

# Navigating New Waters

ANNUAL REPORT 2006



 Daishin Securities

# Corporate Profile



Daishin Securities has been at the forefront of the Korean securities industry since its establishment in 1962.

Daishin has effectively navigated its way through rapid changes in the financial environment and intense competition. We have built a strong foundation based upon prudent risk management and emphasis on profitability and transparency.

The pending adoption of the Capital Market Consolidation Act implies sweeping changes for the securities sector. With a forward-looking stance, Daishin has been preparing to rise as a globally competitive investment bank in a new financial landscape.

Daishin strives to create value and satisfaction for our shareholders, clients, our employees, and the wider community. We constantly pursue change and innovation to hone our capabilities and reinforce our position as a leading financial services provider.

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# History



- 1962 Jul. 27 Established as Sam-Lark Securities
- 1968 Jul. 8 Renamed Chung-Bo Securities
- 1975 Apr. 22 Renamed Daishin Securities
- Oct. 1 Listed on Korea Stock Exchange (now Korea Exchange)
- 1984 Aug. 25 Established Tokyo Representative Office
- Sep. 22 Established Daishin Economic Research Institute
- 1985 Mar. 6 Forged capital alliance with W.I.C.O., Hong Kong
- Apr. 12 Forged capital alliance with Yamaichi Securities, Japan
- May 28 Relocated headquarters to Youido, Seoul
- 1988 Mar. 24 Established Daishin Investment Consulting Co.
- 1991 Nov. 11 Established Hong Kong Representative Office
- 1996 Jul. 1 Name of Daishin Investment Consulting Co. changed to Daishin Investment Trust Management Co.
- Nov. 23 Introduced Korea's first "One Card System"
- 1997 Apr. 12 Launched home trading system (CYBOS DOS version)
- 1998 Jun. 9 Introduced Internet trading, the first to do so among large brokers
- 1999 Aug. 31 Capital increase (new share issue via third party placement)  
- strategic alliance with Sumitomo Life Insurance, Japan
- Nov. 3 Capital increase (rights offering)
- 2002 Sep. 16 Retired 200,000 common shares of treasury stock
- 2003 Jul. 21 Selected as component of KODI (Korea Stock Price Dividend Index, an index of 50 component stocks)
- Sep. 4 Registered as insurance sales agent financial institution
- Dec. 1 Selected as a component of KOGI (Korea Corporate Governance Stock Price Index) Corporate Governance Index
- Dec. 26 Disaffiliated with Daishin Life Insurance following the insurer's bankruptcy
- 2004 Mar. 10 Received Good Compliance Member Award given by Korea Exchange
- Jun. 3 Recognized for outstanding corporate governance by the Korea Exchange
- Jun. 23 Registered to engage in investment advisory business
- 2005 Feb. 25 Received approval to deal in OTC derivatives products
- Sep. 26 Roadshows (in major US cities including New York)
- Dec. 9 Received approval to engage in trust business
- Dec. 9 Registered to engage in retirement pension business
- Dec. 17 Capital increase (new share issue via third party placement)  
- strategic alliance with SPARX Asset Management, Japan

# Financial Highlights

For the years ended on March 31, 2006 and 2005

	Millions of Korean Won		Thousands of U.S. Dollars	
	FY05 March 2006	FY04 March 2005	FY05 March 2006	FY04 March 2005
Operating revenues	₩ 617,476	₩ 345,771	\$ 632,724	\$ 337,568
Operating expenses	400,226	282,993	410,109	276,279
Operating income	217,250	62,778	222,615	61,289
Ordinary income	215,089	58,742	220,400	57,348
Net income	157,380	41,231	161,266	40,253
Total assets	3,868,567	2,466,782	3,964,101	2,408,262
Total liabilities	2,416,659	1,168,122	2,476,339	1,140,410
Total shareholders' equity	1,451,908	1,298,660	1,487,763	1,267,852
Earnings per Share (KRW and US\$)	2,165	556	2.22	0.54

**NOTE:** Translated into U.S. Dollars at rate of ₩ 975.90/USD and ₩ 1,024.30/USD, respectively, the prevailing rates on March 31, 2006 and March 31, 2005.

## Awards & Highlights



### Listing of Kumho Tire

Daishin Securities served as domestic lead manager for the dual listing of Kumho Tire in the Korean and London stock exchanges

Feb. 17, 2005



### Daishin Securities declares "Management built on trust"

Pursuit of "Management built on trust" through change and innovation - strengthening wealth management and realignment of earning structure

Apr. 1, 2005



### Daishin Securities and Daishin Investment Trust Management forge cooperation with IBTS of Taiwan

Cooperation with Taiwan's IBTS (Industrial Bank of Taiwan Securities) for mutual brokerage of securities and sale of DITM's financial products to Taiwanese investors

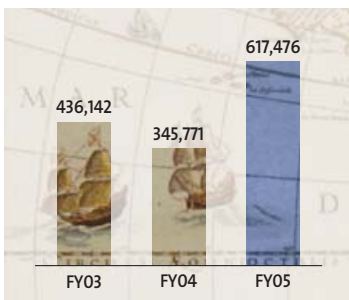
Apr. 13, 2005



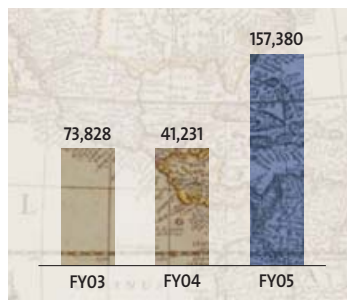
### Received Grand Prize in 2005 Brand Awards sponsored by Korea Customers' Forum and Korea Economic Daily (awarded 3 years in a row)

Oct. 27, 2005

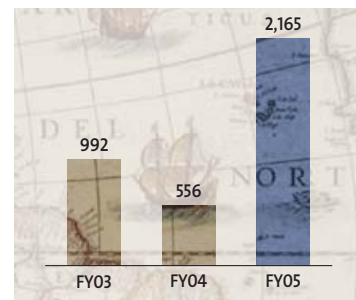
**Operating Revenues**  
(Millions of KRW)



**Net Income**  
(Millions of KRW)



**Earnings per Share**  
(KRW)



Received top prize in customer satisfaction category at 2<sup>nd</sup> Korea Securities Awards sponsored by Seoul Economic Daily

Nov. 9, 2005



SPARX Asset Management of Japan invests in Daishin Securities

Equity investment of KRW 40.2 billion through private placement, the strategic alliance to contribute to enhancing competitiveness

Dec. 17, 2005



Export of CYBOS futures trading system to Thailand

Export deal worth USD 1 million with Settrade, a subsidiary of the Thailand Stock Exchange; marks global expansion of Daishin's e-trading program

Dec. 13, 2005



Received Outstanding Structured Finance Award at 3<sup>rd</sup> Korea IB Awards sponsored by Money Today

Recognized for raising private sector funds for regional government with ABS under BLT (Build Lease Transfer)

Apr. 18, 2006

# Letter to Shareholders



## To our respected shareholders,

Stock exchanges across the globe braved numerous difficulties and opened a new chapter in fiscal year 2005. Although oil and commodity prices surged to unprecedented highs, the major markets trended upward thanks to improving corporate earnings and growth in China and other emerging economies. The local bourse rose to a record high, with the KOSPI setting a new record, powered by expectations for a recovery in domestic demand, abundant liquidity and expanding indirect investments.

Along with deregulation, we are witnessing a growing tendency for synchronization and convergence of global financial markets. Accordingly, world-leading financial services firms armed with advanced investment techniques are strengthening their presence in Korea. In addition to meeting that challenge, the domestic securities industry has to respond to increasingly diverse and complex client demands.

To continue evolving in the multifaceted environment, Daishin Securities has maintained a proactive stance, always preparing ahead and embracing challenges to keep pace with constant change. We are making every effort to uphold our position as a leading financial services provider and to reinforce our capabilities to compete effectively on the world stage.

Fiscal 2005 was a meaningful year for Daishin Securities. Our emphasis on profitability and transparency over the past several years started to bear visible results, and we recaptured our position and confidence. We enhanced our standing with the international investor community through roadshows held in New York and other major cities in the US. We also bolstered our global competitiveness by forging a strategic alliance with SPARX Asset Management of Japan, the country's largest independent asset management company.

Furthermore, we paved the way for the generation of new revenue streams through entry into the trust business and retirement pension market. We also strengthened the foundation for our wealth management business by nurturing our "Rich Making Fund" as our representative fund offering.

Our brokerage operations showed a clear recovery from the second half of the year, lifted by company-wide efforts to restore Daishin Securities' status as one of the top-tier firms in the industry. Fiscal 2005 was also significant in that we exceeded our net profit target for the first time in six years, having last beaten our target in fiscal 1999.

Daishin Securities stayed true to its promise of returning wealth to shareholders in fiscal 2005. We distributed total dividends of KRW 74.9 billion, equivalent to 48% of net income for the year. Dividend per share was KRW 1,000 for common stock and KRW 1,050 for preferred stock. We are the only major securities firm in Korea to pay out dividends for eight consecutive years.

Guided by our profit-oriented approach, Daishin Securities will continue to strive to maximize value for our shareholders. We are aiming to realize the highest levels of earnings and dividends in the industry in fiscal year 2006.

The year ahead will be an important one for Daishin. The industry is poised to undergo a major realignment ahead of the adoption of the Capital Market Consolidation Act. A key theme in the industry appears to be expansion, driven by mergers and acquisitions or strategic alliances. We also expect to see greater specialization, depending on the survival and growth strategy of each company.

The Capital Market Consolidation Act will open up a new financial landscape and competition is increasing. At this juncture, we feel it is imperative that we concentrate our energy on laying the foundation to evolve into a mega investment bank. With that in mind, our management target for fiscal year 2006 is "the take-off of Daishin, and growing with our people." Our aim is to harness Daishin's dynamic and persevering strengths and for all Daishin people to strive in unison to reach our goal.

To realize our management target, we have decided on three initiatives based on internal factors, customer service, and external factors. We aspire to creating: 1) a leading company, 2) a serving company, and 3) a strong company.

Everyone at Daishin Securities will direct their energy to ensure that we achieve our goals in the year ahead. We are firmly committed to growing together with our clients and shareholders and to growing Daishin into Korea's premier investment bank.

In closing, I would like to, once again, thank our shareholders for standing behind us over the years. I look forward to creating another meaningful and rewarding year with all of our stakeholders.

Thank you.

**Auh-Ryung Lee**  
Chairman  
Daishin Securities



# Interview with the CEO

## **Q1. The securities industry will face new challenges when the Capital Market Consolidation Act takes effect in 2008. What is Daishin Securities' growth strategy for the future?**

Investment banking and wealth management should be the major source of future earnings. Our strategy is to reinforce the two businesses to grow into a mega investment bank that is competitive in the global arena. While nurturing investment banking (IB) as a growth driver, we will also maximize efficiency of principal investments to build a sturdy long-term profit base.

Going beyond our existing scope in investment banking (eg, IPO, underwriting), we will promote real estate finance, private equity, over-the-counter derivatives, overseas investments, and products based on real assets with a mid/long-term perspective. Our plan is to hone our competitive edge in investment banking and principal investment, which amounts to KRW 1.4 trillion. To that end, we made some organizational changes as of April 1, 2006. The IB Business Group now has an expanded business scope, while the Treasury & Trading Group has been reorganized into the Capital Market Group.

In order to achieve balanced growth, we will also invest more to foster our wealth management business. Through the ongoing implementation of the "7030 project," we are aiming to derive 30% of our operating revenue from wealth management within the next three years, which should give us a stable profit base. We are drawing up plans to apply our strengths in the brokerage segment to newly create a 'Wealth Management Group.' We intend to start out by nurturing four key wealth management branches and then pursue branch expansion in phases. We will also invest to develop and promote our wealth management brand.

## **Q2. Daishin Securities has been pursuing ties with overseas capital, including an alliance with a Japanese firm. What are the anticipated effects of such alliances?**

The pending adoption of the Capital Market Consolidation Act is heightening interest in the strategy of pursuing growth through expansion. Such a move is important for domestic securities firms, as they have a smaller capital base compared to the major foreign players. However, Daishin Securities places equal emphasis on pursuing qualitative growth via capital alliance. We intend to set up a solid framework for cooperation through equity participation by prominent financial service providers abroad. Through sustained collaboration, we expect to become more competitive in the domestic capital markets and grow into a premier investment bank.

Last year, Daishin Securities forged a strategic alliance with SPARX Asset Management of Japan, the country's largest independent asset management company. Under the arrangement, Daishin attracted an investment of KRW 40.2 billion from SPARX last December. The SPARX Group has been growing at a rapid pace since its establishment in 1989. The Group comprises 13 affiliates and has superior capabilities in asset management and product development. Given those qualities, we believe SPARX will be a good partner as Daishin is seeking to expand its wealth management operations.

## **Q3. Daishin Securities has fortified its brokerage business, with market share on the rise from last year. Aside from marketing, what is your point of focus?**

With competition set to intensify between securities firms, we believe it is crucial to foster highly competent personnel and enhance service quality to raise customer loyalty.

There is a saying that goes "the securities business starts and ends with people." That is, recruiting and keeping top talent is a vital task for a securities company. Daishin is fully aware of the need for training and has adopted various training programs and invested substantially in this area. Last year, we started offering the "Daishin Academy" program to all employees. We provide a wide range of training support in numerous areas such as wealth management, marketing and languages so that our people can exploit their full potential.





*Daishin Securities CEO & President* **Chung-Nam Roh**

Daishin has also been striving for customer service innovation, which is one of our mid-term strategic initiatives. In April, we proclaimed our “customer service charter, vision and slogan” and pledged to faithfully implement the charter and realize our objectives.

We plan to introduce a “customer evaluation system” whereby a selected pool of clients assess the services offered at our branches. Another new adoption is the “onsite monitoring” scheme under which monitoring agents are designated by region who visit the branches to evaluate service quality. We have also drawn up a “standard manual” with guidelines on how to respond to customers, telephone manners and other matters related to best serving the customer. Daishin is constantly seeking ways to provide top quality service to our clients.

#### **Q4. Comment on Daishin's policy for enhancing shareholder value.**

Daishin Securities upholds a shareholder-oriented policy. We distributed dividend per share of KRW 1,000 on common stock and KRW 1,050 on preferred stock, becoming the only major securities firm in Korea to pay out cash dividends for eight years in a row.

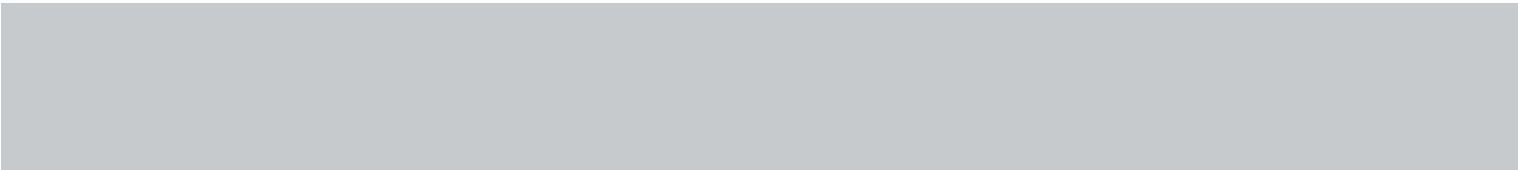
Moreover, Daishin Securities is the only local securities company to be included in both the Korea Dividend Stock Price Index (KODI) and the Korea Corporate Governance Stock Price Index (KOGI). That attests to our superior corporate governance and our commitment to returning wealth to shareholders.

