



Annual Report
2004



LG Card

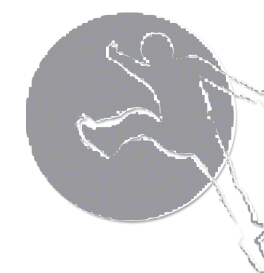
6-1, Namdaemunno 5-ga, Jung-gu, Seoul, Korea
TEL 82-2-6009-7204 www.lgcard.com



LG Card

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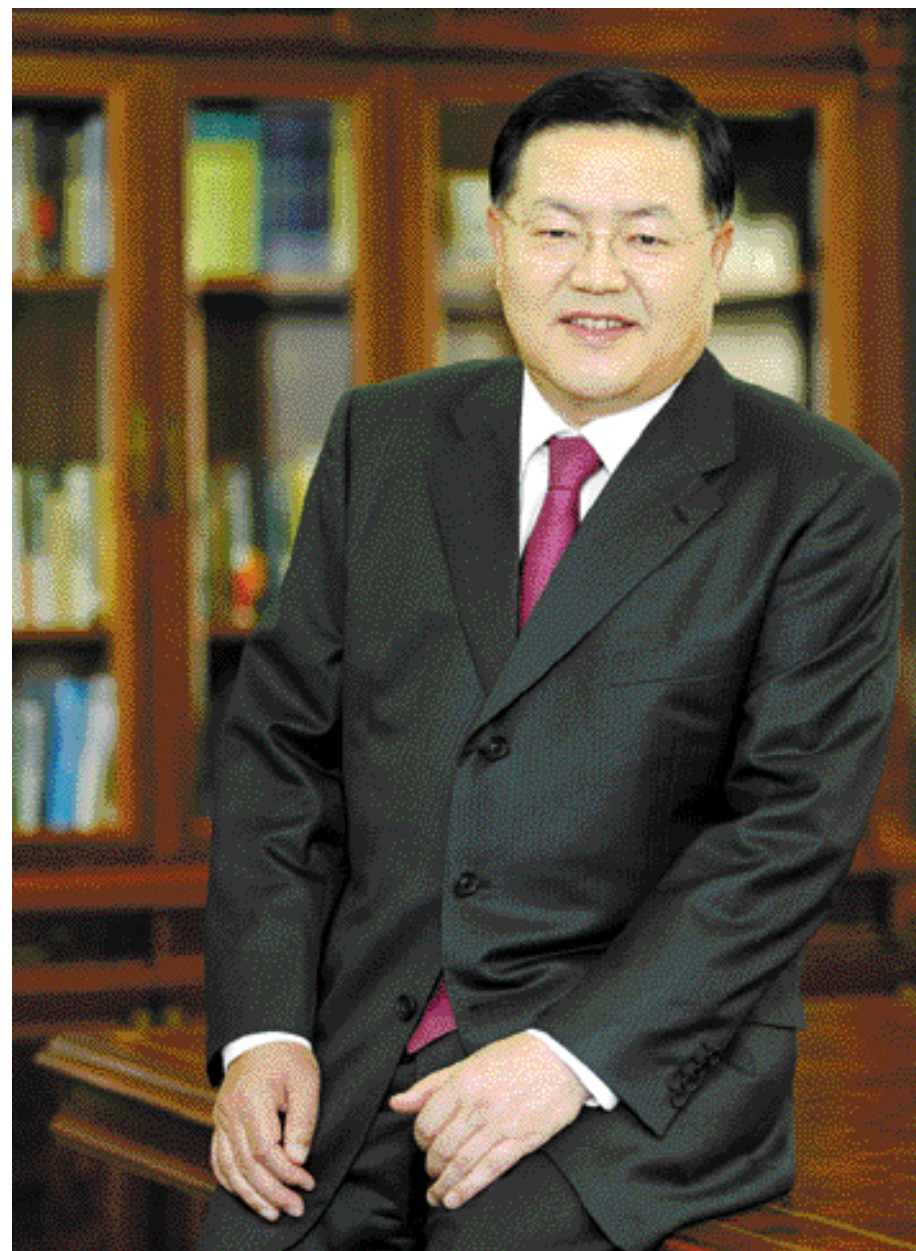


LG Card Leaping Forward Once Again

With the support of our valued customers and shareholders, LG Card is leaping forward once again.

Using its strategic dominance to capture the number one position in the market, LG Card is set to become the leading credit card company in every aspect.

Reborn as the Leading Credit Card Company



Dear shareholders and customers,

First of all, I wish to express my deepest gratitude for your trust and support in LG Card's normalization process.

To be worthy of your support, for the last year our management team has put forward its utmost efforts to normalize the company through rapid and thorough restructuring and business innovation. On the operation side, prime customer-centered marketing coupled with thorough risk management resulted in acquisition of 340,000 platinum card holders. Efforts like these allowed LG Card to recapture top market share in the sector.

In the collection sector, strongly enforced 'impressive collections' policy led to dramatically reduced appeals while increasing the cash recovery rate.

The FSC delinquency ratio has dropped 16%p from 33.3% as of 2003 end to 17.2% as of 2004 end. Highly risk assets such as refinanced loans dropped by over 50% from 7.581 trillion won at the end of 2003 to 3.4779 trillion won at present.

Also, the successful overseas issuance of \$400 million ABS to one of the leading global investment banking firm Merrill Lynch, was a clear sign to the market that LG Card is truly normalizing.

The most important sign of success is the monthly profits that has been achieved since it was regained again in Sept. 2004 after 22 months of red ink. The ordinary profits for 2004 is approximately 700 billion won more than the original MOU Forecast.

In 2004 LG Card secured a capital increase of 4.5 trillion won from fifteen financial institutions led by the Korea Development Bank and LG Group. This solidified LG Card's financial structure. In addition, all business indicators for the company continue to look positive.

Our success, beyond what everyone expected, is the result of the ardor and hard work of every employee. With a profitable 2005 and a stable financial and asset structure, LG Card will continue to enjoy steady positive income and its position as the leading credit card company in every aspect of its operation.

In closing, I hope that your support and interest in LG Card continues in 2005, and I wish for a prosperous and happiness of you and your families.

Thank you,

President and CEO *Park Dae-choon*

No Stop in Striving Towards Normalization and Success in 2004

After, its business crisis of 2003 LG Card swiftly put into place an emergency management structure committed to management normalization. A thorough restructuring and consistent management strategy implementation soon followed.

LG Card have improved the efficiency of its organization through reorganization and branch consolidation., and low cost operational structure was put into place. Under a strategic focus on quality rather than quantity efforts towards strong recovery of debt and a policy of concentrating on recovering cash were implemented. Losses were minimized with the introduction of a more rigorous Fraud Detective System.

In June of 2004 a 'New Start' initiative began. This initiative disseminated throughout the company highly creative new improvements to boost the early stages of normalization. Part of the 'New Start' was a declared 'commitment to Non-labor dispute' that would create a new corporate culture of employees and management working harmoniously together.

