001 are summarized as follows :

|                                  | Dividends | Income | Commissions Received | RentallIncome | Survey & Research cost | Other Commissions | Millions of Won |
|----------------------------------|-----------|--------|----------------------|---------------|------------------------|-------------------|-----------------|
| Daewoo Capital Management        | ₩ -       |        | ₩ -                  | ₩ 79          |                        | ₩ -               | ₩ -             |
| Seoul Investment Trust Co., Ltd. | -         |        | 49,647               | -             | -                      | -                 | -               |
| Daewoo Bank (Hungary)            | -         |        | 406                  | -             | -                      | -                 | -               |
| Daewoo Sec.(Europe)              | 5,026     |        | -                    | -             | -                      | -                 | 290             |
| Daewoo Sec.(America)             | -         |        | -                    | -             | -                      | -                 | 532             |
| Daewoo Sec.(Hong Kong)           | 6,547     |        | -                    | -             | -                      | -                 | 881             |
| Uz Daewoo Bank                   | 258       |        | 159                  | -             | -                      | -                 | -               |
| Daewoo Bank(Romania)             | 3,022     |        | 418                  | -             | -                      | -                 | -               |

In this fiscal year, the Company issued the 22nd convertible debenture amounting to ₩250,000 million (annual interest rate is 6.5%) and the 23rd subordinate debenture amounting to ₩200,000 million (annual interest rate is averaged MMDA annual rate plus 3%) to the major shareholder of the Company, Korea Development Bank.

The Company has made a contract with the Korea Development bank on Currency Forward amounting to \$43,000,000 for hedging the risk of exchange rate fluctuations. At March 31, 2001 the remaining of forward contract is \$3,000,000 (Exercise price : 1,118.3 ₩/\$).

## 27. Earnings Per Share ●●●

Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the year ended March 31, 2001. Ordinary income per share is computed by dividing ordinary income, after adjustment of extraordinary gains or losses and related income taxes, by the weighted average number of common shares outstanding for the year ended March 31, 2001.

Ordinary income per share and income per share for the year ended March 31, 2001 are calculated as follows :

|  | Korean Won       |
|--|------------------|
| Ordinary income as reported on the statement of income | ₩ 61,220,844,015 |
| Weighted average number of common shares outstanding   | 148,881,854      |
| Ordinary income per share                              | ₩ 411            |

|  | Korean Won       |
|--|------------------|
| Net income   | ₩ 60,480,644,546 |
| Weighted average number of common shares outstanding | 148,881,854      |
| Income per share                                     | ₩ 406            |

Convertible bonds and debentures with stock purchase options, which may be converted into the Company's common stock, have no dilution effect. Accordingly, diluted income per share is not presented.

## 28. Guarantees of Indebtedness ●●●

At March 31, 2001, guarantees of indebtedness of offshore fund provided by the Company are as follows :

|                         | Maturity   | Guarantee Limit | Guarantee Amount |
|-------------------------|------------|-----------------|------------------|
| Pacific Growth Inv.     | 2001-10-10 | US\$ 52,000,000 | US\$ 52,000,000  |
| Emerging Portfolio Inv. | 2001-09-04 | 40,000,000      | 40,000,000       |
|                         |            | US\$ 92,000,000 | US\$ 92,000,000  |

## 29. Offshore Funds ●●●

At March 31, 2001, offshore funds of the Company are as follows :

| Fund name                    | Location | Net Asset Value | Total Borrowings | Money Invested by the Company | Net asset value (the Company's proportion) |
|------------------------------|----------|-----------------|------------------|-------------------------------|--|
| Optimal Access Inv. Malaysia |          | US\$10,773,036  | US\$121,472,987  | US\$ 3,305,755                | US\$ 7,539,320                             |

The Optimal Access Inv. has three subsidiary funds including Capital Balanced Fund.