We continue to implement measures to enhance shareholder value, including the distribution of dividends. Also, we will proceed with IR activities for domestic and overseas investors to remove factors for discount valuation and ensure that Daishin Securities is fairly valued in the market.



# SETTING THE PACE

## IN AN EVER-CHANGING ENVIRONMENT





// Pursuing a clear path to  
untapped source of wealth //

We have drawn up a mid/long term strategy in preparation for the changes that lie ahead.  
Our objective is to evolve into a mega investment bank equipped with the competencies to compete  
at the global level.



# Towards becoming the best investment bank



Introduction of the Capital Market Consolidation Act will bring fundamental changes to the securities industry. It will give rise to investment banks whose reach will extend to all segments of the financial markets, from securities and futures to asset management and investment trust. Not only that, the law will set forth a new definition of financial products and investment banks will be allowed to offer payment settlement services. In sum, the new law will pave the way for the development of a wide range of innovative financial products, thereby advancing the local capital markets.

Daishin Securities has drawn up a mid/long term strategy in preparation for the changes that lie ahead. Our objective is to evolve into a mega investment bank equipped with the competencies to compete at the global level.

**First** of all, we will reinforce our wealth management business. We aim to achieve balanced growth between wealth management and brokerage to build a strong foundation for future growth. The wealth management market is growing rapidly as individuals are increasingly shifting from direct investments to indirect investments. In view of this trend, our target is to derive 30% of operating revenues from wealth management within the next three years. Currently, the biggest source of our operating revenues is brokerage. Daishin is actively pursuing the “7030 Project” as a means of diversifying revenues and achieving balanced growth.

We are increasing our investments, in monetary and personnel terms, to nurture wealth management. For one, we recently set up the Wealth Management Group. Daishin will harness the strengths in its brokerage segment to nurture the wealth management business while stepping up marketing efforts with the expansion of key branches. Last February, Daishin signed a memorandum of understanding (MOU) for a strategic alliance with SPARX Asset Management of Japan, the largest standalone asset management firm in the country. We are also bringing in experts to enhance our wealth management services.

As part of efforts to gain credibility in the market, we work relentlessly to produce high returns on financial products. We have secured a pool of skilled personnel who have in-depth knowledge on financial products. Deploying the right people in the right place is an important way in which Daishin enhances customer returns.

**Second**, we will actively expand into investment banking, an area we plan to foster as a future growth driver. At the same time, we will maximize efficiency of principal investments to build up our long-term profit base. In addition to our existing activities in investment banking (eg, IPO, underwriting), we will promote real estate finance, private equity, over-the-counter (OTC) derivatives, overseas investments, and products based on real assets with a mid/long-term perspective. We will also strengthen our competitiveness in principal investment, which amounts to KRW 1.4 trillion.

We made some organizational changes as of April 1, 2006. The IB Business Group now has an expanded business scope, while the Treasury & Trading Group has been reorganized into the Capital Market Group. We are working to build a strong infrastructure, including a sufficient pool of professionals and capital base.

Daishin Securities received approval to engage in the OTC derivatives business from the Financial Supervisory Service in early 2005. Since then, we have been channeling our efforts to develop new products and create new demand. We issued ELS (equity-linked securities) of KRW 777 billion and ELW (equity-linked warrant) of KRW 68 billion in fiscal year 2005, far surpassing our internal targets. In April alone, the first month of fiscal 2006, our ELS issuance topped KRW 130 billion,

and we anticipate sustained growth in this area. For fiscal 2006, our target is to issue ELS of KRW 1.3 trillion and ELW of KRW 500 billion. We are working to expand our sales network and ELS for hedging and to create the foundation for our own ELW operations.

Adding to the existing equity and bond divisions, the Capital Market (CM) Group set up an alternative investment division to bolster returns on principal investment. The CM Group is responsible for managing the company's proprietary assets. With market volatility expected to heighten, we are enhancing asset and risk management strategies through prompt and effective market response. To maintain our high level of performance in 2006, we will actively utilize alternative investments. We also constantly seek new ideas and strategies and carry out direct market surveys to proactively respond to changing market conditions.

**Third,** we will reinforce our brokerage segment, which has been our traditional area of strength. Daishin has recovered its status as a major presence in the brokerage market. Our share of the brokerage market had dipped to 4% at one point as investors shied away from equities and online brokers aggressively made inroads. However, our market share rose to 6.65% after we launched the "Turn4565" campaign in the second half of last year. As an extension of "Turn4565," Daishin is preparing additional measures to identify new customers, develop a user-friendly investment system, and enhance customer services. In doing so, we expect to accelerate our recovery in the brokerage market and claim the leadership position while maximizing profits.

In relation to brokerage, we will concentrate on bolstering our performance in both the retail and wholesale operations. For domestic institutional investors, our emphasis is on increasing market share. While institutional investors are moving to expand in size, demand is growing for indirect investment products and retirement pension. We will implement a flexible strategy to respond effectively to those and other trends in the operating environment.

Turning to our international business, we posted solid growth in international brokerage, generating commission income of KRW 1,076 million on KRW 1 trillion in brokerage volume in fiscal 2005 (vs. KRW 573 billion in volume in the previous year). While the increase in commission income was lower than volume, we also achieved qualitative growth in that we attracted more new clients. We are currently working to win business for equities and derivatives from major private equity funds in the US as well as prominent investors in Hong Kong, Taiwan and Singapore.

A notable development in fiscal 2005 was that we started issuing and underwriting overseas securities, another step in our revenue diversification drive. In the second half of the year, total issuance/underwriting of foreign currency-denominated securities (CB) was USD 27 million (four domestic companies), with the commission on those deals amounting to KRW 657 million. We expect a large increase in underwriting commission in the year ahead based on close relations with existing and new clients.

**Lastly,** we will pursue additional strategic alliances with prominent financial institutions in Korea and abroad. We believe such partnerships will serve to broaden our network in various areas and help us gain advanced know-how via personnel exchanges. Strategic alliances should help us prepare for the Capital Market Consolidation Act, to be effective from 2008, and grow into a globally competitive "best investment bank."



// Providing high-quality  
and low-risk financial services //

To meet the growing need for knowledgeable employees and to ready itself for continued deregulations, Daishin operates diverse programs for human resources development while striving to ensure sound asset quality through early recognition and systematic management of potential risks.



A low-angle photograph of a sailboat's white sails and rigging against a bright blue sky with wispy white clouds. A large, semi-transparent white silhouette of a ship's steering wheel is overlaid on the right side of the image. The text 'EXCELLENT IN SATISFYING PERSONAL NEEDS' is centered in the upper half of the image in a white, bold, sans-serif font.

**EXCELLENT IN**  
SATISFYING PERSONAL NEEDS

# Solid Foundation

## I. Fostering Human Resources

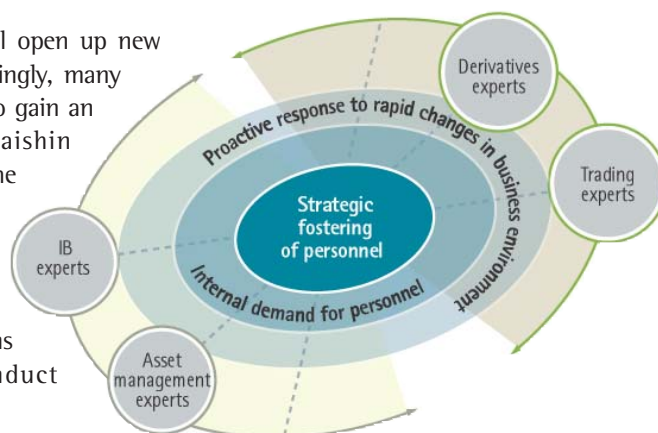
The finance industry values people as key assets and fostering top talents is regarded as one of the most important tasks. To respond proactively to the growing need for knowledgeable employees and to ready itself for the expected introduction of the Capital Market Consolidation Act, Daishin Securities operates diverse programs for human resources development.

### 1. Daishin Academy

The Daishin Academy was launched to expand our existing educational system and learning opportunities, strengthen the capabilities of employees and management, and support personal development so that the people of Daishin Securities can grow into financial experts. The academy currently offers 150 online and offline courses. Among others, there are courses for fostering branch personnel and professional financial experts, training in asset management, and sessions designed to increase capabilities at each level of our organization. For efficient operations of the Academy and to encourage employee participation, we have a credit system which designates the amount of credits that must be earned and a credit mileage scheme.

### 2. Internal/external training courses

The Capital Market Consolidation Act will open up new business areas for securities firms. Accordingly, many experts in diverse sectors will be needed to gain an early lead. To meet this demand, Daishin Securities is making efforts to further the capabilities of its own people in addition to hiring qualified personnel. The company is operating various in-house professional training courses and is also sending employees to outside institutions for courses that are difficult to conduct internally and are in new business areas.



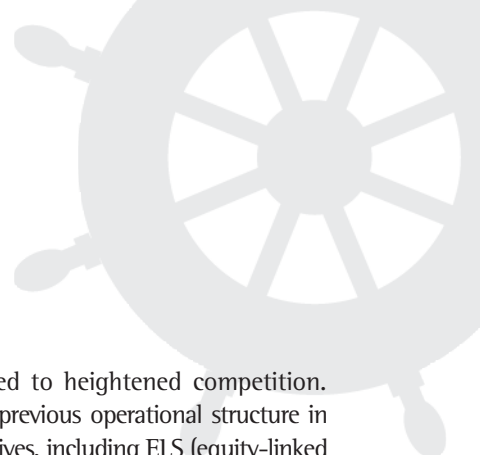
### 3. Support for personal development

To lead the era of knowledge and information, our electronic library provides an ample source of information so that our people can enhance their creativity. The library carries a rich database that can be accessed by all employees at any time and any place.

Daishin Securities also extends support to employees who wish to acquire various certifications. Such support has manifested into our having one of the highest acquisition rates of basic financial certificates (Certified Securities Investment Consultant and Certified Futures Consultant) that are required of securities firm employees. We also actively encourage employees to acquire other financial certifications including FP, CFA, CFP and FRM.

In order to readily respond to changing business environments and client demands, Daishin Securities develops and operates a diverse range of study courses for employees.





## II. Systematic Risk Management

The breaking down of barriers between financial sectors has led to heightened competition. Consolidation of the capital markets will result in a shift from the previous operational structure in which the focus was on brokerage, to new areas such as OTC derivatives, including ELS (equity-linked securities), and alternative investments. On cue, the importance of risk management is also growing. Daishin Securities is striving to ensure sound asset quality and stability through early recognition and systematic management of potential risks.

Having anticipated changes in the financial environment early on, Daishin Securities introduced the EIS (Executive Information System) for the first time in the Korean securities industry in December 1997. From June 2002, we completed installation of the DS-TRIS (Daishin-Total Risk Information System) based on KRM. This has enabled all of our executives to retrieve company data and information in real-time to aid them in their policy decision-making.

We will maintain strict control over credit risk as new investments increase. By continuing to improve upon our integrated risk management system, Daishin Securities will build an advanced risk management structure to effectively deal with the changing business conditions.

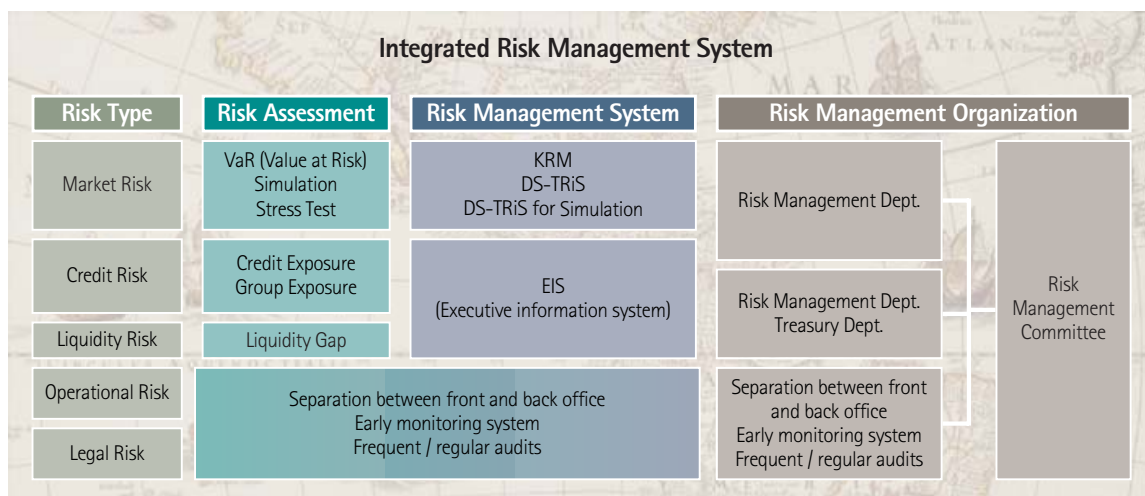
### Risk management organization and policy

The Board of Directors is the highest decision-making body regarding risk management and has overall responsibility to form the organization structure, system, process and corporate culture to manage risk. The BOD entrusts the Risk Management Committee, composed of key management figures, with the task of enforcing risk management policies.

The Risk Management Committee is in charge of managing and monitoring risk-related operations, including approving various risk limits and revisions to related regulations. The committee also oversees and supervises the consolidated risk management system, in addition to establishing measures on how to respond to crisis situations.

We are currently revising our risk management and asset management guidelines in accordance to our expanded business coverage. We will continue to update our risk management system to proactively adapt to the changing environment.

We will also expand performance evaluation that takes risk into consideration and push to establish a corporate culture with heightened risk awareness.



# Solid Foundation

## III. Market-leading Research

Daishin Securities' Research Center is composed of the Corporate Research Dept. and Investment Strategy Dept. The Corporate Research Dept. makes industry forecasts and conducts fundamental analysis to derive investment opinions and determine the fair value of listed stocks. The Investment Strategy Dept. studies charts and technical indicators to analyze mid- to long-term market trends. Reports from the two departments provide insight into market conditions for our brokerage operations and proprietary trading. Recently, we began publishing English reports to better serve international clients. We also plan to harness our research capabilities to strengthen our investment banking and asset management areas to move forward as a leading investment bank.