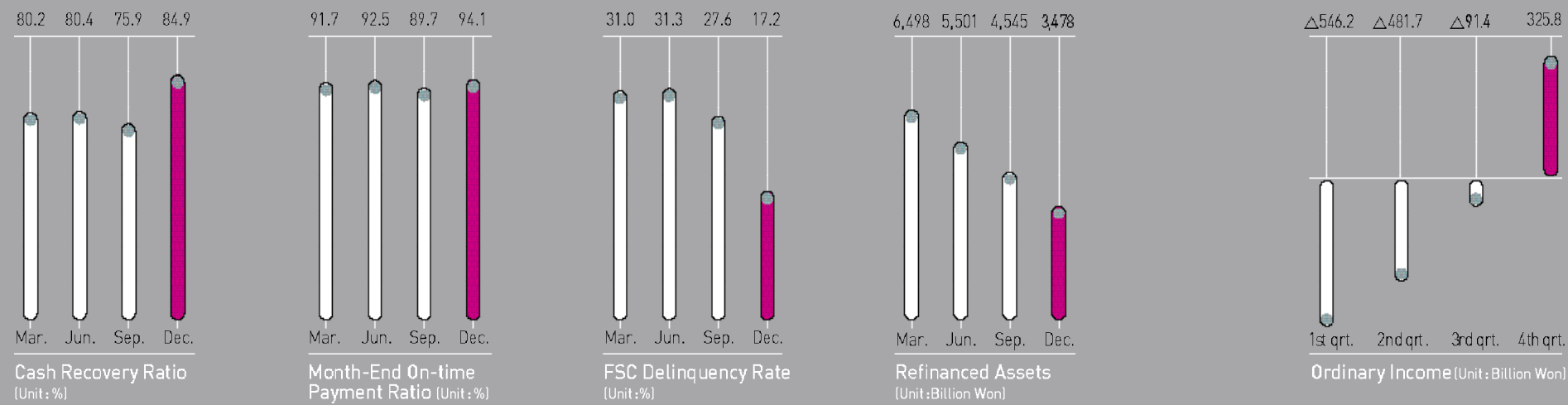
Through the trust and cooperation of the financial institutions and the LG Group, an approximately 4.5 trillion won of recapitalization spurred on financial restructuring. That this restructuring was recognized overseas was shown by the successful placement of a \$400 million ABS offering by Merrill Lynch.

Through these efforts stupendous business improvements have been realized. By year-end 2004 delinquency ratio and refinanced asset balance were each reduced by 17.2% and 3.4779 trillion won each over the preceding year. These results have greatly improved the asset quality. In addition, LG Card turned to earning surplus in September 2004 with ordinary profits of 17.3 billion won. This milestone was reached only twenty-two months after falling into the red in November of 2002 and only six months after the launch of the present management system in March 2004. In the last quarter of 2004 alone profits totaled 325.8 billion won. In all profits have performed approximately 700 billion won better than expected under the normalization plan.

LG Card will continue management innovation activities to improve without ceasing. Through customer-centered initiatives, marketing strategies and new product development that anticipate changes in the business environment LG Card promises to be the leading credit card company in every aspect.



2004 key Indicators of Management Reform



Tops in Competitiveness to Lead the Market

Securing competitiveness through well-supported marketing and new products

Abandoning conventional cost-based marketing in favor of individual customized ‘V-Marketing’ (see explanation below) CRM (Customer Relationship Management) and services aimed toward the top niche of customers is being strengthened. Specialized products categorized by gender or age are being upgraded. New cards matching customer lifestyles and tastes are constantly being developed and launched including, for example, a platinum card especially for women, a gas purchase bonus card, and ‘character’ card. All of these efforts are greatly improving brand competitiveness.

Strengthening asset and risk management

LG Card has a risk management committee chaired by the CFO. The committee provides continuous guidance on creating stable company growth and a profitable corporate structure. It does this by monitoring and brainstorming data regarding risk in the market environment including interest rate/liquidity risk and credit risk.

The committee deals with risk involving every aspect of the company whether in marketing, credit risk management, or collection. Company-wide risk is extensively discussed with a view to understand the key roots of where risk in order to block it before it arises and to keep risk at acceptable levels. To help create a risk management structure even better than what is

*V-Marketing: This is a type of marketing where analysis of the customer DB identifies the appropriate client needs and services that are to be delivered through optimal channels for maximizing service value to each customer.

presently in place an outside consulting group has been engaged to construct a Risk Forecasting System. The System will employ advanced techniques for upgrading the risk management system.

Leading the credit society with advanced IT systems

LG Card has activated a new data system called ‘A-pro’. A-pro is an IT system customized to the dynamic needs of the credit card industry, making LG Card a leader of the market of the future. The A-pro system allows LG Card to respond to whatever changes or niche needs the customer demands. Used in conjunction with ERP (Enterprise Resource Planning) LG Card’s ability to develop new products, increase the quality of its marketing, and even its ability to handle risk are all substantially enhanced.

‘More Convenient and Fast’ - e-biz

In 1999 LG Card was the first in the industry to construct a total Internet marketing system. In order to maximize customer service in August 2004 LG Card successfully installed company wide an EAI (Enterprise Application Integration) system. An EAI connects all of the various systems, applications, and business processes inside and outside of the company to minimize redundancy and to standardize operations to the norms set by central control. EAI allows for a rapid response to new businesses or changes in existing businesses and allows especially for improved service to large clients.

In addition, to ensure LG Card’s lead in the markets of future it has constructed a SCMS (Smart Card Management System). With this system LG Card expects to be a leader in introducing numerous value-added smart card products.

LG Platinum Card



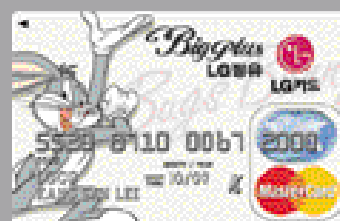
the top-level card for excellence expecting VIPs

Big Plus LG Gas Smart Card

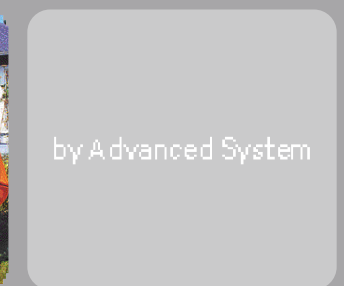


a gas smart card that delivers a number of useful and reliable services

LG Big Plus Character Card



an individualistic and stylish card for the young, new generation



Forever Creating A New LG Card

In 2004 the innovation program 'New Start' was introduced company-wide. Building on its remarkable business results and organizational innovations LG Card will make 2005 'the first year' in its leap towards being the 'leading card company'. To this end it has started the management innovation movement called 'Jump-V'. The five key themes of this movement are thorough customer-orientation, continuous self-improvement, respect for colleagues and teamwork, creative strategizing, and approaching work with a passion. The movement has twenty-four detailed programs such as 'culture reformation theme of the month', 'Jump-V Board', and 'internal benchmarking'.

To ensure the success of Jump-V both the CEO and the head of the labor union are in charge of it. Jointly they have selected the head of departments as 'change agents' providing leadership for the movement, and models of how to improve and change are widely highlighted.