# | Report of Independent Accountants |

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

We have audited the accompanying balance sheets of Daewoo Securities Co., Ltd. as of March 31, 2001 and 2000, and the related statements of operations, appropriations of retained earnings (disposition of accumulated deficit) 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 financial statements referred to above present fairly, in all material respects, the financial position of Daewoo Securities Co., Ltd. as of March 31, 2001 and 2000, and the result of its operations, the changes in its retained earnings (accumulated deficit) and its cash flows for the years then ended, in accordance with financial accounting standards generally accepted in the Republic of Korea.

Pursuant to resolutions of the board of directors on March 31, 2000, and May 2, 2000 regarding issuance of common stocks for cash and assignment of unsubscribed common stocks to a 3rd party, Korea Development Bank (KDB) became the major shareholder of the Company by acquiring all the unsubscribed common stock representing 20.80% of ownership. Through additional acquisition of stocks, KDB has 22.91% of ownership as of March 31, 2001.

As described in Note 14, in 1999 the Company accepted a ₩200,000 million note receivable from the Daewoo Group of companies (Daewoo Group) and in turn issued a ₩200,000 million note to Daehan Investment Trust Management & Securities Co., Ltd. (DITS). The proceeds from the note were passed from DITS to the Daewoo Group through the Company. The Daewoo Group has since defaulted on the notes to the Company and the Company has established a ₩70,000 million reserve against the balance. The Company filed lawsuits for provisional arrangement to prohibit DITS from exercising its rights on the note issued by the Company, as the Company was intended to serve as only bridge in relation to call loans from DITS to the Daewoo Group. The ultimate losses on such notes and call loan will be determined as a result of the workout plans for the Daewoo Group and the related court decision.

As described in Note 19, 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 the right of claiming performance of an obligation. On April 4, 2001, the Company filed a suit against Korea Investment Trust Management & Securities Company and Hyundai Investment Trust & Securities Co., Ltd. as a claim for compensation. The ultimate outcome of the case cannot presently be determined and accordingly, no adjustment has been made in the accompanying financial statements.

As described in Note 6, the Company has sold beneficiary certificates containing bonds of the Daewoo Group. The Company has repurchased such beneficiary certificates from customers after the Daewoo

Group's bankruptcy in accordance with the measures prepared by the Korean Financial Supervisory Commission and has retained those repurchased beneficiary certificate amounting ₩641,930 million as of March 31, 2001. These securities are recorded on the balance sheet date at the prices which were announced by investment trust management companies and funds managers. In determining these prices, the non-guaranteed bonds issued by the Daewoo Group are devalued by 60%-70%, the same rates applied by Korean Assets Management Corporation for other previous cases of 2000 in taking over similar bonds. The Daewoo Group bonds which are guaranteed by Seoul Guarantee Insurance, which is also experiencing financial difficulties, are currently classified as normal based on the fact that Korea Deposit Insurance Corporation has approved ₩ 5,600 billion of governmental support funds to Seoul Guarantee Insurance. Certain other debt securities were valued at book value, which is the acquisition cost plus accrued interest, according to the Additional Clause of Trust Business Act. As such, the final amounts realizable from the beneficiary certificate will vary depending on the future economic condition in Korea, the rate of recovery of the Daewoo Group, the normalization of Seoul Guarantee Insurance and the future difference between the fair value and book value of the other debts securities. The accompanying financial statements do not include any adjustments related to such uncertainties.

As described in Note 19, the Company has been repurchasing beneficiary certificates containing Daewoo Group bonds, based on the measures for repurchasing prepared by the Korean Financial Supervisory Commission as mentioned earlier. In repurchasing the beneficiary certificates, the Company has treated differently general customers from qualified financial institutions. Basically, the Company has indemnified the general customers for whole loss, net of certain amounts as calculated with different ratio depending on the repurchasing timing in accordance with the above-mentioned measures. However, the Company has not applied these schemes to qualified financial institutions alleging that they should bear their loss, thus certain financial institutions disagreeing with the Company have filed suits against the Company amounting to ₩387,900 million. As of the reporting date, the ultimate outcome of the litigation is uncertain, accordingly accompanying financial statements do not include any adjustments related to such uncertainties

Without qualifying our opinion, we draw attention to Note 19 of the financial statements. The operations of the Company have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these significant uncertainties on the financial position of the Company as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements related to such uncertainties.