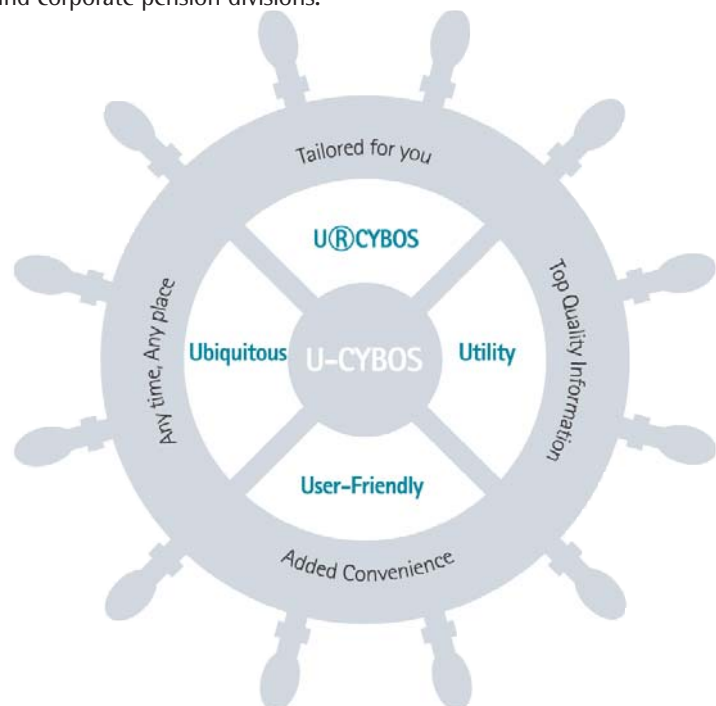
The Research Center is concentrating its efforts on producing reliable, high quality reports as part of its commitment to improving returns for clients. The primary goal is to support the sales departments based on the following four-step plan.

Firstly, the center is taking a proactive approach to reinforce the performance of our branches. This involves holding investment seminars at regional headquarters and providing more information on individual stocks, rather than simple market commentaries. In addition, the center is working to broaden its support system through market broadcasts and instant messenger service.

Secondly, the center presents flexible strategies that allow investors to better respond to market changes. Research into investment themes and current issues facilitate early detection of changing market patterns.

Thirdly, the center aims to maximize returns by discovering undervalued stocks. We have already supplemented our small-cap team to better identify undervalued, small- to mid-sized issues and plan to expand our coverage. Additionally, we provide in-depth analyses on companies and industries for mid- to long-term investment horizons.

Lastly, we are strengthening our support activities for the investment banking business. We are stepping up investment conferences targeting institutional and corporate clients. We also hold biannual investment forums to increase our brand recognition. Our long-term goal is to develop a system in which we can maximize performance by combining the strengths of our institutional brokerage, investment banking, and corporate pension divisions.



## IV. Ubiquitous and CYBOS: U-CYBOS

After introducing the concept of HTS (Home Trading System) in Korea for the first time, Daishin Securities' CYBOS has built up a reputation as the leading online trading program in the industry, setting the standard for HTS. In sum, CYBOS has become synonymous with HTS.

CYBOS was first developed based on Windows 95 in the fall of 1997, a year before online trading took off in Korea. During its infant stage in 1998, CYBOS2000 enabled home trading over the internet. After subsequent upgrades as CYBOS2002 and CYBOS2004, a more advanced version was unveiled at the end of 2004 as U-CYBOS.

U-CYBOS adopts the concept of ubiquitous trading and is a tailored, futuristic ordering system. It represents the best of Daishin's technological capabilities.

### Key strategies for U-CYBOS

#### A. Venturing overseas

In April 2004, Daishin Securities agreed to export its online stock trading technology to Polaris Securities of Taiwan. This was the first deal of its kind to be reached in the securities industry. The service for Polaris Securities clients and employees opened in May 2005. Last December, we signed a contract to provide U-CYBOS consulting services to Settrade.com of Thailand and are currently working on their new system, scheduled to commence in June 2006. Once the system is up and running, it is expected to be utilized by 18 securities firms in Thailand. Over the past five years, 100 securities firms and financial institutions hailing from eight countries have visited Daishin to learn about our software and online trading system. Such interest attests to the widespread recognition of our online trading platform, INFOWAY and U-CYBOS. We are gearing up to introduce our U-CYBOS system to more global clients by introducing it to additional overseas markets including Japan and China.

#### B. Constructing a comprehensive asset management support system

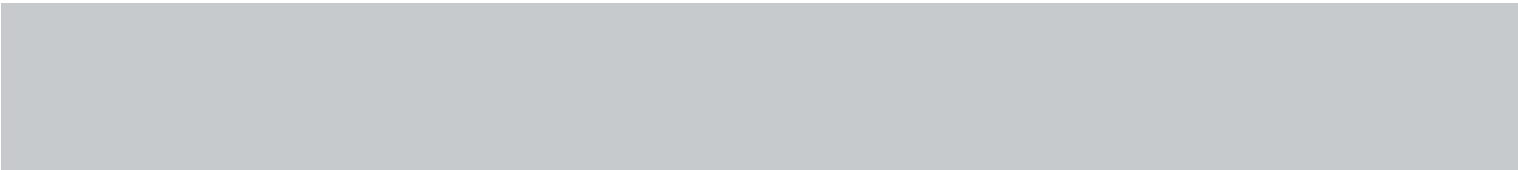
The upgraded 'Comprehensive Asset Manager' function allows our clients to see all of their financial activities inside U-CYBOS on one page. Assets in client accounts are valued in real-time on one screen and can also be transferred by a simple mouse drag and drop. Other plans include providing a system in which capital changes through trading can be grasped with just a click of the mouse.

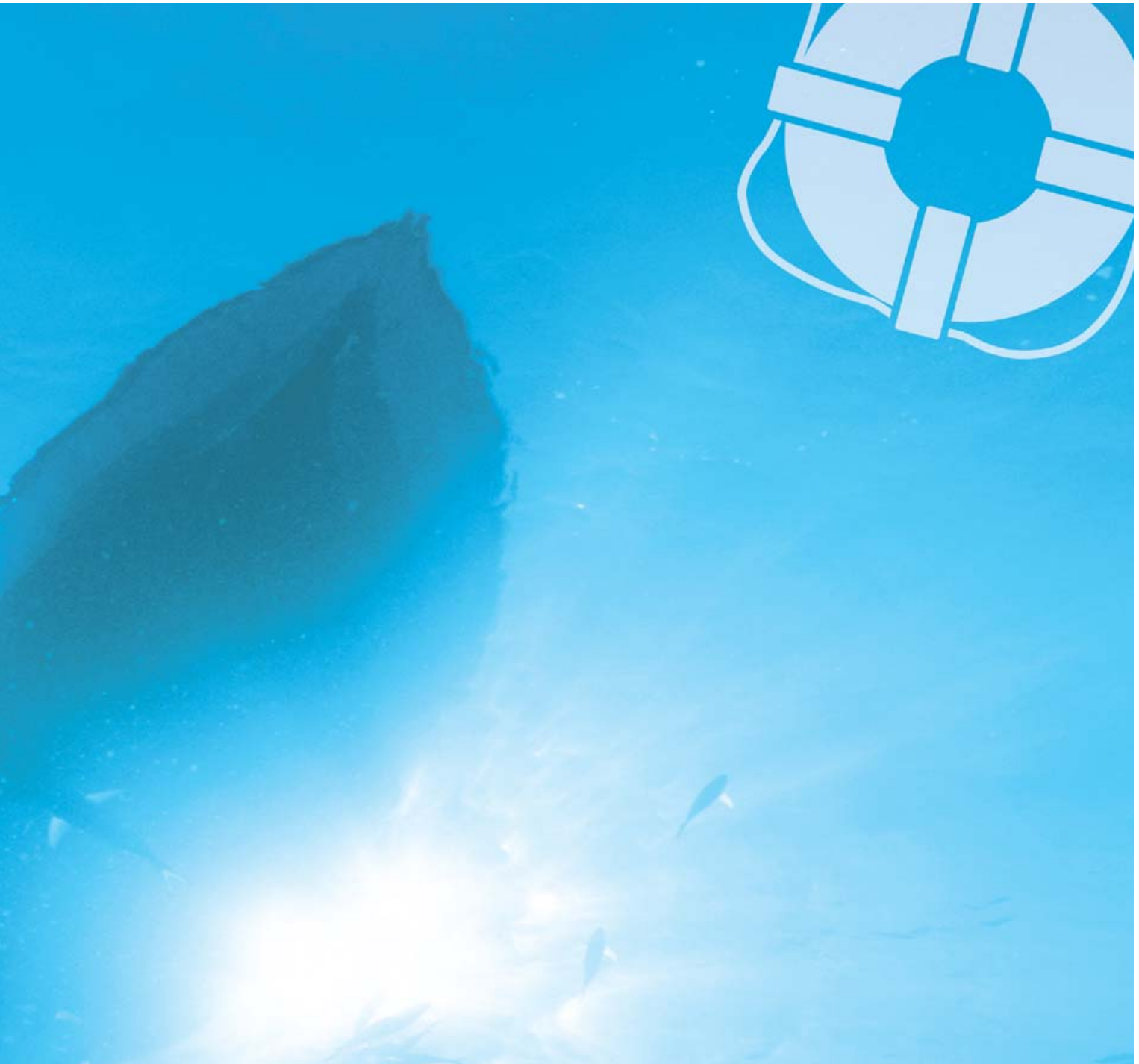
#### C. Building the next-generation system ahead of capital market consolidation

In order to be reborn as a comprehensive investment bank amid the fast-changing landscape of the securities industry, a new infrastructure is urgently required to provide one-stop service for hybrid products. The U-CYBOS system will be upgraded into a next-generation system to provide a diverse range of flexible services that reflect the converging financial environment.

An underwater photograph showing a school of fish swimming in clear blue water. In the background, a coral reef is visible. The text 'RESPONSIBLE LEADERSHIP IN ALL ASPECTS' is overlaid on the image in white, bold, sans-serif font. The word 'IN ALL ASPECTS' is significantly larger and bolder than the other words.

RESPONSIBLE LEADERSHIP  
**IN ALL ASPECTS**





// Growing profits  
while expanding community services //

Through continued pursuit of the highest profitability in the sector, we have prepared the launch pad to become a leading financial services provider, while firmly committed to upholding our policy of returning wealth to shareholders. We also declared our 'Customer service charter, vision and slogan' in 2006.



# Responsible Management

Over the past decade, Daishin Securities navigated its way through sweeping changes in the financial environment and fierce competition in the securities industry. Potential losses that impeded growth have long been eliminated, and we have cemented the foundation for transparency by implementing vigorous risk management and built up a strong profit base.

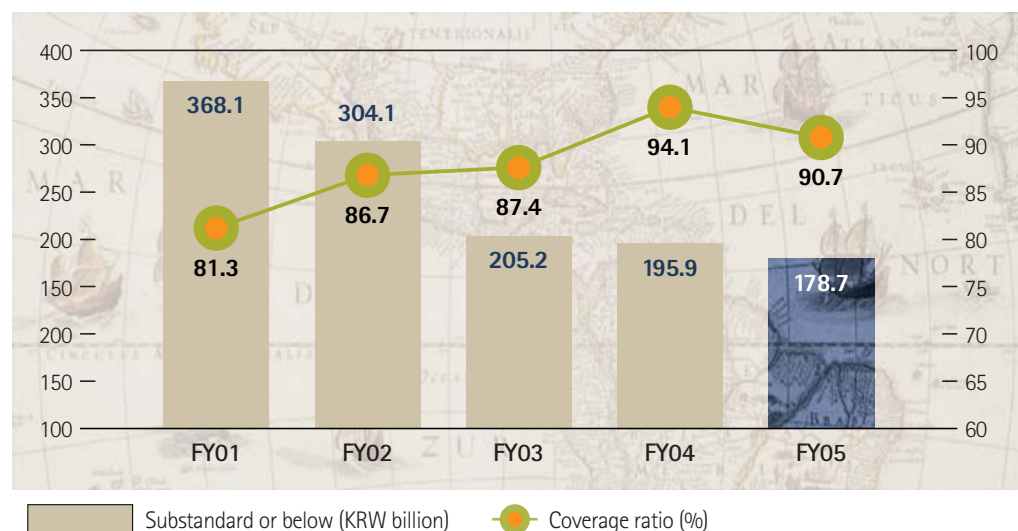
Daishin Securities is now operating with a financial structure that is stronger than ever. Through continued pursuit of the highest profitability in the sector, we have prepared the launch pad to become recognized as a leading financial services provider both domestically and in the overseas markets.

We are realizing high levels of management efficiency underpinned by our profit-oriented approach. As of the end of March 2006, our ratio of operating revenue to operating expenses (operating leverage) stood at 155.0% and SG&A expenses to operating revenue (cost-income ratio) was 69.6%. These figures put Daishin Securities above many of its peers. Our SG&A expenses are being amply covered by commission income, signifying the likelihood of sustained profit generation.

In terms of financial soundness, our coverage ratio for provisioning for below substandard loans was 90.7%, down by 3.4%p from fiscal 2004. The decline, however, resulted from a reduction in the provisioning burden. Bonds that require loan loss allowance decreased because of fund recovery and debt-to-equity swap related to M&A involving one of the bond issuing companies. Our efforts continue to strengthen our asset quality. Our financial stability indicators remain at industry-leading levels, with capital adequacy ratio of 891.0% and assets to liabilities ratio of 149.7%.

Our capital adequacy ratio is 100~200%p higher than that of other major securities firms in Korea. This gives us the leeway to carry out more aggressive marketing and operations than our competitors. To enhance return on equity, we will work to maximize profits on proprietary trading while maintaining strict risk management, and strongly promote new securities-linked products including ELS and real estate-backed loans.

## [ Coverage Ratio ]



## Dividend Policy

For FY2005, Daishin Securities distributed cash dividends of KRW 1,000 per common share and KRW 1,050 per preferred share. In doing so, we became the first major brokerage house in Korea to pay out cash dividends for eight consecutive years. Dividend per common share doubled compared to FY2004. The dividend yield stood at 4.9% and 6.8% for common and preferred stock, respectively, the highest levels in the industry. A total of KRW 75 billion in dividends was distributed to our shareholders for a payout ratio of 47.6%.

Daishin Securities has been a component of the Korea Stock Price Dividend Index (KODI) from 2003. We are the only securities firm among the 50 companies represented in the index. In 2004, Daishin Securities was named one of the 10 best companies for corporate governance by the Korea Corporate Governance Service and was included among the 50 issues in the Korea Corporate Governance Stock Price Index (KOGI).

Daishin Securities is the only securities firm to be included in both the KODI and KOGI. This is a reflection of our firm commitment to upholding our policy of returning wealth to shareholders.

### [ Dividend History ]

		FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Dividend per share (KRW)	Common	500	1,500	750	500	500	650	500	1,000
	Preferred	550	1,550	800	550	550	700	550	1,050
Dividend yield (%)	Common	3.7	8.8	7.3	1.9	3.3	3.8	3.3	4.9
	Preferred	5.9	12.2	13.4	4.4	7.4	7.4	5.1	6.8
Net income (KRW billion)		63.6	337.1	87.3	13.4	42.0	73.8	41.2	157.4
Total dividend (KRW billion)		29.5	113.5	57.4	38.7	38.2	49.1	37.1	75.0
Dividend payout ratio (%)		46.4	33.7	65.7	288.1	90.9	66.5	90.0	47.6

## Customer Service Innovation

Daishin Securities is pursuing company-wide efforts to innovate customer service. To leave an indelible image as a company that puts its customers first, we are mapping out a concrete CS (customer service) policy and translating the plan into action. We declared our 'Customer service charter, vision and slogan' in April 2006 and held a company event with all employees to mark the occasion.

Based on our CS charter, Daishin Securities aims to improve our CS framework by upgrading our CS Lady system, general evaluation system and producing a CS manual. Our employees will recommit themselves to delivering customer satisfaction and ultimately expand customer contact points to bring greater happiness to our clients and profits to the company.