Looking ahead all of LG Card's employees will maintain without limit their competitive spirit, professional attitude, and orientation towards success. No matter what the changes ahead to be overcome a youthful and vigorous corporate culture is being created.



Taking a Lead in Creating a Humane Society

LG Card sees helping its more unfortunate neighbors as part of its social responsibilities. At the very least total normalization of its operations will not occur without the full support of all citizens. Since 2001 LG Card has offered a 'welfare card' where 0.1~0.2% of all payments are donated to social service funds. These funds are used in environment protection, and the support for the disabled, heart-diseased children and lower-income families.

Last year through the 'Hope Sharing Bazaar' LG Card helped the aged and young. This year also during the Korean New Year's season LG Card helped the isolated elderly and homeless through the distribution of special seasonal foods to 3,850 individuals. It is through this type of activity that the concept of 'share management', a management that is continuously devoting a portion of profits to sharing with the less fortunate, finds its practical realization.

In response to the great support of its customers during its time of difficulties, LG Card has instituted thirty-eight 'volunteer sharing service teams' (as part of the Jump-V movement) in which all employees participate. The Wednesday of the second week of each month has been designated a 'sharing service day' in which employees directly help their neighbors doing good works. Some of the activities they might be doing on this day include providing basic food necessities free of charge to the malnourished, blood donation campaigns, setting up charity accounts, helping in protecting the environment, and helping out the Hope Sharing Bazaar.



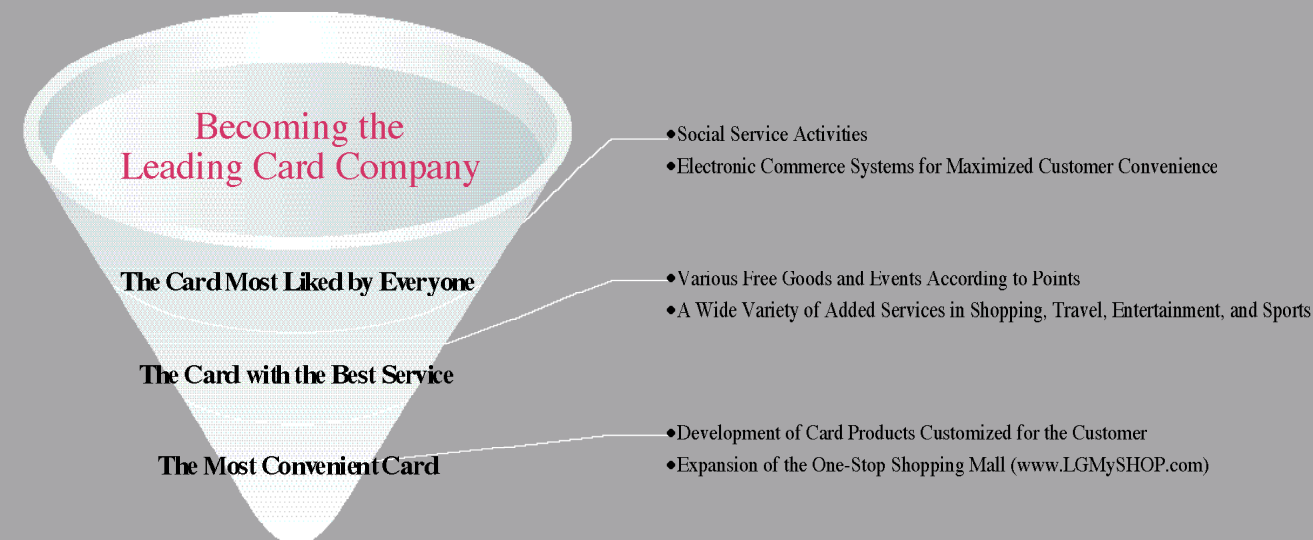
Always Putting the Client First

LG Card is deeply aware that the basis for its persevering through the early stages of its management normalization was the support and patience of its 10 million customers. In response LG Card promises to always put customer satisfaction first whether in its various products and services, or in its operational processes.

In the latter part of 2003 LG Card received an external professional evaluation of its entire customer responding process. The results of this analysis impacted management planning and human resources assessments. In addition a VOC (Voice of Customer) solution was created to provide swift responses to customer needs. All of these efforts have greatly boosted the company's competitiveness.

Through the 2004 meeting for customer-centered management a customer-oriented 'mind' was newly instituted and implanted in everyone's consciousness. That making customer satisfaction a top priority was essential for a successful normalization was reaffirmed. This year as part of the Jump-V movement every month there is a day for concentrating on a customer-centered approach where selected individuals and stores offer customers various programs that advance a customer-centered culture.

LG Card is striving to provide card that is recognized as the 'most convenient card, the card with the best service, and the card most liked by everyone'. It is doing this by providing financial services that thoroughly meet the needs of every individual client. Examples of this include revolving services for top-level clients and top-level asset augmentation, expanded affiliate services, and a superior resolution process for complaints.





CREDIT
CARD

the Choice of the Good Life
● Credit card and cash services

LG Card provides credit services for individuals and companies with fixed credit limits for the purchase of goods and service. It also provides emergency cash when needed through its cash service. As customer segments become more fragmented LG Card will continually develop more differentiated and specialized products. Its various customer loyalty programs are successful and its CRM systems are going to be further strengthened. To improve the credit management system risk management that precisely determines the credit status of customers will be more fully utilized.



INSTALLMENT
FINANCE

Meeting the Needs of Consumer and Affiliated Outlet
● Installment finance services

LG Card offers a variety of installment financial products to help customers with monthly set expenses. These include helping make available through installment plans the purchasing of expensive products and services related to the upkeep of property. Differentiated financial services are offered under a preferential loan system for top customers, available through over ten thousand retail points and affiliated agencies throughout Korea.

Quick Convenient Loans, Anytime, Anywhere!

● Consumer loans

LG Card has developed various consumer loan products for both LG credit card holders and general consumers. Amongst these products are long-term refinancing services for customers undergoing difficult financial situations. LG Card is developing many financial products that meet the niche needs of customers. LG Card is using its thorough credit management skills to minimize risk and to move into customer niche markets that traditionally the banks cannot handle due to a perceived low profitability rate.



CONSUMER
LOANS

Supporting Corporate Procurement with Advanced Systems

● Lease financing

LG Card is engaging in varied leased asset and debt operations beyond conventional lease financing. As is typical of lease financing LG Card uses its accumulated funds to take on for a set period the leasing costs of the numerous equipment needs of companies. What LG Card is doing differently however is that instead of basing its loans around specific collateral (as is conventional) LG Card has developed new credit-worth analyses that look at overall credit and corporate performance as the basis for financial transactions.

New leasing business will be focused on financially stable and profitable client sectors particularly governmental and regional authorities, and governmental investment institutions.