The amounts expressed in U.S. Dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying financial statements.

The accompanying financial statements are not intended to present the financial position, result of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. The standards, procedures and practices utilized to audit such financial statements are those generally accepted and applied in the Republic of Korea.

Seoul, Korea  
April 30, 2001



# Board of Directors



**Jong-Soo Park**  
President & CEO



**Sung-Hwan Chung**  
Standing Auditor



**Haeng-Min Kim**  
Advisor to Haansoft,  
Trustee in Bankruptcy, Jangeun Securities



**Hak-Jin Lee**  
Former Managing Director,  
Nam Kwang Construction



**Kwan-Ho Song**  
Managing Director,  
Korea Internet Information Center



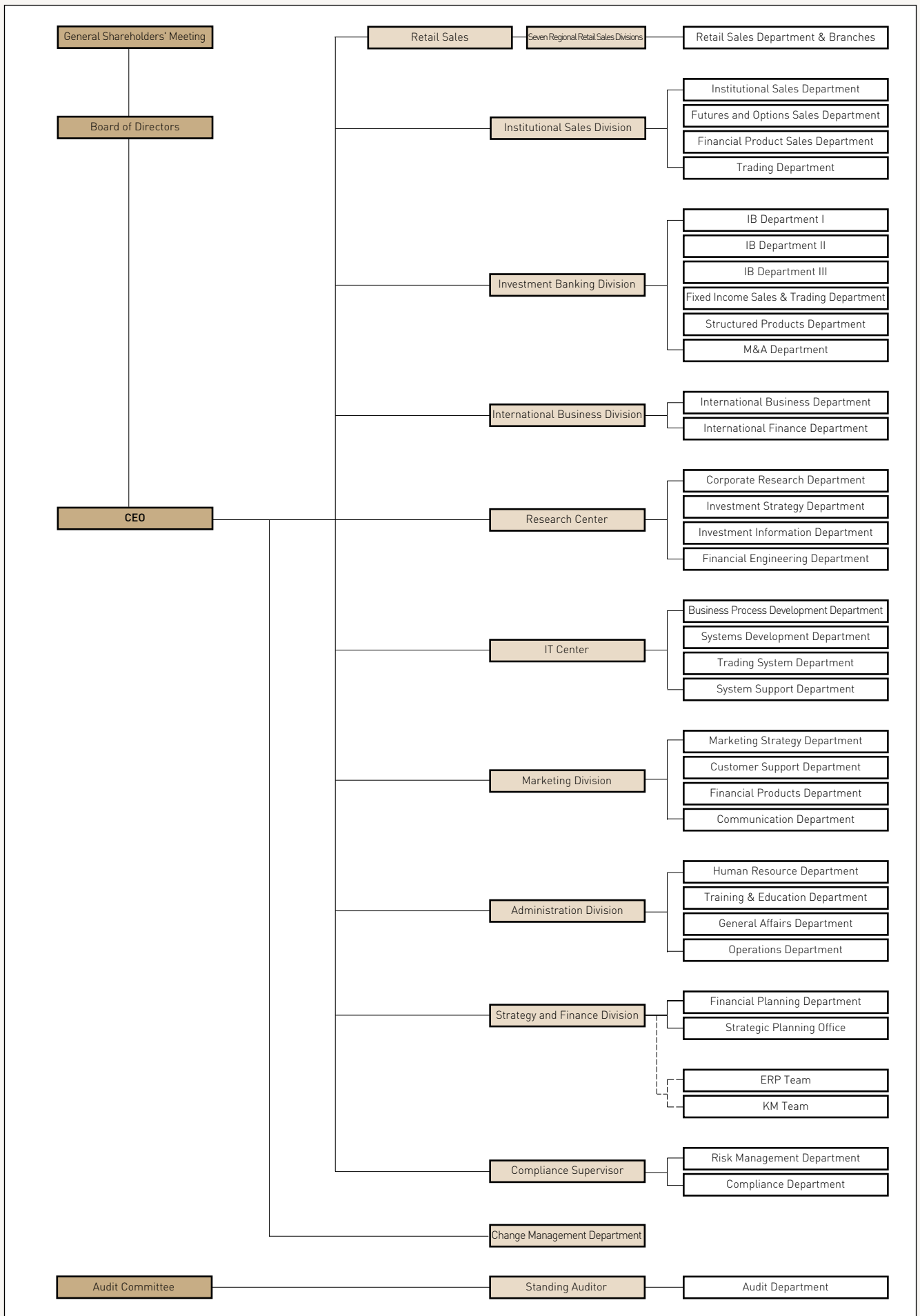
**Shi-Ryong Park**  
Editor-in-Chief,  
Seoul Economic Daily