To this end, Daishin Securities plans to set up a 'customer evaluation team' made up of selected clients. The designated clients will conduct reviews of their own transactions with Daishin Securities and provide suggestions and opinions on how we can improve our services.

We believe the customer evaluation team will enhance client loyalty in addition to improving our company image. We also plan to have some of the team members serve as spokespersons. Customers chosen for the team will be rewarded with various benefits and fee exemptions in accordance to their contributions. Another plan is to have monitoring members by region check up on service quality at customer contact points to improve overall service quality.

To embed the importance of customer satisfaction in all areas of our operations, Daishin Securities will conduct company-wide CS training across all ranks and job functions. Additionally, a CS manual will lay out proper ways to answer client calls, response methods and other guidelines to raise the overall level of customer satisfaction.





# Financial Section



## MANAGEMENT'S DISCUSSION & ANALYSIS

### Overview

The Korean stock market rallied in FY2005 although oil prices surged, the won appreciated and domestic demand languished. The KOSPI rose to a new high in September and continued to climb, surpassing 1,400 points. While oil and commodity prices soared to record highs, newly emerging economies including China sustained growth, providing support for the major stock exchanges worldwide. Domestically, expectation for a recovery in domestic consumption and abundant liquidity propped up share prices. The KOSPI advanced from 965.7 points at the end of March 2005 to 1,359.6 points a year later, a gain of 40.8%. Over the same period, the KOSDAQ gained 45.5% to stand at 665.2 points at the end of March 2006. Amid the re-rating of Korean equities, there was a vast expansion in indirect investments such as equity-type and hybrid funds. That created a stable demand base and strengthened the role of institutional investors in the market.

#### Daily Average Turnover

(KRW billion)		FY04	FY05	%YoY
Stock	KSE	2,301.1	3,568.8	55.1
	KOSDAQ	814.6	1,986.2	143.8
Futures		11,921.3	14,027.7	17.7
Options		558.8	604.0	8.1

Retail investors also stepped up their trading activity. The result was a surge in the average daily trading volume, from KRW 3.1 trillion in April 2005 to KRW 8.5 trillion in January 2006. For the whole of FY2005, average daily volume reached KRW 5.6 trillion, an increase of 78.3% compared to KRW 3.1 trillion in FY2004. Consequently, profits grew substantially for the securities industry, which has traditionally been highly dependent on brokerage commission for revenue generation. Daishin Securities recorded KRW 157.4 billion in net profit for FY2005, up 281.7% over the previous year. ROE improved by 8.2%p, from 3.2% in FY2004 to 11.4% in FY2005. Daishin enjoyed growth across the board. Along with a rise in commission income, which makes the largest contribution to earnings, growth was also recorded in interest income and gains from proprietary trading. Daishin Securities also maintained superior asset quality and an outstanding financial structure, with capital adequacy ratio of 891.0% and assets to liabilities ratio of 149.7%.

### Analysis of Operating Performance

#### Operating Revenues

Daishin Securities saw a dramatic turnaround in operating revenues in FY2005. The figure increased 78.6% to KRW 617.5 billion, ending a declining trend that began in FY2001, thanks to the strong rally in the Korean stock market. Daishin also made progress with revenue diversification. Growth was achieved in all areas, from commission income, which accounted for the largest portion of the total, and interest income to proprietary trading gain and gain on structured securities transactions.

Commission income increased 72.0% to KRW 370.2 billion, lifted by brokerage commissions and brokerage commissions on beneficiary certificates. Brokerage commissions rose by 73.1% to KRW 353.2 billion as average daily trading volume went up from KRW 3.1 trillion in FY2004 to KRW 5.6 trillion in FY2005. Brokerage commissions accounted for 95.4% of overall commission income. More active marketing paid off as Daishin's market share expanded by 26 basis points to 5.78%. Market share in 4Q of FY2005 reached 6.25%.

Despite the low interest rate environment, the bullish stock market drove up interest-generating assets, leading to a 45.8% boost in interest income to KRW 110.0 billion. As of the end of March 2006, broker's loans (including loans for stock purchase and loans secured by securities) jumped 152.6% to KRWS 372.8 billion. Cash and bank deposits and reserve for claims of customers' deposits grew 19.8% to KRW 1,004.8 billion.

Securities-related income advanced 126.6% to KRW 121.0 billion, led by gain on sales of trading securities and gain on structured securities transactions. Return on proprietary transactions was 81.9%, far outperforming the 41.1%p climb in the KOSPI, and gain on sales of stock more than doubled to KRW 57.7 billion. Daishin has steadily expanded its share of the structured securities market since receiving approval to engage in over-the-counter derivatives in March 2005, and gain on structured securities transactions recorded KRW 42.5 billion.

#### Operating Revenues

(KRW billion)	FY03	FY04	FY05	%YoY
Commission income	282.7	215.3	370.2	72.0
Interest income	88.8	75.5	110.0	45.8
Securities-related income	62.2	53.4	121.0	126.6
Other income	2.4	1.6	16.2	924.1
<b>Operating revenues</b>	<b>436.1</b>	<b>345.8</b>	<b>617.5</b>	<b>78.6</b>

# MANAGEMENT'S DISCUSSION & ANALYSIS

## Operating Revenues Breakdown

(% of total)	FY03	FY04	FY05
Commission income	64.8	62.3	60.0
Interest income	20.4	21.8	17.8
Securities-related income	14.3	15.4	19.6
Other income	0.6	0.5	2.6

## Operating Expenses

Operating expenses, which tend to fluctuate, increased 41.4% to KRW 400.2 billion in tandem with the growth in operating revenues. Commission expenses went up 64.5%, as trading commissions and investment consultant fees rose by 61.1% and 104.1%, respectively. The two are directly related to operating revenues. SG&A expenses, which account for 65.5% of total operating expenses, grew 19.2% to KRW 262.3 billion along with the stock market rally.

With interest rates remaining low, interest on customers' deposits decreased from KRW 6.3 billion in FY2004 to KRW 5.2 billion in FY2005. However, interest on bonds sold under repurchase agreements and interest on call money increased. Consequently, interest expense swelled 48.7% to KRW 25.6 billion.

Along with a bull run in the stock market, loss on sales of trading securities declined 14.5% to KRW 21.4 billion, including a 21.1% drop in losses on sales of stock and bonds to KRW 18.7 billion. On the other hand, securities-related expenses shot up 151.2% to KRW 69.1 billion as loss on structured securities transactions amounted to KRW 45.1 billion.

## Operating Expenses

(KRW billion)	FY03	FY04	FY05	%YoY
Commission expenses	23.8	16.3	26.8	64.5
Interest expenses	21.1	17.2	25.6	48.7
Securities-related expenses	20.3	27.5	69.1	151.2
SG&A expenses	257.2	220.0	262.3	19.2
Other expenses	2.4	2.0	16.4	735.6
<b>Operating expenses</b>	<b>324.9</b>	<b>283.0</b>	<b>400.2</b>	<b>41.4</b>

## Operating Expenses Breakdown

(% of total)	FY03	FY04	FY05
Commission expenses	7.3	5.8	6.7
Interest expenses	6.5	6.1	6.4
Securities-related expenses	6.3	9.7	17.3
SG&A expenses	79.2	77.7	65.5
Other expenses	0.8	0.7	4.1

Salaries & employee benefits and advertising expenses are directly and indirectly linked to operating revenues. Excluding the two, SG&A expenses, which comprise the largest portion of operating expenses, have characteristics of fixed costs for the most part. Accordingly, SG&A expenses as a proportion of total operating expenses slid by 12.2%p, from 77.7% in FY2004 to 65.5% in FY2005. Salaries & employee benefits increased 43.2% to KRW 156.1 billion including one-off charges (KRW 3.0 billion in special bonus paid out in January 2006 and KRW 11.7 billion in stocks given to employees under the ESOP in March 2006). More than half of salaries & employee benefits were variable expenses in FY2005. Daishin spent KRW 7.2 billion in advertising, a 47.3% rise over the previous year.

Credit loss expenses declined 35.3% thanks to improved asset quality following strengthened provisioning for bad loans. Depreciation expense fell by 24.8%. Daishin also proceeded with effective control of discretionary items such as IT system operating expenses and miscellaneous commissions. All in all, Daishin was able to limit the growth in SG&A expenses to 19.2%, considerably lower than the growth in operating revenues.

## SG&A Expenses

(KRW billion)	FY03	FY04	FY05	%YoY
Salaries & employee benefits	126.9	109.0	156.1	43.2
IT system operating expenses	25.8	24.8	24.5	-1.3
Miscellaneous commissions	18.6	16.6	15.5	-6.6
Advertising expenses	7.0	4.9	7.2	47.3
Depreciation expenses	33.9	28.9	21.8	-24.8
Credit loss expenses	15.0	7.4	4.8	-35.3
Other expenses	30.0	28.3	32.4	14.7
<b>SG&amp;A expenses</b>	<b>257.2</b>	<b>220.0</b>	<b>262.3</b>	<b>19.2</b>

## MANAGEMENT'S DISCUSSION & ANALYSIS

### Profitability and Shareholder Value

The bull market resulted in a surge in commission income and proprietary trading gain. Thanks to operating leverage, the operating margin increased by 17.0% to 35.2% and operating profit ballooned 246.1% to KRW 217.3 billion. Daishin Securities remained in the top ranks among the major securities houses in terms of profitability.

	FY03	FY04	FY05	Change
Operating income(KRW billion)	111.3	62.8	217.3	246.1%
Operating margin(%)	25.5	18.2	35.2	17.0%op

With the focus on profitability, mainly in our core operations, and transparency, the net non-operating balance has been steadily decreasing. Net non-operating expenses dropped from KRW 7.9 billion in FY2003 to KRW 4.0 billion in FY2004, and then to KRW 2.2 billion in FY2005. The numbers represent an annual decline of about 50%.

(KRW billion)	FY03	FY04	FY05
Non-operating income	25.4	21.8	37.4
Non-operating expenses	33.4	25.8	39.5
Net non-operating balance	-7.9	-4.0	-2.2

The strong growth in operating profit combined with reduced non-operating expenses lifted pre-tax profit by 266.2% to KRW 215.1 billion in FY2005. The effective tax rate was 26.8%, slightly lower than the previous year. The net profit margin improved by 13.6% to 25.5% in FY2005. Net profit increased 281.7% to KRW 157.4 billion.

	FY03	FY04	FY05	Change
Net income(KRW billion)	73.8	41.2	157.4	281.7%
Net margin(%)	16.9	11.9	25.5	13.6%op

Daishin Securities has a shareholder-oriented policy and actively takes measures to return profits to shareholders. Among the industry majors, Daishin is the only one to pay out cash dividends for eight consecutive years. In FY2005, we decided on dividends of KRW 1,000 per common share and KRW 1,050 per preferred share, for a payout ratio of 47.6%. In distributing profits, our priority is on dividend payment. The dividend yield for FY2005 was 4.9% for common stock and 6.8% for preferred stock. Including capital gain, the total shareholder return was 41.3% in FY2005.

		FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Dividend per share (KRW)	Common	500	1,500	750	500	500	650	500	1,000
	Preferred	550	1,550	800	550	550	700	550	1,050
Dividend yield (%)	Common	3.7	8.8	7.3	1.9	3.3	3.8	3.3	4.9
	Preferred	5.9	12.3	13.4	4.4	7.6	7.4	5.1	6.8
Dividend payout ratio (%)		46.4	33.7	65.7	288.1	90.9	66.5	90.0	47.6

### Analysis of Financial Conditions

#### Assets

In order to increase assets, Daishin continued its company-wide drive to boost entrusted assets and fostered the "Rich Making Fund" to reinforce the wealth management business. Backed by such efforts, total assets grew 56.8% to KRW 3,868.6 billion as at the end of March 2006. There

was also an improvement in terms of quality as the asset portfolio was realigned to focus on income-generating assets (eg, securities and loans) and deposits. In particular, loans for stock purchase and loans secured by securities rose by 173.6% and 141.4%, respectively, over FY2004. Accordingly, loans expanded 119.7% to KRW 373.6 billion, and income-generating assets comprised 64.7% of total assets.

## MANAGEMENT'S DISCUSSION & ANALYSIS

### Assets

(KRW billion)	FY03	FY04	FY05	%YoY
Cash & deposit	720.8	838.7	1,004.8	19.8
Securities	752.2	771.8	1,122.7	45.5
Loans	93.3	170.1	373.6	119.7
Tangible assets	598.3	570.3	585.6	2.7
Others	133.4	115.9	781.9	574.5
<b>Total assets</b>	<b>2,298.0</b>	<b>2,466.8</b>	<b>3,868.6</b>	<b>56.8</b>

### Assets Portfolio

(% of total assets)	FY03	FY04	FY05
Cash & deposit	31.4	34.0	26.0
Securities	32.7	31.3	29.0
Loans	4.1	6.9	9.7
Tangible assets	26.0	23.1	15.1
Others	5.8	4.7	20.2

### Liabilities & Shareholders' Equity

Total liabilities stood at KRW 2,416.7 billion, up by 106.9% from a year earlier. Debts surged temporarily as outstanding call money reached KRW 150.0 billion at the end of March 2006. Customers' deposits went up 26.7% to KRW 1,045.9 billion due to greater trading activity by retail investors amid the bullish stock market. Other liabilities grew substantially due to an increase in bonds sold under reverse resale agreement and structured securities sold.

### Liabilities

(KRW billion)	FY03	FY04	FY05	%YoY
Borrowings	52.2	10.5	151.6	1,350.2
Customers' deposit	740.2	825.7	1,045.9	26.7
Others	196.9	332.0	1,219.2	267.3
<b>Total liabilities</b>	<b>989.3</b>	<b>1,168.1</b>	<b>2,416.7</b>	<b>106.9</b>

### Liabilities Breakdown

(% of total liabilities)	FY03	FY04	FY05
Borrowings	5.3	0.9	6.3
Customers' deposits	74.8	70.7	43.3
Others	19.9	28.4	50.4

Total shareholders' equity stood at KRW 1,451.9 billion. That represents a growth of 11.8% or KRW 153.2 billion from a year earlier. Along with a large net profit in FY2005 (KRW 157.4 billion), there was a capital increase in December 2005. Specifically, 2,187,000 common shares were issued at KRW 18,400 per share through third party placement as Daishin concluded a strategic alliance. As a means of enhancing shareholder value, KRW 37.1 billion in cash dividends were distributed for FY2005. We also recorded a capital adjustment of KRW 45.1 billion related to treasury stock and available-for-sale securities. The reserve ratio climbed to 277%, from 247% in the previous year.

### Shareholders' Equity

(KRW billion)	FY03	FY04	FY05	%YoY
Paid-in-capital	373.9	373.9	384.9	2.9
Capital surplus	610.7	610.7	644.5	5.5
Retained earnings	355.3	347.4	467.6	34.6
Capital adjustment	-31.1	-33.3	-45.1	-
<b>Total shareholders' equity</b>	<b>1,308.7</b>	<b>1,298.7</b>	<b>1,451.9</b>	<b>11.8</b>

### Asset Quality

Deregulation is bringing changes to the financial environment as well as greater competition. Daishin Securities has been preparing to emerge as a mega investment bank in the changing landscape with superior asset quality and a stable financial structure. In FY2005, our capital adequacy ratio and coverage ratio were 891.0% and 90.7%, respectively. Although slightly lower compared to a year earlier, the ratios still indicate a high level of asset soundness. The assets-to-liabilities ratio extended its down trend, falling to 149.7%, versus 202.5% in FY2003 and 190.1% in FY2004.