LEASE
FINANCING

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I. CORPORATE STATUS

1. HISTORY

1987	Nov.20	Credit card business approved	2000	Mar.24	Registered as venture capital financial business
				Oct. 5	Business coalition with Asiana Airlines
1988	Mar. 9	Company name changed to LG Credit Card Co., Ltd.	2001	Feb. 1	{LG-Prei Card}, a chargeable prepaid card for N generation issued
	Apr. 1	Cash service started		Jul. 2	Advanced to Mobile Commerce market under coalition with SK Telecom
	Sep.16	Coalition agreement concluded with MasterCard International		Sep. 1	Company name changed to LG Card Co., Ltd.
1989	Mar. 2	Card-loan business started		Nov.20	Card Loan and Lease claim integrated ABS issued for the first time in the industry
	Apr. 1	International card business and consumer finance businesses business started		Dec.20	Global ATM service started
	Jun. 1	Direct debit system started	2002	Apr. 22	Company listed at Stock Exchange
	Nov.10	Payment guarantee business started		Oct. 10	Advanced to Auto Lease market
1990	Mar.15	Special-purpose loan businesses started		Nov.28	Overseas FRN (Floating Rate Note) issued for the first in the industry
1991	Mar. 4	24-hour limit approval and receipt of loss started	2003	Jan. 28	B2B system expense saving purchase system constructed
1992	Apr. 22	{Lady card} for women issued		Feb. 13	Overseas ABS worth approximately US\$300,000,000 issued
1993	Mar.22	{Artist Card} issued		Apr. 1	International Standard Certification acquired for information protection
1994	May. 1	Integrated limit operating system built		May. 1	Fingerprint identification payment service started
	May.17	Automated telephone system constructed		Jul. 16	Subordinated CB (300 billion KRW)/ BW (300 billion KRW) issued
1995	Apr. 17	{LG-SKYPASS Card}, affiliated card with KAL issued		Jul. 18	'L-Club' service for travel and leisure started
1996	Apr. 15	International coalition agreement signed with Taiwan China Trust Commercial Bank for the first time in the nation	2004	Jan. 15	Normalization plan support by KDB
1997	Jan. 3	RDB (Relational Data Base) system constructed for the first time in the typical industry		Jan. 16	Separation from LG Group
	Apr. 1	ARS cash service started		Feb. 13	1 st debt-equity swap completed
	Jul. 3	Business coalition with JCB Card		Feb. 14	Launch of labor union
	Sep.29	Business coalition with VISA Card		Mar.15	Park, Hae-Choon inaugurated as CEO
1998	Jan. 1	Merged with LG Installment Finance Co., Ltd.		Apr. 11	Real-time illegal cash finance uncover system activated
	Feb.18	Leasing business started		May. 3	New data system (A-pro) opened
	Oct. 1	ALM (Asset and Liability Management) system opened		May.13	MOU with KDB for Normalization settled
1999	Jan. 1	Company name changed to LG Capital Services Corp.		May.28	First 'mast trust' ABS of 525 billion won issued
	May.12	Loans on beneficiary certificate started for the first time in the industry		Jun. 1	'New-Start' program launched
	Jun.21	e-commerce systems built between enterprises for the first time in the nation		Jul. 5	Head office moves to Namdaemun, Seoul
	Jul. 17	Business coalition with GE Capital Financial		Jul. 28	2 nd debt-equity swap completed
	Nov. 1	Loans through Internet introduced		Sep.15	'Family Service' launched
				Oct. 28	Achieved monthly profit of 17.6 billion won in September
				Nov. 1	Regional health insurance premium card payment service started
				Dec. 22	\$ 400 million ABS issuing agreement with Merrill Lynch
				Dec. 24	'LG Digital gift card' Launched
				Dec. 31	Final recapitalization agreement with creditors and LG settled

2. BUSINESS PURPOSES AND MAIN BUSINESS FOCUS

1) Purpose

The company will conduct business as defined herein to accommodate people's financial needs as specified in the Specialized Credit Financial Business Act and to contribute to the development of the finance industry.

2) Main Business

1. Issuance and management of credit cards
2. Payment of the amount charged to credit cards
3. Recruitment and management of credit card franchise stores
4. Issuance of debit cards and prepaid cards
5. Sale of prepaid cards (including refund service)
6. Payment of the amount charged to debit cards and prepaid cards (including a transaction approval)
7. Installment financing
8. Facilities rental
9. Sales under deferred payment
10. Credit loan and mortgage loan
11. Note discount
12. Transfer, management, and collection of account receivables acquired by companies by providing products and services
13. Purchase of bonds or valuable securities issued based on bonds held by other financial companies specializing or engaging in loan business in connection with the services specified in items 1 and 12
14. Payment guarantee
15. Credit inquiry and additional services related to items 1 and 12
16. Other businesses dealing with credit donation
17. Venture capital financing
18. Stake investment and other investment businesses related to venture business
19. Internet Business and e-Business (includes the operation of hub - portal sites and shopping mall) and investments activities
20. E-commerce-related business and investment business
21. Mail-order business
22. Insurance agent
23. Traveling
24. Money exchange
25. Card-making agency
26. Value-added communication service
27. Advertising
28. Wholesale and retail
29. Real estate lease
30. Loan and sale of computer systems related to each service as specified above
31. Additional services related to each service as specified above
32. Other services reported to and registered with the Ministry of Finance and Economy and the Financial Supervisory Board or authorized, permitted, and approved by them

3. MANAGEMENT AND EMPLOYEES

1) Management

Classification	Name	Title	Remarks
Full Time	Park, Hae-choon	Representative Director	
Part Time	Choi, Yeon-Hong	Outside Director	Auditing Committee Member
Part Time	Kim, Gap-Yong	Outside Director	Auditing Committee Member
Part Time	Sohn, Sang-Ho	Outside Director	Auditing Committee Member

2) Employees

Classification	Management Staff		Total
	Permanent	Temporary	
Male	1,261 persons	277 persons	1,538 persons
Female	1,124 persons	1,206 persons	2,330 persons

4. SHARES

1) Status of Shares Issued

- (1) Shares to be issued by the company : 2,000,000,000 shares
- (2) Outstanding shares issued by the company : 857,077,824 shares
- (3) Price per share : 5,000 KRW
- (4) Type of shares and share certificates : Registered common stock

2) Capital Changes (in recent five years)

(Unit: shares, million KRW)

Date	Type of Shares	No. of Shares	Change Amount	Capital after Change	Description of Change
Jan. 1, 1998	Registered common stock	6,600,000	66,000	166,800	Merger
Jun. 12, 1998	Registered common stock	5,400,000	54,000	220,800	Capital increase with consideration
Aug. 24, 1999	Registered common stock	2,920,000	29,200	250,000	Capital increase with consideration
Dec. 16, 1999	Registered common stock	5,000,000	50,000	300,000	Capital increase with consideration
Jan. 1, 2000	Registered common stock	60,000,000	-	300,000	Stock split
Jul. 21, 2000	Registered common stock	10,000,000	50,000	350,000	Capital increase with consideration
Apr. 10, 2002	Registered common stock	4,000,000	20,000	370,000	Capital increase with consideration
Jul. 1, 2003	Registered common stock	45,000,000	225,000	595,000	Capital increase with consideration
Oct. 21, 2003 ~Dec. 31, 2003	Registered common stock	1,197,824	5,989	600,989	Request CB conversion and BW exercise
Dec. 24, 2003	Registered common stock	37,000,000	185,000	785,989	Capital increase with consideration
Feb. 14, 2004	Registered common stock	190,780,000	953,900	1,739,889	Capital increase with consideration
May. 9, 2004	Registered common stock	339,959,902	△1,699,800	40,090	Reduction of Capital
Jul. 29, 2004	Registered common stock	509,100,000	2,545,500	2,585,590	Capital increase with consideration