**Kyung-Suh Park**  
Professor of Business Administration,  
Korea University



# Organization Chart



## Parent Company/Subsidiary and Corporate Consolidation

Parent Company: Not Applicable

### Subsidiaries

| Company                            | Business Location    | Capital     | Main Business       | No. of Shares Owned | Ownership Ratio(%) |
|------------------------------------|----------------------|-------------|---------------------|---------------------|--------------------|
| Daewoo Securities (America) Inc.   | New York, US         | 12mIn USD   | Securities          | 12,000              | 100.0%             |
| Daewoo Securities (Europe) Ltd.    | London, UK           | 18.4mIn USD | Securities          | 18,364,700          | 100.0%             |
| Daewoo Securities (Hong Kong) Ltd. | Hong Kong            | 10mIn USD   | Securities          | 10,000,000          | 100.0%             |
| Daewoo Bank (Hungary) Ltd.         | Budapest, Hungary    | 46.9bIn HUF | Banking             | 468,680             | 100.0%             |
| Daewoo Bank (Romania) S.A.         | Bucharest, Romania   | 22.7mIn USD | Banking             | 5,657,868           | 99.9%              |
| UzDaewoo Bank                      | Tashkent, Uzbekistan | 10mIn USD   | Banking             | 5,500               | 55.0%              |
| Seoul Investment Trust Management  | Youido, Seoul        | 13.9bIn KRW | Investment Trust    | 2,274,596           | 81.9%              |
| Daewoo Capital Management Ltd.     | Youido, Seoul        | 5bIn KRW    | Investment Advisory | 999,964             | 99.9%              |

Corporate consolidation: Not Applicable

## International Network

| Company                               | Address  | Telephone No.    |
|---------------------------------------|--|------------------|
| Daewoo Securities(America)Inc.        | 101 East 52 nd Street, Manhattan Tower, 28th Floor, NewYork, NY 10022, U.S.A.              | 1-212-407-1000   |
| Daewoo Securities(Europe)Ltd.         | 41st Fl., Tower42, 25 Old Broad Street London EC2N 1HQ,U.K.                                | 44-207-982-8000  |
| DaewooSecurities(HongKong)Ltd.        | Suite 1711-1714, Jardine House, 1 Cannaught Place, Central, H.K., China                    | 852-2845-6332    |
| Daewoo Securities Tokyo Branch Office | Kyokuyo Bldg. 6th Fl., 2-8-11, Nihonbashi Chuo-Ku, Tokyo 103-0027, Japan                   | 81-33-242-2451   |
| Daewoo Bank (Hungary)Ltd.             | Bajcsy-Zsilnszky ut 42-46 1054 Budapest, Hungary   | 36-1-3749-911    |
| Daewoo Bank(Romania)S.A.              | International Business Center, 1st Floor, 34-36. Blvd. Carol I, Sector2 Bucharest, Romania | 40-1-250-5711    |
| UzDaewoo Bank                         | 1 Pushkin Street. Tashkent, 700000, Uzbekistan   | 7-99871-1-320640 |
| Daewoo Securities Zurich Rep. Office  | Gessnerallee28, CH-8001, Zurich, Switzerland   | 41-1-212-2500    |
| Daewoo Securities Shanghai Rep.Office | Room 10-C2, Jiushi Fuxin Mansion No.918, HuaiHai Zhong Road, Shanghai, P.R.C 200020        | 86-21-6415-5861  |