### Asset Quality

(%)	FY03	FY04	FY05	Change
Capital adequacy ratio	898.0	982.6	891.0	-91.6%op
Coverage ratio	87.4	94.1	90.7	-3.4%op

# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

(English Translation of a Report Originally Issued in Korean)

## Deloitte Anjin LLC

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

We have audited the accompanying non-consolidated balance sheets of Daishin Securities Co., Ltd. (the "Company") as of March 31, 2006 and 2005, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daishin Securities Co., Ltd. as of March 31, 2006 and 2005, and the results of its operations, changes in retained earnings and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea (See Note 2).

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

## Deloitte Anjin LLC

Seoul, Korea

April 14, 2006

A handwritten signature in black ink that reads "Deloitte Anjin LLC".

### Notice to Readers

This report is effective as of April 14, 2006, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

# NON-CONSOLIDATED BALANCE SHEETS

(AS OF MARCH 31, 2006 AND 2005 )

(In millions of Korean won)

	2006		2005	
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and bank deposits (Note 18)	₩	125,378	₩	85,062
Korea Securities Finance Corporation deposits (Note 3)		879,387		753,619
Trading securities (Notes 4 and 20)		993,606		586,104
Structured securities (Note 5)		533,303		-
Call loans		-		21,700
Broker's loans, less allowance for doubtful accounts of ₩2,028 million in 2006 and ₩862 million in 2005		370,745		146,686
Short-term loans, less allowance for doubtful accounts of ₩833 million in 2006 and 2005		-		-
Accounts receivable from customers, less allowance for doubtful accounts of ₩4,629 million in 2006 and ₩5,414 million in 2005		86,696		35,163
Accrued income, less allowance for doubtful accounts of ₩973 million in 2006 and ₩1,456 million in 2005		17,935		11,399
Derivatives instruments assets		66,765		-
Other current assets (Note 19)		12,815		11,506
Total current assets		3,086,630		1,651,239
<b>NON-CURRENT ASSETS:</b>				
Long-term securities, less allowance for doubtful accounts of ₩37,255 million in 2006 and ₩51,137 million in 2005 (Notes 6 and 10)		91,878		134,596
Long-term deposits (Note 3)		39		39
Long-term loans receivable, less allowance for doubtful accounts of ₩5,314 million in 2006 and ₩5,508 million in 2005 (Note 23)		3,776		2,842
Guarantee deposits (Note 3)		49,642		46,883
Investment in real estate (Note 7)		10,691		11,072
Other investment assets		16,331		11,341
Tangible fixed assets (Notes 8 and 9):				
Land		305,864		286,830
Buildings		302,728		301,122
Vehicles		1,403		1,072
Furniture and equipment		174,412		166,935
		784,407		755,959
Less: Accumulated depreciation (Note 9)		(198,842)		(185,694)
		585,565		570,265

(Continued)

## NON-CONSOLIDATED BALANCE SHEETS(Continued)

(AS OF MARCH 31, 2006 AND 2005)

(In millions of Korean won)

	2006		2005	
Advances for customers, less allowance for doubtful accounts of ₩86,417 million in 2006 and ₩94,912 million in 2005 (Note 10)	₩	17,316	₩	26,533
Collective fund for default loss (Note 3)		6,335		10,666
Dishonored bonds and bills receivable, less allowance for doubtful accounts of ₩24,609 million in 2006 and ₩24,215 million in 2005		364		1,306
Total non-current assets		781,937		815,543
Total assets	₩	3,868,567	₩	2,466,782
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Call money (Note 11)	₩	150,000	₩	-
Short-term borrowings (Note 11)		1,572		10,453
Bonds sold under resale agreements		384,797		222,344
Customers' deposits		1,045,914		825,697
Structured securities sold (Note 5)		669,649		-
Income tax payable		45,101		12,793
Dividends payable (Note 17)		28		32
Accrued expenses (Note 19)		9,660		5,886
Deposits for rent		81,128		77,627
Other current liabilities (Note 19)		20,198		10,686
Total current liabilities		2,408,047		1,165,518
<b>LONG-TERM LIABILITIES:</b>				
Debenture		10		-
Deferred income tax liabilities (Note 15)		3,725		87
Accrued severance indemnities, net of payments to National Pension Fund of ₩5 million in 2006 and ₩9 million in 2005, and individual severance deposits of ₩3,241 million in 2006 and ₩7,319 million in 2005 (Note 2)		1,477		2,516
Others		3,400		-
Total long-term liabilities		8,612		2,603
Total liabilities		2,416,659		1,168,121

(Continued)



## NON-CONSOLIDATED BALANCE SHEETS(Continued)

(AS OF MARCH 31, 2006 AND 2005)

(In millions of Korean won)

	2006		2005	
<b>SHAREHOLDERS' EQUITY:</b>				
Capital stock (Note 12)	₩	384,867	₩	373,932
Capital surplus		644,539		610,651
Retained earnings:				
Legal reserve (Note 12)		72,010		68,300
Voluntary reserve		220,000		220,000
Before appropriations				
(Net income of ₩157,380 million in 2006 and ₩41,231 million in 2005)		175,640		59,060
Capital adjustments (Note 13)		(45,148)		(33,282)
Total shareholders' equity		1,451,908		1,298,661
Total liabilities and shareholders' equity	₩	3,868,567	₩	2,466,782
<b>FOOTNOTES:</b>				
Securities in custody (Note 14)	₩	14,115,544	₩	11,715,342
Negotiable certificates of deposits in custody		29,018		22,386
Deposits in foreign currency on exchanges		7		7
Derivatives contracts		1,261,656		-
Receivable charge-offs		8,826		69

See accompanying notes to non-consolidated financial statements.

# NON-CONSOLIDATED STATEMENTS OF INCOME

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

(In millions of Korean won, except per share amounts)

	2006		2005	
<b>OPERATING REVENUES:</b>				
Commissions received (Note 19)	₩	370,224	₩	215,289
Interest income (Note 19)		77,789		49,826
Dividend income (Note 19)		2,549		1,834
Distribution income		6		-
Gain on sales of trading securities		71,961		47,702
Gain on valuation of trading securities		4,009		3,863
Gain on structured securities transactions		42,478		-
Gain on valuation of customers' deposits		32,258		25,675
Gain on derivative transactions		16,202		1,582
		617,476		345,771
<b>OPERATING EXPENSES:</b>				
Commissions expense		26,830		16,314
Interest expense		25,608		17,220
Loss on sales of trading securities		21,445		25,075
Loss on valuation of trading securities		2,571		2,436
Loss on structured securities transactions		45,078		-
Loss on derivatives transactions		16,363		1,958
General and administrative expenses (Notes 19 and 22)		262,331		219,990
		400,226		282,993
<b>OPERATING INCOME</b>		217,250		62,778
<b>NON-OPERATING INCOME (EXPENSES):</b>				
Gain on disposal of tangible fixed assets, net		1,485		621
Gain on disposal of available-for-sale securities, net		14,906		2,041
Gain on equity method valuation (Note 6)		1,011		1,472
Recovery of securities reduction loss (Note 6)		1,819		87
Rental income (Note 19)		12,526		12,465
Securities reduction loss (Note 6)		(20,062)		(24,494)
Gain on recovery of write-offs		511		119
Donations		(1,917)		(344)
Other, net		(12,440)		3,997
		(2,161)		(4,036)
<b>ORDINARY INCOME</b>		215,089		58,742
<b>EXTRAORDINARY ITEM</b>		-		-
<b>INCOME BEFORE INCOME TAX</b>	₩	215,089	₩	58,742
<b>INCOME TAX EXPENSE</b> (Note 15)		57,709		17,511
<b>NET INCOME</b>	₩	157,380	₩	41,231
<b>ORDINARY INCOME PER COMMON SHARE</b> (Note 16)	₩	2,165	₩	556
<b>NET INCOME PER COMMON SHARE</b> (Note 16)	₩	2,165	₩	556

See accompanying notes to non-consolidated financial statements.

# NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

(In millions of Korean won)

	2006		2005	
<b>RETAINED EARNINGS BEFORE APPROPRIATIONS:</b>				
Unappropriated retained earnings carried over from prior years	₩	18,260	₩	17,829
Net income		157,380		41,231
		175,640		59,060
<b>APPROPRIATIONS:</b>				
Legal reserve (Note 12)		7,496		3,710
Reserve for loss on futures transactions		98		-
Dividends (Note 17)		74,959		37,090
Voluntary reserve		70,000		-
		152,553		40,800
<b>UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR</b>				
	₩	23,087	₩	18,260

See accompanying notes to non-consolidated financial statements.

# NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

(In millions of Korean won)

	2006		2005	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income	₩	157,380	₩	41,231
Addition of expenses not involving cash outflows:				
Loss on sales of trading securities		21,445		25,075
Loss on valuation of trading securities transactions		2,571		2,436
Loss on structured securities		45,078		-
Loss on derivatives transactions		16,363		1,958
Provision for possible loan losses		4,820		7,447
Depreciation		21,757		28,919
Loss on disposal of tangible fixed assets		309		535
Securities deduction loss		20,062		24,494
Loss on disposal of available-for-securities securities		113		381
Provision for severance indemnities		9,808		8,452
Others		4,859		-
		147,185		99,697
Deduction of revenues not involving cash inflows:				
Gain on sales of trading securities		71,961		47,702
Gain on valuation of trading securities		4,009		3,863
Gain on structured securities transactions		42,478		-
Gain on derivative transactions		16,202		1,582
Gain on disposal of tangible fixed assets		1,793		1,157
Gain on equity method valuation		1,011		1,472
Amortization of present value discount		2,481		3,319
Gain on disposal of available-for-sale securities		15,019		2,421
Recovery of securities reduction loss		1,819		87
Gain on valuation of customers' deposits		32,258		25,675
		189,031		87,278

(Continued)

## NON-CONSOLIDATED STATEMENTS OF CASH FLOWS(Continued)

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

(In millions of Korean won)

	2006	2005
<b>Changes in assets and liabilities resulting from operations:</b>		
Increase in KSFC deposits	₩ (93,509)	₩ (53,679)
Increase in trading securities	(355,548)	(806)
Increase in structured securities	(520,081)	-
Decrease (increase) in accounts receivable from customers	(1,344)	37,106
Decrease (increase) in accrued income	(6,828)	902
Increase in derivatives instruments assets	(66,087)	-
Decrease in advances for customers	8,331	5,621
Increase in customers' deposits	220,464	85,536
Increase in structured securities sold	653,828	-
Increase in income tax payable	32,308	4,752
Increase (decrease) in accounts payable	5,265	(1,771)
Increase (decrease) in accrued expenses	3,774	(3,890)
Decrease (increase) in deposits of insurance for severance indemnities	4,078	(4,676)
Decrease in National Pension Fund for severance indemnities	4	13
Proceeds from severance indemnities	626	-
Payment of severance indemnities	(15,555)	(2,608)
Decrease in derivatives transactions	(707)	(376)
Others	5,089	(5,332)
	(125,892)	60,792
	(10,358)	114,442
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash inflows from investing activities :		
Collection of fixed deposit and installment deposit	181,000	22,000
Collection of receivables	34,273	-
Collection of loans	4,525,537	93,261
Proceeds from disposition of long-term securities	74,451	68,844
Proceeds from disposition of tangible fixed assets	7,306	8,251
Collection of long-term loans	1,454	2,450
Refund of guarantees	5,284	11,040
Collection of long-term deposits	-	3
Proceeds from disposition of investment real estate	381	-
Proceeds from disposition of other investment assets	73	138
Refund of collective fund for default loss	13,540	-
Proceeds from disposition of securities using the equity method	1,944	3,425
	4,845,243	209,412

(Continued)

# NON-CONSOLIDATED STATEMENTS OF CASH FLOWS(Continued)

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

(In millions of Korean won)

	2006		2005	
Cash outflows from investing activities:				
Acquisition of fixed deposit and installment deposit	₩	223,000	₩	4,100
Extension of receivables		84,784		34,273
Extension of loans		4,729,062		170,081
Acquisition of long-term securities		44,611		100,461
Extension of long-term loans		2,194		-
Payment of guarantees		8,044		7,049
Acquisition of other investment assets		5,063		4
Acquisition of tangible fixed assets		42,877		8,496
Reserving of collective fund for default loss		9,209		537
		5,148,844		325,001
		(303,601)		(115,589)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Cash inflows from financing activities :				
Proceeds from call money		50,909,900		37,128,200
Proceeds from short-term borrowings		5,584,485		2,841,783
Proceeds from bonds sold under resale agreements		6,491,279		2,269,096
Proceeds from deposits received for marginal accounts		-		1,632
Proceeds from deposits for rent		15,121		18,190
Issuance of new shares		40,241		-
Issuance of debenture		10		-
Disposal of treasury stock		33,697		-
		63,074,733		42,258,901
Cash outflows from financing activities :				
Payment of call money		50,759,900		37,168,600
Repayment of short-term borrowings		5,593,366		2,843,134
Payment of bonds sold under resale agreements		6,328,827		2,124,843
Payment of dividends		37,094		49,126
Repayment of deposits received for marginal accounts		-		2,026
Repayment of deposits for rent		11,619		24,004
Acquisition of treasury stock		31,652		26,502
		62,762,458		42,238,235
		312,275		20,666
<b>NET INCREASE(DECREASE) IN CASH AND BANK DEPOSITS</b>		(1,684)		19,519
<b>CASH AND BANK DEPOSITS, AT THE BEGINNING OF THE YEAR</b>		44,062		24,543
<b>CASH AND BANK DEPOSITS, AT THE END OF THE YEAR (Note 18)</b>	₩	42,378	₩	44,062

See accompanying notes to non-consolidated financial statements.

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

## 1. GENERAL:

Daishin Securities Co., Ltd. (the “Company”) was incorporated as Samrak Securities Co., Ltd. on July 27, 1962, under the Commercial Code of the Republic of Korea, to engage in the securities business operations, including brokerage transactions, trading and underwriting of securities and other related business activities. The Company changed its corporate name to Daishin Securities Co., Ltd. on April 22, 1975 and has been listed on the Korea Exchange since October 1, 1975. The Company’s capital stock as of March 31, 2006 amounted to ₩384,867 million and its primary shareholders are Yang Hong Seok and Yang Hong Jun (5.75 percent). The head office of the Company is in Seoul, and has 108 domestic branches and an overseas branch in Tokyo.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### Approval of Financial Statements

The board of directors will approve the non-consolidated financial statements for submission to general shareholders’ meeting on May 8, 2006.

### Basis of Non-Consolidated Financial Statement Presentation

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

Korea Accounting Standards Board (“KASB”) has been issuing new accounting standards that replace the existing Korean financial accounting standards (“KAS”). As of March 31, 2006, the KASB has issued Statements of Korea Accounting Standards (“SKAS”) No.1-“Accounting Changes and Corrections of Errors” through No.20-“Related Party Disclosures”.