5. MAJOR SHAREHOLDERS (more than 5% of equity ratio)

(Unit: shares)

Rank	Name	No. of Shares	Equity Ratio
1	Korea Development Bank	134,544,423	26.0%
2	National Agricultural Cooperative Federation	86,077,235	16.6%
3	Kookmin Bank	73,170,506	14.1%
4	Woori Bank	53,145,990	10.3%
5	Industrial Bank of Korea	36,377,880	7.0%
6	Hara Bank	27,973,824	5.4%

6. DEBENTURES

1) Unsecured Bonds

(Unit: million KRW)

Type	Rate	Current Term	Previous Term
Unsecured Bonds	4.31% ~10.88%	2,788,485	6,389,197
Changes : Short-term bond		(310,000)	(837,307)
Liquid bond		(1,714,245)	(2,038,956)
Discount on debentures issued		(350)	(2,490)
		763,890	3,510,444

2) Convertible Bond (CB)

(Unit: million KRW)

Type	Rate	Current Term	Previous Term
CB		299,670	300,000
Changes : Conversion amount		-	(330)
Redemption premium		99,001	99,001
Adjustment of conversion right		(79,188)	(94,935)
Discounts on CB Issued		(3,018)	(3,580)
Balance		316,465	300,156

3) Bond with Warrant (BW)

(Unit: million KRW)

Type	Rate	Current Term	Previous Term
BW		282,665	300,000
Changes : Conversion amount		-	(17,335)
Redemption premium		73,015	73,015
Adjustment of subscription right		(62,576)	(74,696)
Discounts on bonds with subscription warrant		(2,425)	(2,906)
Balance		290,679	278,078

7. STAKE IN SUBSIDIARY AND RELATED COMPANY

(Unit: shares, million KRW)

Invested Company	No. of Shares Acquired	Equity Ratio	Balance as of the End of Current Term
HTVI	1,000,000	28.6	3,530

II. PERFORMANCE AND ASSETS

1. PERFORMANCE

(Unit: million KRW)

Account	19th Term	18th Term	17th Term
Operating revenue	3,400,785	4,392,635	6,064,641
Operating expenses	1,662,061	2,593,008	2,871,145
Pre-provision income	1,738,724	1,799,627	3,193,496
Provision expense	2,580,443	7,134,351	2,528,647
(Loan loss reserve balance)	(2,324,328)	(5,022,842)	(2,109,387)
Operating income	△841,719	△5,334,724	664,849
Ordinary income	△793,539	△5,573,085	501,032
Extraordinary income	711,939	16,133	-
Income tax expense	-	41,859	150,637
Net income	△81,600	△5,598,811	350,394

2. ASSETS

(Unit: million KRW)

Account	19th Term	18th Term	17th Term
Current assets	2,004,678	2,444,382	2,797,879
Earning assets			
Credit card	772,654	1,855,116	7,912,694
Credit purchase	509,894	1,092,366	4,534,686
Cash advance	262,760	762,750	3,378,009
Consumer Loan	3,628,236	6,479,841	6,913,400
Card loans	2,622,319	5,238,011	6,517,125
Other loans	1,005,918	1,241,830	396,275
Installment finance	575,124	1,317,093	3,643,956
Other assets	2,952,172	2,609,070	3,457,763
Sub-total of earning assets	7,928,187	12,261,120	21,927,813
Fixed assets	608,821	1,082,898	1,209,002
Loan loss reserve	(2,324,328)	(5,022,842)	(2,109,387)
Assets total	8,217,358	10,765,558	23,825,307
Liabilities	8,787,106	13,978,745	21,921,098
Borrowing	7,507,507	12,438,761	20,239,726
Current liabilities	6,136,472	8,031,597	14,088,899
Fixed liabilities	1,371,035	4,407,164	6,150,827
Other liabilities	1,279,599	1,539,984	1,681,372
Current liabilities	944,662	1,478,718	1,593,123
Fixed liabilities	334,937	61,267	88,248
Shareholders' equity	(569,748)	(3,213,187)	1,904,210
Paid in capital	2,585,590	785,989	370,000
Capital surplus	1,713,485	451,664	260,153
Retained earnings	(4,516,799)	(4,435,198)	1,293,113
Capital adjustment	(352,023)	(15,643)	(19,056)
Total liabilities and stockholders' equity	8,217,358	10,765,558	23,825,307

3. RESULTS OF OPERATION

1) Transaction Volume (Annual)

[Unit: 100 million KRW]

By product	2004		2003		2002	
	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio
Credit card						
Lump sum purchase	185,453	35.65%	295,411	27.76%	408,624	25.49%
Installment purchase	68,194	13.11%	102,072	9.59%	149,850	9.35%
Cash advance	240,649	46.26%	567,037	53.29%	852,140	53.16%
Sub-total	494,295	95.02%	964,519	90.64%	1,410,615	88.01%
Installment finance						
Installment finance	4,130	0.79%	11,478	1.08%	26,794	1.67%
Sub-total	4,130	0.79%	11,478	1.08%	26,794	1.67%
Consumer loans						
Consumer loans	20,233	3.89%	86,163	8.10%	159,893	9.98%
Sub-total	20,233	3.89%	86,163	8.10%	159,893	9.98%
Lease						
Lease	1,524	0.29%	1,971	0.19%	5,554	0.35%
Sub-total	1,524	0.29%	1,971	0.19%	5,554	0.35%
Total	520,182	100.00%	1,064,131	100.00%	1,602,856	100.00%

2) Status of Members and Merchants

[Unit: 1,000 persons, 1,000 places]

Account title	19th Term	18th Term	17th Term
Total number of members	11,916	14,639	14,328
Total number of merchants	3,547	3,177	2,724

4. FUNDING AND WORKING CAPITAL (Average balance)

1) Funding

[Unit: 100 million KRW]

Item	19th Term		18th Term		17th Term	
	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio
Borrowings	56,873	55.03%	88,552	49.67%	107,461	50.56%
Debentures	47,265	45.73%	79,424	44.55%	63,311	29.79%
Other liabilities	14,644	14.17%	18,262	10.24%	26,174	12.31%
Equity capital	(15,426)		(7,967)		15,601	7.34%
Total	103,357	100.00%	178,271	100.00%	212,547	100.00%

2) Working capital

[Unit: 100 million KRW]

Item	19th Term		18th Term		17th Term	
	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio
Current assets	8,973	8.68%	20,051	11.25%	18,407	8.66%
Credit card assets	20,259	19.60%	42,793	24.00%	80,404	37.83%
Installment finance	7,488	7.25%	21,225	11.91%	34,020	16.01%
Consumer loans	24,164	23.38%	45,140	25.32%	36,174	17.02%
Lease	1,306	1.26%	3,526	1.98%	3,451	1.62%
Other assets	41,165	39.83%	45,537	25.54%	40,091	18.86%
Total	103,357	100.00%	178,272	100.00%	212,547	100.00%

Financial Auditing Report

We, the LG Card Financial Auditing Committee have audited the accompanying financial statements and operations as of December 31, 2004 and express an opinion based on our audits as follows.

1. Auditing Method

We conducted our audits examining the financial statements as of December 31, 2004 in accordance with generally accepted auditing standards.

Operating audit includes attending the Board Meetings and other meetings, getting briefings on relevant matters, and examining documents.

Audit also includes examining the report and assess of independent auditors, internal audit team, quasi-judicial inspections and internal accountants.

2. Financial Statement and Income Statement Notice

The reported balance sheet and Income Statement accurately and fairly present in conformity with relevant laws and company articles.

3. Deficit Disposition Statement Notice

The Deficit Disposition Statement accurately and fairly presents in conformity with relevant laws and company articles.

4. Annual Report Notice

The Annual Report accurately and fairly presents the company's situation, in conformity with relevant laws and company articles.

March 9, 2005

LG Card Financial Auditing Committee

Committee Member Choi, Yeon-Hong



Committee Member Kim, Gap-yong



Committee Member Sohn, Sang-Ho



Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders
LG Card Co., Ltd.:

We have audited the accompanying balance sheet of LG Card Co., Ltd. (the "Company") as of December 31, 2004, and the related statements of operations, disposition of accumulated deficit and cash flows for the year then ended. 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 audit. The financial statements of the Company as of and for the year ended December 31, 2003, presented herein for comparative purposes, were audited by Samil PricewaterhouseCoopers, whose report dated February 9, 2004 expressed an unqualified opinion on these statements.

We conducted our audit 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 audit provides 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 the Company as of December 31, 2004, and the results of its operations, the changes in its accumulated deficit and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As described in Note 2(a) to the financial statements, 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.

As described in Note 1 to the financial statements, as of December 31, 2004, the Company is under the joint management control by its creditor financial institutions led by Korea Development Bank in accordance with the agreement made on February 6, 2004 to implement its business rehabilitation plan.

As described in Note 1 to the financial statements, on January 15, 2004, the Company received an approval from the Fair Trade Commission of the Republic of Korea on separation from the LG Group.

As described in Note 7 to the financial statements, the outstanding balance of financing assets transferred through asset-backed securitization excluding trust assets amounted to ₩4,220.5 billion as of December 31, 2004.

As described in Note 20(b) to the financial statements, due to a liquidation crisis derived from aggravation of delinquency in credit card and loan payment, the Company was provided with ₩2,000 billion of bailout loans from its creditor financial institutions on November 24, 2003, pledging financing assets, and the balance of these loans due to the creditors is ₩1,090.6 billion as of December 31, 2004. Additionally, pursuant to the decisions of the creditor financial institutions committee made on January 2, 2004 and February 6, 2004, the Company was provided with ₩1,716.6 billion of additional bailout loans and the balance due to the creditors is ₩125 billion as of December 31, 2004.

As described in Note 20(c) to the financial statements, pursuant to the decisions of the creditor financial institutions committee made on January 2, 2004 and February 6, 2004, the creditor financial institutions agreed to convert ₩1,907.8 billion of existing loans and ₩1,591.6 billion of additional bailout loans to equity in the year 2004. In accordance with the Board of Directors' Meeting held on January 14, 2004, ₩953.9 billion of the debt was converted to equity on February 13, 2004 and ₩667.3 billion of difference between the book value of debts converted to equity (converted at ₩1,500 per share) and the fair value of equity shares at the conversion date was recorded as gain from debt restructuring in the statement of income. Additionally, pursuant to the decision of the creditor financial institutions committee made on February 27, 2004 and the Board of Directors' Meeting held on July 13, 2004, ₩2,545.5 billion of remaining debt was converted to equity at conversion price of ₩5,000 per share on July 28, 2004.

As described in Note 20(d) to the financial statements, in accordance with the resolution of the creditor financial institutions committee made on February 27, 2004 and extraordinary shareholders' meeting held on April 27, 2004, the Company reduced capital on May 8, 2004 by the ratio of 97.7% without consideration.

As described in Note 27 to the financial statements, by the resolution of the creditor financial institutions committee made on March 3, 2004, the Company purchased 5,371,300 shares of LG Investment and Securities Co., Ltd. from the major individual stockholders and related parties of LG group for ₩39,511 million on July 21, 2004, and sold 25,877,487 shares of LG Investment and Securities Co., Ltd. including the 5,371,300 shares to Woori Financial Group Co., Ltd. for ₩293,788 million on December 24, 2004. Additionally, pursuant to the resolution, the Company received ₩44,615 million without consideration from the major individual stockholders and related parties of LG Group on July 27, 2004, and recognized it as extraordinary gain.

As described in Note 29 to the financial statements, as of March 27, 2004, the Company's shares were designated as supervised shares in Korea Exchange as the Company failed to meet the ratio of impaired capital less than 50% under the Regulation on Securities Listing of the Republic of Korea. In the event that the Company fails to increase its net asset through any measures to meet the ratio by April 30, 2005, it is possible that the Company's shares will be delisted in Korea Exchange pursuant to the Regulation.

As described in Note 30(a) to the financial statements, for the business rehabilitations, the Company increased its capital by ₩1,000 billion (172,413,795 shares, at ₩5,800 per share) on January 28, 2005 through public offering and the number of common stocks increased from 517,117,922 shares to 689,531,717 shares, pursuant to the resolutions of the Board of Directors made on December 31, 2004 and the creditor financial institutions committee made on January 3, 2005, and the proceeds were used to redeem ₩695.1 billion of debt owed to the creditor financial institutions.

As described in Note 30(b) to the financial statements, the Company decided to reduce its capital without any consideration by the reduction ratio of 81.8% on March 7, 2005 pursuant to the resolutions of the Board of Directors and the creditor financial institutions committee made on January 3, 2005, and decided to hold extraordinary shareholders' meeting on February 24, 2005. According to the capital reduction, the number of common stocks will be reduced from 689,531,717 shares to 125,369,403 shares and ₩2,820.8 billion of gain from capital reduction will be recorded as capital surplus.

As described in Note 30(c) to the financial statements, pursuant to the resolution of the creditor financial institutions committee made on January 3, 2005, the maturity of the outstanding bailout loans amounting to ₩1,090.6 billion was extended from December 30, 2005 to December 31, 2006. In relation to the other debts owed to the creditor financial institutions other than the bailout loans mentioned above whose maturities fall within the year 2005, the maturities of 50% of the debts were extended by additional one year and the maturities of the other 50% were extended by two years. In relation with the resolution mentioned above, the Company may require ₩1,000 billion credit provisions from the creditor financial institutions and demand the creditor financial institutions to purchase asset-backed securities which are to be issued to redeem the outstanding asset-backed securities whose maturities fall within the year 2005. In addition, the interest rates of the maturity-extended debts owed to LG Group were reduced by 2%.