The Company has adopted SKAS No.1-“Accounting Changes and Corrections of Errors” through No. 13-“Troubled Debt Restructurings” (except for No.11-“Discontinuing Operations”) before April 1, 2005 and No.14-“Exceptions to Accounting for Small and Medium-sized Entities” through No.17-“Provisions, Contingent Liabilities and Contingent Assets” since April 1, 2005 and will adopt SKAS No.18-“Interests in Joint Ventures” through No.20-“Related Party Disclosures”.

SKAS No.16-“Income Taxes” requires that current tax and deferred tax be charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period. On March 31, 2006, the Company credited the deferred tax effect amounting to ₩194 million directly to capital adjustments. In addition, the Company prospectively adopted this SKAS and did not restate the 2005 non-consolidated balance sheet presented for comparative purposes in accordance with paragraph 70 of such SKAS.

The significant accounting policies followed in preparing the accompanying non-consolidated financial statements are summarized below.

### Accounting for Foreign Currency Transactions and Translation

The Company maintains its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing rates of exchange on the transaction date. Monetary accounts with balances

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates (₩975.90 to US \$ 1.00 at March 31, 2006) prevailing at the balance sheet dates and the resulting translation gains and losses are reflected in current operations.

## Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on outstanding loans and accounts receivable (broker's loans, receivables, accrued income, short and long-term loans, advances for customers, dishonored bonds and bills receivable) at the end of the period based on management's evaluation of the collectibility of individual receivables and in accordance with the securities accounting standards of the Securities and Futures Commission ("SFC") of Korea. These standards require that all loans should be classified as normal, precautionary, substandard, doubtful, or loss based on a number of factors, including the financial position, the repayment ability of the borrower and overdue status of loans.

The details of the classification of loans and the corresponding allowance provided as of March 31, 2006 and 2005 are as follows:

(In millions of Korean won)

	2006		2005	
	Loans	Allowance	Loans	Allowance
Normal	₩ 468,072	₩ 2,341	₩ 178,012	₩ 890
Precautionary	2,669	53	27,804	556
Substandard	25,296	8,518	8,649	1,890
Doubtful	33,511	31,285	64,343	58,018
Loss	119,861	119,861	122,982	122,982
Total	₩ 649,409	₩ 162,058	₩ 401,790	₩ 184,336

## Restructuring of Loans

Loans of which contractual terms are modified in a troubled debt restructuring due to mutual agreements, such as commencement of reorganization, court mediation and workout plans, are accounted for at the present value of expected future cash flows, if book value of the loans differs from the present value. The difference between book value and present value is offset against the allowance for possible loan losses, and any remaining amounts are charged to operations as bad debt expense. The difference between the book value of a loan and its present value is recorded as an allowance account, which is presented as a deduction from the loan. The allowance account is amortized over the remaining maturity using the effective interest rate method and the amortization amount is recorded as interest income.

## Bonds under Resale or Repurchase Agreements

Bonds purchased under resale agreement are recorded as loans and bonds sold under repurchase agreements are recorded as borrowings, when the Company purchases or sells securities under resale or repurchase agreements.

## Securities other than those Accounted for Using the Equity Method

### CLASSIFICATION OF SECURITIES

At acquisition, the Company classifies securities into one of the three categories; trading, held-to-maturity or available-for-sale. Trading securities are those that were acquired principally to generate profits from short-term fluctuations in prices. Held-to-maturity securities are those with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. Available-for-sale



# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

securities are those not classified as either held-to-maturity or trading securities. Trading securities are classified as short-term investment securities, whereas available-for-sale and held-to-maturity securities are classified as long-term investment securities, except for those whose maturity dates or whose likelihood of being disposed of are within one year from balance sheet date, which are classified as short-term investment securities.

## VALUATION OF SECURITIES

Investments in securities are initially measured at their acquisition costs, which consists of the market price of the consideration given to acquire them and incidental expenses. If the market price of the consideration given is not available, the market prices of the securities purchased are used as the basis for measurement. If neither the market price of the consideration given nor those of the acquired securities are available, the acquisition cost is measured at the best estimates of its fair value.

After initial recognition, available-for-sale securities are valued at fair value, with unrealized holding gains or losses recognized in capital adjustments, until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of capital adjustments are reflected in current operations. However, available-for-sale securities that are not traded in an active market and whose fair value cannot be reliably measured are valued at cost.

If the estimated recoverable amount of securities is less than the acquisition cost of equity securities or amortized cost of debt securities and any objective evidence for such impairment loss exists, impairment loss is recognized in current operations in the period when it occurred.

## Securities Accounted for Using the Equity Method

Investments in equity securities of companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. The change in the Company's portion of an investee's net equity resulting from a change in an investee's net equity is reflected in the Company's net income (loss), retained earnings and capital adjustments, in accordance with the causes of the change which consist of the investees' net income (loss), changes in retained earnings and changes in capital surplus and capital adjustments.

## Structured Securities and Derivatives Instruments

All structured securities and derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability.

## Tangible Fixed Assets

Tangible fixed assets are stated at cost except for the assets revalued upward in accordance with the Asset Revaluation Law of Korea. Subsequent expenditure on tangible fixed assets is capitalized only when it increases future economic benefits beyond its most recently assessed standard of performance and all other subsequent expenditure is recognized as an expense as incurred.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Assets	Years
Buildings	40
Vehicles	5
Furniture and equipment	5

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

## Collective Fund for Default Loss

In accordance with the provisions of Article 95 of the Korea Securities and Exchange Law, the Company deposits special reserve funds equal to 1/100,000 of the volume of securities transaction and 15/10,000,000 of volume of stock price index futures with the Korea Exchange ("KRX") to compensate for any default loss.

## Accrued Severance Indemnities

Severance indemnities are accrued in accordance with Company regulations, which provide that employees with more than one year of service are entitled to receive severance indemnities, based on length of service and rate of pay, upon termination of their employment. Accrued severance indemnities that would be payable assuming that all eligible employees were to resign as of March 31, 2006 and 2005 amount to ₩4,723 million and ₩9,844 million, respectively. Actual payment of severance indemnities amounted to ₩15,555 million and ₩2,608 million in 2006 and 2005, respectively.

The Company has purchased severance benefits insurance, which meets the funding requirement for tax purposes, and made deposits with Green Cross Life Insurance Co., Ltd. Withdrawal of these deposits, with a balance of ₩3,241 million and ₩7,319 million as of March 31, 2006 and 2005, respectively, is restricted to the payment of severance indemnities. As the beneficiary of severance insurance deposits has been changed from the Company to its employees, the individual severance insurance deposits are presented as a deduction from the accrued severance indemnities.

In accordance with the National Pension Act, as of March 31, 2006 and 2005, accrued severance indemnities of approximately ₩5 million and ₩9 million, respectively, were paid by the Company on behalf of its employees to the National Pension Fund and shown as a deduction from accrued severance indemnities. The contributed amount shall be refunded from the National Pension Fund to employees and directors on their retirement.

## Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the changes in deferred income taxes. However, deferred income tax assets are recognized only if the future tax benefits from accumulated temporary differences and any tax loss carryforwards are realizable. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities, which will be charged or credited to income tax expense in the period each temporary difference reverses in the future. Deferred income tax assets or liabilities are calculated based on the expected tax rate to be applied at the reversal period of the related assets or liabilities. Tax payable and deferred income tax assets or liabilities regarding to certain items are charged or credited directly to related components of shareholders' equity. Deferred income tax assets or liabilities are classified into current and non-current based on the classification for financial reporting.

## Trust Account

According to the amended trust business law on June 29, 2005, the Company has been allowed to operate the trust business, and it has been done under the amendment and authorization of the Financial Supervisory Service.

In accordance with the trust business law, the Company has been accounting for the trust assets, sectionalizing them from the inherent assets. In terms of operating, managing and disposing the trust assets among the trust accounts, the Company has been recording as operating revenues when it acquires fees on trust accounts.

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

## Reclassification

For comparative purposes, certain accounts in the 2005 financial statements were reclassified. Such reclassification had no effect on the income for the year ended March 31, 2005 or net equity as of March 31, 2005.

## Reclassification of Cash Flow Statements

The Company reclassified the changes in non-current securities, loans and receivables to cash flows from investment activities from cash flows from operating activities. For comparative purposes, these changes on statements of cash flows of 2005 were reclassified.

## 3. RESTRICTED DEPOSITS:

Restricted due from banks in local currency and foreign currencies as of March 31, 2006 and 2005 are as follows:

(In millions of Korean won)

	2006		2005	
KSFC deposits	₩	879,387	₩	753,619
Long-term deposits		39		39
Surety guarantee		1		1
Collective fund for default loss		6,335		10,666
Total	₩	885,762	₩	764,325

Korea Securities Finance Corporation ("KSFC") deposits are maintained by the Company with KSFC for the payment of customers' deposits. Long-term deposits consist of guarantee deposits for checking accounts and severance insurance deposits. Collective fund for default loss is special reserve funds for the Korean Stock Exchange and KSFC to compensate for any loss from default of trade contracts in the securities market and to pay the deposits of stock investors.

## 4. TRADING SECURITIES:

Trading securities owned by the Company as of March 31, 2006 and 2005 consist of the following:

(In millions of Korean won)

	2006		2005	
Stocks	₩	20,457	₩	32,174
Korean government and public bonds		898,445		445,094
Domestic Korean corporate bonds		63,401		93,175
Beneficiary certificates		11,303		15,661
Total	₩	993,606	₩	586,104

Stocks and beneficiary certificates are valued at fair value as of March 31, 2006 and 2005. Trading debt securities are valued using the average of earning rate from rating agency.

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

## 5. STRUCTURED SECURITIES (SOLD) AND DERIVATIVE INSTRUMENTS:

(1) Structured securities and structured securities sold as of March 31, 2006 and 2005 are as follows:

(In millions of Korean won)

	Issue value		Fair value		Gain (loss)	
Structured securities:						
Equity linked securities	₩	525,833	₩	532,696	₩	6,863
Warrants		1,889		607		(1,282)
	₩	527,722	₩	533,303	₩	5,581
Structured securities sold:						
Equity linked securities sold	₩	594,909	₩	604,686	₩	(9,777)
Warrants sold		67,865		64,963		2,902
	₩	662,774	₩	669,649	₩	(6,875)

Equity linked securities is defined as the contract whose dividends and redemption values at the maturity date are determined according to the stock price fluctuation against the stock price index. For the warrants, although the redemption value at the maturity date is determined based on the fluctuation of the stock price index, unlike in the equity linked securities, the principal amount is not guaranteed. It is rather in the form of receiving the premium amount of the option transaction. The Company is evaluating such contracts for the fair value at the balance sheet date and accounting for the gain or loss for the current term.

(2) Unsettled derivatives transactions as of March 31, 2006 are as follows:

(In millions of Korean won)

Type	Unsettled amounts		Gain (loss) on transaction		Relation
Interest rate futures sold	₩	43,134	₩	82	Trading
Index futures purchased		87		2	Structured securities sold

(3) Unsettled OTC derivatives transactions as of March 31, 2006 are as follows:

(In millions of Korean won)

Type	Unsettled amounts	Gain (loss) on valuation	Derivatives instruments assets (liabilities)	Relation
Options purchased (Stocks)	₩ 1,178,231	₩ (1,778)	₩ 64,123	Structured securities sold
Options sold (Stocks)	7,863	(133)	(404)	Structured securities sold
Options purchased (Others)	32,341	1,205	2,642	Structured securities sold
	1,218,435	(706)		

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

(4) Gain (loss) on financial derivatives transactions as of March 31, 2006 and 2005 are as follows:

(In millions of Korean won)

Type	2006		2005	
	Gain	Loss	Gain	Loss
Index futures	₩ 916	₩ 985	₩ 1,069	₩ 1,336
Index options	154	158	10	10
Interest futures	4,046	3,940	503	612
OTC derivatives	2,439	1,927	-	-
	₩ 7,555	₩ 7,010	₩ 1,582	₩ 1,958

## 6. LONG-TERM SECURITIES:

Long-term securities as of March 31, 2006 and 2005 consist of the following:

(In millions of Korean won)

	2006		2005	
Investment equity securities	₩	28,388	₩	54,679
Investments in capital		1		11,046
Corporate bonds		1,647		3,299
Beneficiary certificates		23,694		26,490
Equity securities using equity method		38,127		39,060
Others		21		21
	₩	91,878	₩	134,596

(1) Investment equity securities owned by the Company as of March 31, 2006 and 2005 consist of the following:

(In millions of Korean won)

Investees	2006		2005	
	Acquisition Coast	Book value	Acquisition Coast	Book value
Listed:				
Sinwon Co.	₩ -	₩ -	₩ 24,580	₩ 556
KP Chemical	664	677	664	812
Namsun Aluminum Co.	1,377	490	1,377	274
Chungnam Spinning Co.	3,064	-	3,064	290
Taechang Company Ltd.	-	-	7,309	409
Daishin Information & Communication Co., Ltd.	10,755	3,524	10,755	1,705
Daishin Development & Financial Co., Ltd.	-	-	178	56
Tongyang Investment Bank Co., Ltd.	100	14	-	-
Hynix Semiconductor Inc.	-	-	13,933	15,090
	15,960	4,705	61,860	19,192

(Continued)

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

(In millions of Korean won)

Investees	2006		2005	
	Acquisition Coast	Book value	Acquisition Coast	Book value
Unlisted:				
Korea Securities Co.	14,780	14,780	14,780	14,780
Dong Sung Co., Ltd.	2,701	96	2,701	96
Korea Securities Depository	1,027	1,027	1,027	1,027
Ecomaister Co.	1,250	259	1,250	1,250
Songchon Construction Co., Ltd.	4,835	2,886	4,835	4,835
Micro Science Tech Co., Ltd.	675	247	675	675
IGLOO Security, Inc.	3,000	302	3,000	3,000
KIDB Co., Ltd.	380	380	380	380
Korea Securities Computer Corp.	291	291	291	291
Korea Exchange	3,210	3,210	3,210	3,210
Korea ECN securities Co., Ltd.	-	-	800	242
Others (*1)	14,271	205	15,381	5,701
	46,420	23,683	48,330	35,487
	₩ 62,380	₩ 28,388	₩ 110,190	₩ 54,679

As of March 31, 2006 the Company recorded ₩20,062 million as securities reduction loss on Chungnam Spinning Co., Namsun Aluminum Co. and others. Also, the Company recorded ₩1,819 million as reversal of securities reduction loss on Daishin Information & Communication Co., Ltd. and others.

As of March 31, 2005, the Company recorded ₩24,494 million as securities reduction loss on Sinwon Co., Daishin Information & Communication Co., Ltd., Dong Sung Co., Ltd. and others.

(\*1) Others comprised various equity securities that include the impairment losses on equity securities.

(2) Investments in capital as of March 31, 2006 and 2005 consist of the following:

(In millions of Korean won)

Investees	2006		2005	
	Acquisition Coast	Book value	Acquisition Coast	Book value
Investments in capital:				
The Stock Market Stabilization Fund	₩ -	₩ -	₩ -	₩ 11,045
Others (*1)	1	1	1	1
	₩ 1	₩ 1	₩ 1	₩ 11,046

(\*1) Others investments in capital were stated at acquisition cost.

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

### (3) Corporate bonds as of March 31, 2006 and 2005 consist of the following:

(In millions of Korean won)

Investees	2006		2005	
	Acquisition Coast	Book value	Acquisition Coast	Book value
Private placement corporate bonds: (*1)				
Daishin Factoring Co. CB	₩ 10,000	₩ 10,000	₩ 10,000	₩ 10,000
Kohap Co. CB	12,016	12,016	15,716	15,716
Others	6,084	6,084	2,704	2,704
	28,100	28,100	28,420	28,420
Guaranteed corporate bonds:				
Chungnam Spinning Co.	1,415	1,415	1,415	1,415
Kohap Co.	7,041	7,041	7,041	7,041
Namsun Aluminum Co.	1,831	1,831	1,831	1,831
Kabool Co. Ltd.	-	-	15,177	15,177
Others	509	509	547	547
	10,796	10,796	26,011	26,011
	38,896	38,896	54,431	54,431
Less: Allowance		(37,249)		(51,132)
		₩ 1,647		₩ 3,299

(\*1) Corporate bonds of which contractual terms are modified in a troubled debt restructuring due to mutual agreements are accounted for at the present value of expected future cash flows, if book value of the loan differs from the present value. An allowance for corporate bonds valued at present value is established in accordance with the securities accounting standards of the Securities and Futures Commission ("SFC") of Korea (See Note 2).

### (4) Beneficiary certificates as of March 31, 2006 and 2005 consist of the following:

(In millions of Korean won)

	2006		2005	
	Acquisition Coast	Book value	Acquisition Coast	Book value
Yuri Arbitrage Fund	₩ -	₩ -	₩ 10,000	₩ 10,231
Market Neutral Investment Trust	10,000	10,133	-	-
Hanil HIT Arbitrage Trust	-	-	-	-
Consus Harvest Investment Trust	3,000	3,545	5,000	6,216
Dongyang Arbitrage Trust	10,000	10,016	-	-
Multi-ST Fund	-	-	10,000	10,043
	23,000	23,694	25,000	26,490

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

(5) Equity securities using the equity method as of March 31, 2006 and 2005 consist of the following:

(In millions of Korean won)

	2006		2005		
	Percentage of ownership	Acquisition Coast	Book value	Acquisition Coast	Book value
Daishin Investment Trust Management Co., Ltd. (*1)	81.00%	₩ 25,080	₩ 33,177	₩ 25,080	₩ 34,110
Daishin Factoring Co., Ltd.	33.25%	20,805	-	20,805	-
Daishin Economic Research Institute (*2)	99.00%	4,950	4,950	4,950	4,950
		₩ 50,835	₩ 38,127	₩ 50,835	₩ 39,060

In accordance with the financial accounting standards, equity securities in affiliated companies in which the Company holds over 20 percent ownership of outstanding equity are stated using the equity method.

(\*1) Gain on equity method valuation amounted to ₩1,011 million and ₩1,472 million in 2006 and 2005, respectively.

(\*2) These securities were excluded from using the equity method since individual end balance of assets are less than the required assets level of ₩7,000 million.

(6) Other investment securities as of March 31, 2006 and 2005 consist of the following:

(In millions of Korean won)

	2006		2005	
	Acquisition Coast	Book value	Acquisition Coast	Book value
Daewoo Motor Co. CP	₩ 27	₩ 27	₩ 27	₩ 27
Less: Allowance		(6)		(6)
		21		21

(7) Gain (loss) on valuation of long-term securities as of March 31, 2006 and 2005 consist of the following:

(In millions of Korean won)

	2006		2005	
Equity securities	₩	13	₩	(2,694)
Investments in capital		-		11,045
Stocks of affiliated company		694		1,491
Deferred income tax expenses charged to equity		(194)		-
	₩	513	₩	9,842

## 7. INVESTMENT IN REAL ESTATE:

Investment in real estate as of March 31, 2006 and 2005 consists of the following:

(In millions of Korean won)

	2006		2005	
Land	₩	10,691	₩	11,072

As of March 31, 2006 and 2005, the government-appraised value of land is ₩4,902 million and ₩4,938 million, respectively.



## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

### 8. INSURED ASSETS:

As of March 31, 2006, tangible fixed assets are insured for ₩112,016 million with Ssangyong Fire & Marine Insurance Co. In addition, the Company carries comprehensive automobile insurance for its vehicles, e-biz@liability insurance for ₩3,000 million, comprehensive system insurance for ₩33,865 million and deposit insurance for ₩720,972 million.

### 9. TANGIBLE FIXED ASSETS:

Tangible fixed assets as of March 31, 2006 and 2005 are as follows:

(In millions of Korean won)

	2006				
	Beginning of the year	Acquisition / Capitalized	Disposal	Depreciation	End of the year
Land	286,830	21,588	2,554	-	305,864
Buildings	258,180	4,982	2,884	7,638	252,640
Vehicles	317	587	83	174	647
Furniture and equipment	24,938	15,720	299	13,945	26,414
Total	570,265	42,877	5,820	21,757	585,565

(In millions of Korean won)

	2005				
	Beginning of the year	Acquisition / Capitalized	Disposal	Depreciation	End of the year
Land	289,661	20	2,851	-	286,830
Buildings	269,322	511	4,095	7,558	258,180
Vehicles	460	87	76	154	317
Furniture and equipment	38,877	7,878	610	21,207	24,938
Total	598,320	8,496	7,632	28,919	570,265

As of March 31, 2006 and 2005, the government-appraised value of land is ₩231,495 million and ₩210,983 million, respectively.

Accumulated depreciation of tangible fixed assets as of March 31, 2006 and 2005 is as follows:

(In millions of Korean won)

	2006		2005	
Buildings	₩	50,087	₩	42,942
Vehicles		757		755
Furniture and equipment		147,998		141,997
	₩	198,842	₩	185,694

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

## 10. PRESENT VALUE DISCOUNT:

(1) Present value discount as of March 31, 2006 consist of the following:

(In millions of Korean won)

Description	Discount rate (%)	Loans	Present value discount
Advances for customers:			
Nasan Co., Ltd.	12.0	5,254	740
Nasan Construction Co., Ltd.	12.0	18,231	4,816
		₩ 23,485	₩ 5,556

(2) Present value discount as of March 31, 2005 consist of the following:

(In millions of Korean won)

Description	Discount rate (%)	Loans	Present value discount
Corporate bonds:			
Sungwon Corporation	9.0	₩ 1,093	₩ 36
Dasan Electron Co., Ltd.	10.0	691	76
		1,784	112
Advances for customers:			
Nasan Co., Ltd.	12.0	7,005	1,318
Nasan Construction Co., Ltd.	12.0	18,231	6,253
Donghae Pulp Co., Ltd.	10.5	4,578	686
Others	9.0	2,148	77
		31,962	8,334
		₩ 33,746	₩ 8,446

## 11. CALL MONEY AND BORROWINGS:

Call money and Borrowings as of March 31, 2006 and 2005 are as follows:

(In millions of Korean won)

Description	Financial Institution	Annual interest rate (%)	2006	2005
Call money	Korea Investment Trust Management Co. and others	4.05~4.10	₩ 150,000	₩ -
Short-term borrowings:				
Borrowings from KSFC	KSFC	3.70	1,572	10,453
			₩ 151,572	₩ 10,453

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

## 12. SHAREHOLDERS' EQUITY:

### (1) CAPITAL STOCK

Issued and outstanding as of March 31, 2006					
Authorized shares	Par value	Description	Shares	Amount	
200,000,000	₩ 5,000	Common stock	50,773,400	₩	254,867 million
	5,000	Preferred stock	26,000,000		130,000 million
			76,773,400	₩	384,867 million

On September 16, 2002, the Company retired its treasury stock of 200,000 shares based on the resolution at the general meeting of shareholders on May 25, 2002. Due to the retirement of the treasury stock, per share of issued shares is ₩5,020 as of March 31, 2006.

The Company additionally issued 2,187,000 shares of common stock for improving financial soundness and obtaining funds for the new business investments. As a result, additional paid-in capital in excess of par value amounted to ₩29,306 million.

Paid-in capital in excess of par value is accounted for as a capital surplus, which may be used to offset a future deficit or be transferred to capital, but not for distribution as cash dividends.

The Company has issued non-fixed, non-cumulative, participating and non-voting preferred stock, which is eligible to receive cash dividends at a dividend rate 1 percent more than the dividends declared in any year for common stock.

### (2) LEGAL RESERVE

The Company is required by the Korean Commercial Code to appropriate from retained earnings a minimum amount equal to 10 percent of cash dividends to be designated as a legal reserve until the legal reserve reaches 50 percent of the aggregate par value of issued capital stock.

### (3) TREASURY STOCK

The Company repurchased treasury stock of 1,000,000 shares for ₩15,606 million based on the resolution at the meeting of the Board of Directors for employee stock ownership association in 2005. The Company sold treasury stock of 302,729 shares and contributed 588,738 shares to employee stock ownership association on March 31, 2006. The Company hold treasury stock of 3,114,603 shares (₩45,661 million) and 3,006,070 shares (₩43,124 million) as of March 31, 2006 and 2005, respectively, which is recorded as a capital adjustment.

## 13. CAPITAL ADJUSTMENTS:

Capital adjustments as of March 31, 2006 and 2005 consist of the following:

	2006		2005	
	₩		₩	
Treasury Stock (Note 12)	(45,661)		(43,124)	
Gain (Loss) on valuation of non-current securities (Note 6)	513		9,842	
	(45,148)		(33,282)	

(In millions of Korean won)

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

## 14. SECURITIES IN CUSTODY:

Securities in custody consist of securities deposited by customers as collateral for margin loan transactions and securities and certificates of deposits held by the Company on behalf of its customers. Securities in custody as of March 31, 2006 and 2005 are as follows:

(In millions of Korean won)

	2006		2005	
Trustor securities in custody	₩	11,370,325	₩	9,463,761
Saver securities in custody		61,625		72,012
Beneficiary securities in custody		2,644,849		2,175,505
Others		38,745		4,064
	₩	14,115,544	₩	11,715,342

## 15. INCOME TAX EXPENSE AND DEFERRED INCOME TAXES:

The Company is subject to Korean corporation income tax at 13 percent of the first ₩100 million of taxable income and 25 percent of the excess. Added to this is resident surtax of 10 percent of the corporate income tax.

The effective tax rate considering deferred income taxes and income tax expenses charged to equity is 26.83 percent and 29.81 percent in 2006 and 2005, respectively. Income tax expense considering deferred income taxes is as follows:

(In millions of Korean won)

	2006		2005	
<b>Description</b>				
Income tax currently payable	₩	54,190	₩	18,369
Changes in deferred income taxes due to: temporary differences		3,713		(858)
Income tax expenses charged to equity		(194)		-
Income tax expense	₩	57,709	₩	17,511

In 2006 and 2005, the differences between income before tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows:

(In millions of Korean won)

	2006		2005	
<b>Description</b>				
Income before income tax	₩	215,089	₩	58,742
Permanent differences		(439)		285
Temporary differences		(17,551)		2,863
Taxable income	₩	197,099	₩	61,890

Deferred income taxes reflect the net tax effects on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Accumulated temporary differences and deferred income tax assets as of March 31, 2006 and 2005 are as follows:

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

(In millions of Korean won)

	Beginning of the year	Addition	Deduction	End of the year
Deductible temporary differences:				
Gain (loss) on valuation of bonds	₩ -	₩ 3,808	₩ -	₩ 3,808
Securities reduction loss	52,817	20,062	38,876	34,003
Securities using the equity method	20,805	-	-	20,805
Present value discount	8,446	5,556	8,446	5,556
Goodwill	12,210	-	4,070	8,140
Gain (loss) on valuation of structured securities	-	6,875	-	6,875
Non-operating expenses	-	4,860	-	4,860
Others	1,882	5,644	5,939	1,587
	96,160	46,805	57,331	85,634
Statutory tax rate	27.5%			27.5%
Deferred income tax assets	26,444			23,549
Taxable temporary differences				
Accrued income	8,251	9,957	8,251	9,957
Gain (loss) on valuation of structured securities	-	5,581	-	5,581
Securities using the equity method	9,030	(1,944)	(1,011)	8,097
Asset revaluation reserve	77,084	-	34	77,050
Others	2,112	2,817	2,112	2,817
	96,477	₩ 16,411	₩ 9,386	103,502
Exception from recognition of deferred income tax credits (*)	-			4,048
Recognition of deferred income tax credits	96,477			99,454
Statutory tax rate	27.5%			27.5%
Deferred income tax credits	26,531			27,350
Deferred income tax credits (net)	₩ (87)			₩ (3,801)
Current portion	₩ -			₩ (76)
Non-current portion	₩ (87)			₩ (3,725)

(\*) The Company did not recognize deferred tax credits on unrealizable gain on equity method valuation amounting to ₩4,048 million.

The Company applied SKAS No.16-“Income Taxes” since April 1, 2005. This statement requires that current tax and deferred tax be charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period. On March 31, 2006, the Company credited the deferred tax effect amounting to ₩194 million directly to capital adjustments.

## 16. ORDINARY INCOME PER COMMON SHARE AND NET INCOME PER COMMON SHARE:

Ordinary income per common share and net income per common share are computed by dividing ordinary income (after deduction of tax effect) and net income, respectively, after deducting the dividends for preferred

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

shares, by the weighted average number of common shares (47,234,596 shares in 2006 and 45,884,682 shares in 2005) outstanding during the year.

Ordinary income per share and net income per share are computed as follows:

(In millions of Korean won, except per share amounts)

	2006		2005	
Ordinary income & net income	₩	157,380	₩	41,231
Dividend on preferred share		27,300		14,300
Participating income on preferred share		27,840		1,440
Ordinary income & net income of common share		102,240		25,491
The weighted average number of common shares		47,234,596		45,884,682
Ordinary income per share	₩	2,165	₩	556
Earnings per share	₩	2,165	₩	556

## 17. DIVIDENDS:

(1) The Company's proposed dividends for 2006 and 2005 are as follows:

	2006		2005	
	Common stock	Preferred stock	Common stock	Preferred stock
Shares	47,658,700	25,999,994	45,580,230	25,999,998
Par value (Won)	5,000	5,000	5,000	5,000
Dividend rate (%)	20	21	10	11
Dividend (Won in millions)	47,659	27,300	22,790	14,300

(2) In 2006 and 2005, the dividend to net income is as follows:

Year	Dividends	Net income	Dividends to Net income ratio
2006	₩ 74,959 million	₩ 157,380 million	48%
2005	₩ 37,090 million	₩ 41,231 million	90%

(3) In 2006 and 2005, the dividend to year-end stock price ratio is as follows:

	2006		2005	
	Common stock	Preferred stock	Common stock	Preferred stock
Dividend per share (Won)	1,000	1,050	500	550
Stock price (Won)	20,250	14,700	14,650	10,100
Dividend per share to stock price ratio (%)	4.94	7.14	3.41	5.45

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

### 18. STATEMENTS OF CASH FLOWS:

(1) Cash flows from operating activities are presented by the indirect method. Cash for purpose of the cash flow statements consists of cash and cash equivalents as of March 31, 2006 and 2005.