As described in Note 30(d) to the financial statements, the Company is under the business rehabilitation plan. The Company established a short-term funding plan for operating activities and the business rehabilitation plan can be altered if such short-term funding is not available. The Company's financial statements reflect the management's evaluation on economic surroundings which can affect the Company's financial status. However, actual results may differ from the management's evaluation and such differences can be significant.

KPMG Sangyong Accounting Corp.

February 1, 2005

This report is effective as of February 1, 2005, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Balance Sheets

December 31, 2004 and 2003

(In millions of Won)

	2004	2003
Assets		
Current assets:		
Cash and cash equivalents (notes 3 and 7)	278,787	324,015
Short-term financial instruments (note 3)	41,918	67,074
Short-term investment in securities (note 4)	556,566	1,031,863
Short-term loans, net (note 9)	626,850	359,239
Accounts receivable, net	167,423	303,465
Accrued income, net	160,551	260,298
Other current assets (note 5)	167,710	92,342
Total current assets	1,999,805	2,438,296
Financing assets:		
Credit card receivables, net (notes 6 and 12)	649,443	1,418,666
Installment financing receivables, net (notes 6 and 12)	531,247	1,141,289
Loan to credit cardholders, net (notes 6 and 12)	2,093,863	3,331,223
Lease assets, net (notes 6 and 12)	129,133	167,647
Trust assets, net (notes 7 and 12)	2,222,312	1,202,238
Venture capital investment	-	4,776
Total financing assets	5,625,998	7,265,839
Investment assets:		
Long-term financial instruments (note 3)	2,530	326,618
Long-term investment in securities (notes 8 and 12)	369,918	382,960
Long-term loans, net (note 9)	51,799	67,180
Guarantee deposits	66,108	125,411
Derivatives assets (note 19)	5,376	26,790
Other investments	55	1,210
Total investment assets	495,786	930,169
Premises and equipment, net (note 10)	65,846	95,823
Intangible assets (note 11)	29,923	35,431
	8,217,358	10,765,558
Liabilities and Stockholders' equity		
Current liabilities:		
Short-term debts, net (notes 12 and 13)	4,223,889	4,845,371
Current portion of long-term debts, net (note 13)	1,912,596	3,186,227
Accounts payable	318,740	289,921
Accrued expense	149,543	322,358
Unearned revenue	162,414	207,397
Withholdings	254,138	581,293
Other current liabilities (note 14)	59,827	77,750
Total current liabilities	7,081,147	9,510,317

Balance Sheets, Continued

(In millions of Won)

	2004	2003
Long-term debts, net (notes 5 and 12)	1,635,636	4,407,163
Derivatives liabilities (note 9)	37,686	44,618
Retirement and severance benefit, net (notes 3 and 16)	16,279	8,725
Other long-term liabilities (note 18)	16,357	7,922
Total liabilities	8,787,105	13,978,745
Stockholders' equity:		
Common stock of ₩5,000 par value (note 20)	2,585,590	785,989
Authorized - 2,000,000,000 shares in 2004 and 800,000,000 shares in 2003		
Issued - 517,117,922 shares in 2004 and 157,197,824 shares in 2003		
Capital surplus (note 20)	1,713,485	451,665
Accumulated deficits (note 21)	(4,516,799)	(4,435,199)
Capital adjustments (note 22)	(352,023)	(15,642)
Net capital deficiencies	(569,747)	(3,213,187)
Commitments and contingencies (note 26)		
	8,217,358	10,765,558

See accompanying notes to financial statements.

Statements of Operations

For the years ended December 31, 2004 and 2003

(In millions of Won)

	2004	2003
Operating revenues:		
Income on credit card receivables	968,776	1,200,633
Installment financing income	124,837	390,134
Income on loans to credit cardholders	728,246	692,387
Lease income	50,556	90,570
Interest income	36,331	55,137
Securitization income	1,437,833	1,896,601
Other income	54,206	67,173
	3,400,785	4,392,635
Operating expenses:		
Interest expense	736,300	1,105,120
General and administrative expenses (note 23)	3,506,204	8,622,239
	4,242,504	9,727,359
Operating loss	(841,719)	(5,334,724)
Non-operating income (expense):		
Interest income	662	1,796
Valuation gain(loss) using the equity method, net	(488)	1,482
Realized gain(loss) from disposition of trading securities, net	38,277	(3,711)
Realized gain from disposition of available-for-sale securities, net	31	5,485
Gain(loss) from repayments of held-to-maturity securities, net	(105,507)	11,668
Gain(loss) from repayments of debentures, net	(1,092)	6,333
Impairment loss on available-for-sale securities	(1,616)	(3,921)
Impairment loss on held-to-maturity securities	-	(384,015)
Reversal of impairment loss on held-to-maturity securities	126,253	126,286
Gain(loss) from disposition of premises and equipment, net	84	(4,366)
Donations	(5,208)	(5,458)
Other, net	(3,216)	10,060
	48,180	(238,361)
Ordinary loss	(793,539)	(5,573,085)

Statements of Operations, Continued

(In millions of Won)

	2004	2003
Extraordinary gain :		
Gain from asset contribution (note 27)	44,615	16,133
Gain from debt restructuring (note 20)	667,324	-
	711,939	16,133
Extraordinary loss	-	-
Loss before income taxes	(81,600)	(5,556,952)
Income tax expense (note 21)	-	(41,859)
Net loss	(81,600)	(5,598,811)
Ordinary loss per share in Won (note 22)	(3,525)	(52,440)
Net loss per share in Won (note 22)	(363)	(52,290)

See accompanying notes to financial statements.

Statements of Disposition of Accumulated Deficit

For the years ended December 31, 2004 and 2003
Date of Disposition for 2004 : March 28, 2005
Date of Disposition for 2003 : March 23, 2004

(In millions of Won)

	2004	2003
Undisposed accumulated deficit:		
Balance at beginning of year	(4,435,199)	595,166
Net loss	(81,600)	(5,598,811)
Balance at end of year before disposition	(4,516,799)	(5,003,645)
Disposition of accumulated deficit:		
Reduction of capital surplus - gain from merger	4,445	-
Reduction of capital surplus - gain from capital reduction	1,699,800	-
Reversal of legal reserve	-	41,358
Reversal of reserve for research and development	-	140,000
Reversal of reserve for business rationalization	-	989
Reversal of reserve for business development	-	385,000
Reversal of reserve for loss from investment and loan	-	1,099
	1,704,245	568,446
Undisposed accumulated deficit to be carried over to subsequent year	(2,812,554)	(4,435,199)

See accompanying notes to financial statements.