(In millions of Korean won)

	2006		2005	
Cash and bank deposits	₩	125,378	₩	85,062
Deduction:				
Fixed deposit and installment deposit		81,000		31,000
Others		2,000		10,000
Cash and cash equivalents	₩	42,378	₩	44,062

(2) Significant transactions not involving cash inflows and outflows in 2006 and 2005 are as follows:

(In millions of Korean won)

	2006		2005	
Offset of available-for-sale securities (corporate bonds) against allowance for credit loss	₩	13,336	₩	-
Gain on valuation of available-for-sale securities (capital adjustment)		9,135		24,343
Offset of present value discount against allowance for credit loss		-		8,446
Offset of advances for customers and others against allowance for credit loss		13,660		10,941

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

### 19. RELATED PARTY TRANSACTIONS:

Significant transactions with related parties for the years ended and balances with related parties as of March 31, 2006 and 2005 are as follows:

(In millions of Korean won)

Related party	Description	2006	2005
Daishin Investment Trust Management Co., Ltd.	Brokerage commissions on beneficiary certificates	₩ 3,527	₩ 2,528
	Dividends	1,944	2,066
	Rental income	137	133
	Acquisition of other assets	17	-
	Accrued commissions	609	352
	Deposits for rent	1,772	1,772
Daishin Factoring Co., Ltd.	Corporate bonds	10,000	10,000
	Dishonored bills receivable	24,607	25,064
Daishin Economic Research Institute	Rental income	66	148
	General and administrative expenses	3,767	6,372
	Disposition of other assets	39	-
	Acquisition of other assets	55	407
	Accrued expenses	818	428
	Deposits for rent	886	886
Daishin Information & Communication Co., Ltd.	Rental income	11	10
	General and administrative expenses	3,068	3,314
	Acquisition of other assets	1,136	-
	Advanced payments	460	-
	Deposits for rent	6	6
	Accrued expenses	83	47
Daishin Development & Finance	Interest income	-	4
Daishin Champs Elysees Hwit	Rental income	558	569
	Deposits for rent	800	800
Yang, Young-ae Yang, Hoi-Gum	Rental income	46	40
	Deposits for rent	228	228

In 2006 and 2005, the total revenues earned by the Company from affiliated companies amounted to ₩6,289 million and ₩5,498 million, respectively, and the total charges of affiliated companies amounted to ₩6,835 million and ₩9,686 million, respectively, and the total assets disposed to the Company by affiliated companies amounted to ₩39 million in 2006, and the total assets purchased by the Company from affiliated companies amounted to ₩1,208 million and ₩407 million, respectively. As of March 31, 2006 and 2005, receivables from affiliated companies amounted to ₩35,676 million and ₩35,416 million, respectively, and payables to affiliated companies amounted to ₩4,593 million and ₩4,167 million, respectively.



# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

## 20. CONTINGENCIES AND COMMITMENTS:

- (1) The Company has provided government and public bonds and others (face value of ₩119,000 million) as collateral for reserve for future transaction to Korea Exchange.
- (2) The Company has provided government and public bonds and others (face value of ₩57,509 million) as collateral for reserve for call transaction to Chohung Bank and others, and for debit and credit transactions to Cheil Futures and others.
- (3) As of March 31, 2006, the Company entered into daily overdraft agreements with banks with the aggregate limit of ₩148,000 million.

## 21. PENDING LITIGATION:

Certain customers of the Company have filed a lawsuit against the Company claiming return of rent deposits, compensation for damages and others, which amount to ₩3,041 million. The management of the Company believes that the ultimate resolution of the litigation will not materially affect the Company's financial position.

## 22. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses in 2006 and 2005 are as follows:

(In millions of Korean won)

	2006		2005	
Salaries	₩	74,783	₩	51,994
Provision for severance indemnities		9,808		8,452
Other employee benefits		71,486		48,551
Computer system operating expenses		24,500		24,831
Rent		4,414		4,830
Commissions		15,512		16,603
Entertainment		1,714		808
Advertising		7,240		4,913
Depreciation		21,757		28,919
Training and study		761		381
Bad debts written off		4,820		7,447
Taxes and dues		6,263		5,203
Consignment fee		910		-
Others		18,363		17,058
	₩	262,331	₩	219,990

## 23. CONTRIBUTIONS TO EMPLOYEE WELFARE AND SOCIETY:

The Company gives support to its employees for housing loans, educational service fees and others. The Company paid ₩71,486 million and ₩48,551 million for employee welfare for the years ended March 31, 2006 and 2005, respectively. In addition, the Company's long-term loans to employees for housing amounted to ₩2,018 million as of March 31, 2006.

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED MARCH 31, 2006 AND 2005)

## 24. SUPPLEMENTARY INFORMATION FOR COMPUTATION OF VALUE ADDED:

The accounts and amounts needed for calculation of value added in 2006 and 2005 are as follows:

(In millions of Korean won)

	2006		2005	
Salary	₩	74,783	₩	51,994
Severance pay		9,808		8,452
Other employee benefits		71,486		48,551
Rent		4,414		4,830
Taxes and dues		6,263		5,203
Depreciation		21,757		28,919
	₩	188,511	₩	147,949

## 25. FINANCIAL PERFORMANCE:

Financial performance for the quarters ended March 31, 2006 and 2005 (unaudited) is as follows:

(In millions of Korean won, except per share amounts)

	Quarter ended March 31, 2006		Quarter ended March 31, 2005	
Operating revenues	₩	214,401	₩	105,346
Net income		17,705		7,878
Net income per share		240		105

# INTERNAL ACCOUNTING CONTROL SYSTEM REVIEW REPORT

(ENGLISH TRANSLATION OF A REPORT ORIGINALLY ISSUED IN KOREAN)

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### To Chief Executive Officer of Daishin Securities Co., Ltd.

We have reviewed the report of management's assessment of internal accounting control system ("IACS") of Daishin Securities Co., Ltd. (the "Company") as of March 31, 2006. In accordance with Article 2-2 of the Act on External Audit for Stock Companies (the "External Audit Law") of the Republic of Korea, the Company's management is responsible for assessing the design and operations of its IACS. Our responsibility is to review management's assessment and issue a report based on our review.

We conducted our review in accordance with Article 2-3 of the External Audit Law. Our review included inquiries of management and employees, inspection of related documents and checking of the operations of the Company's IACS. We did not perform an audit of the Company's IACS and accordingly, we do not express an audit opinion.

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's Assessment of IACS, issued by the Korean Audit Standards Committee on March 29, 2005, it applies only from that date until the date the Final Standard for Management's Assessment of IACS and Final Standard for Auditors' Review and Report on Management Assessment of IACS becomes effective. A review performed based on the final standards may have different results and accordingly, the content of our report may be different.

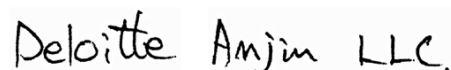
Based on our review, no material weakness in the design or operations of the Company's IACS under Article 2-2 of the External Audit Law as of March 31, 2006 has come to our attention.

This report applies to the Company's IACS in existence as of March 31, 2006. We did not review the Company's IACS subsequent to March 31, 2006. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

## Deloitte Anjin LLC

Seoul, Korea

April 14, 2006

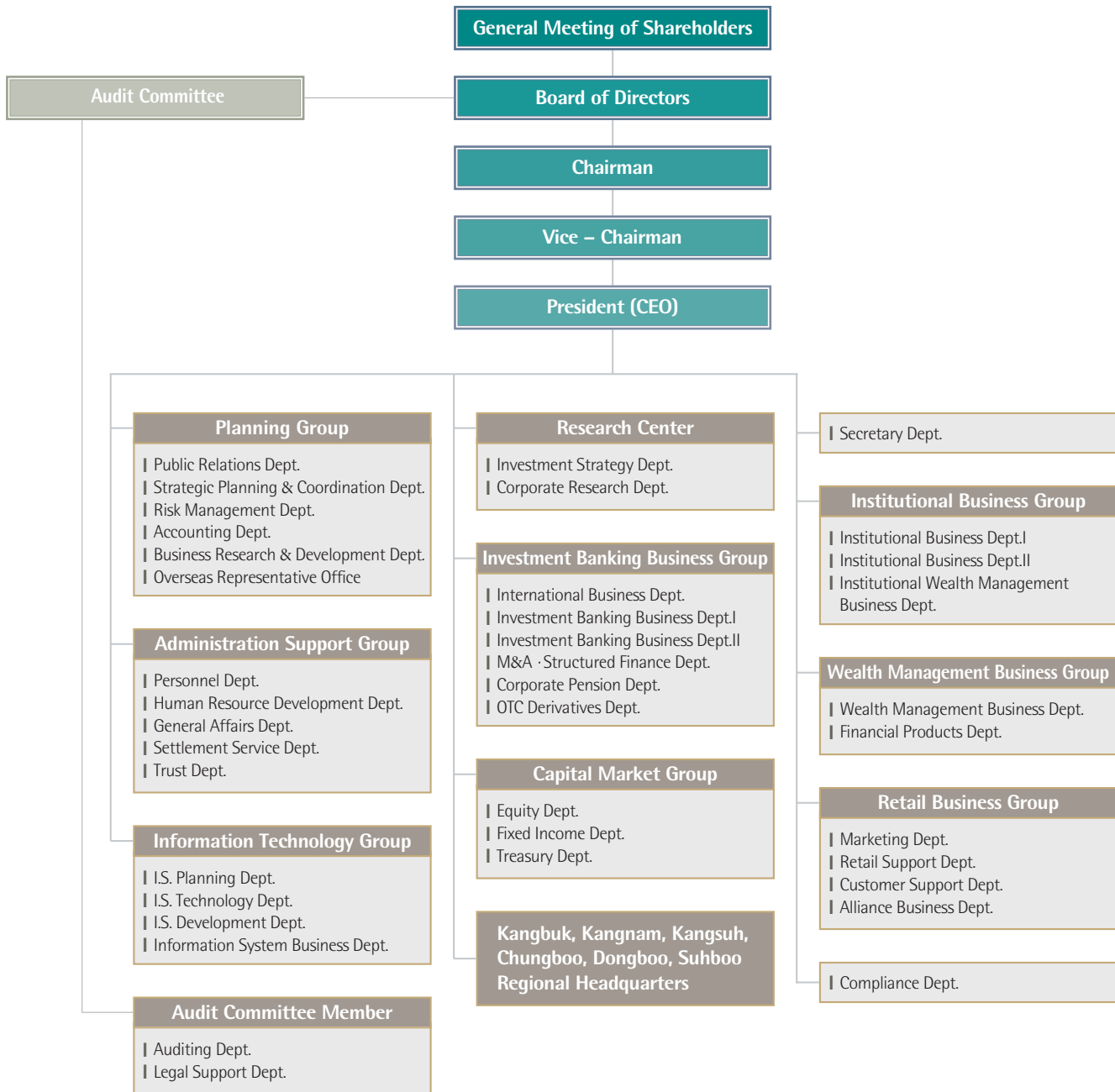


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### Notice to Readers

This report is annexed in relation to the audit of the financial statements as of March 31, 2006 and the review of IACS pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

# Organization Chart



# CEO & Presidents



●●●● **Auh-Ryung Lee**  
Chairman of the Daishin Securities

●●●● **Dae-Song Kim**  
Vice-Chairman of the Daishin Securities

●●●● **Chung-Nam Roh**  
Daishin Securities CEO & President

●●●● **Hong-Jib Moon**  
DERI CEO & President

●●●● **Jae-Chang Lee**  
DITM CEO & President

# Affiliates & Overseas Branches

## Daishin Investment Trust Management

Initially founded under the name of Daishin Investment Consulting in March 1988, Daishin Investment Trust Management (DITM) has steadily grown over the years and accumulated a wealth of know-how in asset management. It offers a wide range of services from investment trust, (mutual) fund management, investment consulting (discretionary investment services) and overseas investment consulting.

In tandem with globalization of the financial markets, Daishin Investment Trust Management was registered as an investment advisory with the US Securities and Exchange Commission in October 1988. Its high level of professionalism and creditworthiness was further attested to by the strategic alliance with Sumitomo Life Insurance of Japan and induction of capital in August 1999.

Daishin Investment Trust Management maintains an organic cooperative framework with Daishin Securities and Daishin Economic Research Institute. With a management philosophy that places priority on the customer and emphasis on nurturing talent and adhering to a strict code of conduct, the company strives to deliver high-quality, tailored financial services.

Optimal product offering, systematic risk management and stable returns over the long term are the keys that allow Daishin Investment Trust Management to respond to rapidly changing investment patterns and popularization of indirect investment. DITM is committed to enhancing value of the Daishin brand as the premier asset management company for continued customer confidence and satisfaction.

## Daishin Economic Research Institute

Daishin Economic Research Institute specializes in the research of financial engineering and quantitative tools to respond to the ever changing financial markets and economic landscape of the 21st century.

The institute is the think tank of Daishin Securities and is manned by a pool of top-notch researchers, who provide timely information on myriads of topics including the domestic and overseas economies with an emphasis on China, and real estate policy. Investors can access the information through both the online and offline media.

To facilitate efficient investment decision-making for investors backed by scientific and quantitative analysis, the research center developed a unique cyber-trading system. That system has enabled Daishin Securities to lead the industry in electronic trading.

Moreover, work is underway to develop more investor-oriented asset allocation models and to spearhead the market with a diverse offering of new financial products. The company plans to achieve these goals by delivering information with added value such as a global database and data on portfolio, fund sales and research rankings.

Daishin Economic Research Institute is working to lead the post-online era with the development and diffusion of world-class systems that combine the online and offline channels and to produce research that is highly recognized in the global markets.

## Tokyo Representative Office

The launch of the Tokyo Representative Office in August 1984 was aimed at promoting the Korean stock market and monitoring financial trends in Japan. The opening of the Korean market to foreign investors in 1992 further increased the office's importance and it was elevated to Daishin Securities' Tokyo branch in December 1996. Since then, it has been successfully facilitating Japanese investors' participation in the Korean market and assists Korean businesses that are vying to attract Japanese capital.

The Tokyo Representative Office has been responsible for attracting Japanese investors including the country's leading life insurer Sumitomo Life Group which acquired a 2.77% stake in Daishin Securities and 19% in Daishin Investment Trust Management in 1999. In 2002, the office won the exclusive rights to operate a Korea investment fund in Japan from Shinko Securities. In 2005, it played a crucial role in having SPARX Asset Management, the only listed asset management firm in Japan, acquire a 4.31 % stake in Daishin.

Introducing Korea's stock market to Japan-based institutional investors and supporting their Korean investment activities are the main objectives of the Tokyo office. It is also actively promoting cooperation between Korea and Japan's financial sectors by exploring opportunities for strategic investment and other alliances between Japan's financial institutions and Daishin Securities and introducing Japan's advanced financial tools and products to Korea.

## Corporate information

<b>Head Office</b>	34-8 Youido-dong, Youngdungpo-ku, Seoul 150-884, Korea Tel 82-2-769-2000, Fax 82-2-769-2810 www.daishin.co.kr
<b>Established</b>	20-Jun-62
<b>Number of Domestic Branch</b>	109 (end of March 2006)
<b>Employees</b>	1,905
<b>Paid-in-Capital</b>	384.9 billion won
<b>Total Shareholders' Equity</b>	1,451.9 billion won
<b>Overseas Network</b>	<b>Tokyo Representative Office</b> 6th Fl., Shinmitsuke Bldg., 3-6 Tamachi Ichigaya Shinjuku-ku, Tokyo, Japan Tel 81-3-3269-3783, Fax 81-3-3269-3794

 **Daishin Securities Co., Ltd.**

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