Statements of Cash Flows

For the years ended December 31, 2004 and 2003

(In millions of Wan)

	2004	2003
Cash flows from operating activities:		
Net loss	(81,600)	(5,598,811)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation expense	84,745	106,798
Amortization expense	6,607	2,381
Provision for retirement and severance benefit	15,267	24,126
Bad debt expense	2,580,443	7,134,351
Impairment loss on available-for-sale securities	1,616	3,921
Impairment loss on held-to-maturity securities	-	384,015
Realized loss from disposition of held-to-maturity securities	105,507	28,242
Impairment loss on intangible assets	-	10
Foreign currency related loss	(18,022)	(773)
Realized gain (loss) from disposition of trading securities, net	(38,277)	3,711
Realized gain (loss) from disposition of available-for-sale securities, net	(31)	(5,485)
Reversal of impairment loss on held-to-maturity securities	(126,253)	(126,286)
Valuation gain (loss) using the equity method, net	488	(1,482)
Gain (loss) from disposition of premises and equipment, net	(84)	4,366
Gain (loss) from disposition of other investment assets, net	166	(46)
Derivative related gain (loss), net	51,654	(1,653)
Gain from adjustment of debts	(667,324)	-
Other gain (loss), net	(162,543)	(46,783)
Increase in accounts receivable	123,224	(290,316)
Decrease (increase) in accrued income	60,265	394,750
Increase in payment in advance	(54,047)	(15,540)
Decrease (increase) in prepaid expense	(21,321)	75,436
Decrease (increase) in credit card receivables	(1,156,700)	4,463,907
Decrease in installment financing receivables	501,029	2,051,677
Decrease (increase) in loan to credit cardholders	42,942	(2,152,583)
Increase in trust assets	(386,684)	569,219
Decrease in lease assets	12,957	232,875
Decrease in deferred tax asset	-	41,859
Decrease in venture capital investment	4,738	-
Collection of written-off receivables	130,871	475,122
Increase in accounts payable	28,819	(3,543)
Increase (decrease) in advance received	(24,146)	23,257
Decrease in withholdings	(327,175)	(35,191)
Decrease in accrued expense	(172,816)	(229,027)
Increase (decrease) in unearned revenue	38,881	162,461
Increase in guarantee deposit	14,886	(1,756)
Decrease (increase) in other current liabilities	(208)	583
Payment of retirement and severance benefit	(16,921)	(23,287)
Decrease in deposit for severance benefit insurance	9,077	(10,210)
Decrease in National Pension Fund	130	459
Net cash provided by operating activities	560,160	7,640,754

For the years ended December 31, 2004 and 2003

Statements of Cash Flows, Continued

(In millions of Wan)

	2004	2003
Cash flows from investing activities:		
Cash provided by investing activities:		
Decrease in short-term financial instruments	683,400	312,882
Proceeds from disposition of trading securities	293,788	2,962,810
Proceeds from disposition of available-for-sale securities	337,156	39,977
Proceeds from disposition of held-to-maturity securities	437,029	522,234
Decrease in long-term financial instruments	1,233,488	89,507
Decrease in long-term loans	19,589	11,982
Decrease in long-term accounts receivable	1,195	-
Decrease in guarantee deposits	69,678	15,635
Decrease in other investments	12	188
Proceeds from disposition of premises and equipment	1,068	45,188
Decrease in derivatives assets	14,281	-
	3,090,684	4,000,403
Cash used in investing activities:		
Acquisition of trading securities	216,006	2,477,934
Increase in short-term financial instruments	656,245	365,341
Decrease in short-term loans	268,934	41,528
Acquisition of available-for-sale securities	267,504	87,159
Acquisition of held-to-maturity securities	-	975,799
Increase in guarantee deposits	10,533	35,061
Acquisition of premises and equipment	7,786	53,685
Increase in long-term financial instruments	911,400	324,584
Increase in long-term loans	-	14,180
Increase in long-term accounts receivable	-	1,094
Increase in intangible assets	17,598	34,273
	2,356,006	4,410,638
Net cash provided by (used in) investing activities	734,678	(410,235)
Cash flows from financing activities:		
Cash provided by financing activities:		
Issuance of short-term debentures	299,788	2,011,720
Increase in short-term borrowings	12,872,919	30,583,993
Increase in current portion of long-term debts	101,902	-
Issuance of debentures	-	1,152,440
Issuance of convertible bonds	-	296,124
Issuance of bonds with warrants	-	296,724
Increase in long-term borrowings	316,768	160,000
Issuance of common stock	-	580,570
	13,591,377	35,081,571

Audit Report - Brief Financials

For the years ended December 31, 2004 and 2003

Statements of Cash Flows, Continued

(In millions of Won)

	2004	2003
Cash used in financing activities:		
Repayments of short-term debentures	702,913	1,763,294
Repayments of short-term borrowings	11,981,274	34,282,767
Repayments of current portion of long-term debts	2,036,131	5,794,324
Repayments of debentures	-	416,504
Repayments of long-term borrowings	55,066	27,145
Payment of dividends	-	129,500
Decrease in derivatives liabilities	61,693	-
Stock issuance expenses	17,617	-
Interest expense on liabilities converted into capital stock	76,749	-
	14,931,443	42,413,534
Net cash used in financing activities	(1,340,066)	(7,331,963)
Net decrease in cash and cash equivalents	(45,228)	(101,444)
Cash and cash equivalents at beginning of year	324,015	425,459
Cash and cash equivalents at end of year	278,787	324,015

See accompanying notes to financial statements.

*The notes to this audit report can be downloaded in our LG Card website. (www.lgcard.com)

1. Summarized Balance Sheet

(Unit: Million KRW)

Account	2005. 3. 8	FY 2004
Assets		
1. Current Assets	2,264,675	1,999,805
2. Product Assets	5,575,533	5,625,998
3. Fixed Assets	444,557	591,555
Total Assets	8,284,765	8,217,358
Liabilities		
1. Current Liabilities	5,002,668	7,026,304
2. Fixed Liabilities	2,710,396	1,760,801
Total Liabilities	7,713,064	8,787,105
Capital		
1. Capital	626,847	2,585,590
2. Capital Surplus	4,534,296	1,713,485
3. Deficit	(4,380,279)	(4,516,799)
4. Capital Adjustment	(209,163)	(352,023)
Total Capital	571,701	(569,747)
Total Liabilities and Stockholder's Equity	8,284,765	8,217,358

2. Summarized Income Statement

(Unit: Million KRW)

Account	2005. 1. 1 ~ 3. 8	FY 2004
1. Operating Revenue	484,781	3,400,785
2. Operating Expenses	341,020	4,242,504
3. Operating Profit	143,761	(841,719)
4. Non-operating Profit	55	166,893
5. Non-operating Expenses	7,296	118,713
6. Current profit	136,520	(793,539)
7. Extraordinary Gain	0	711,939
8. Net Profit	136,520	(81,600)

3. Key Indicators

(Unit: Million KRW)

Account	2005. 3. 8	FY 2004
Capital Adjusted Ratio	13.2	△6.9
Negative Equity Ratio	8.8	122.0