





Noonnoppi teacher standing low

A teacher was kneeling down before a painting at the Smithsonian Museum in Washington, USA. The teacher wanted to first see the paintings from a child's level before attempting to explain the artwork to his students. This underlines the philosophy of Daekyo's Noonnoppi education: Understanding children at their level and respecting their individual personalities and abilities. This signifies the practice of Noonnoppi love from the perspective of children.

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*Leading the education service industry with strong  
brand equity and R&D capabilities*

*Headquartered in Seoul, South Korea, Daekyo Co., Ltd (“Daekyo”) is the nation’s leading education service company, boasting the strongest brand power with the largest customer base and distribution network.*

*Daekyo was founded in July 1976 and listed on the KRX (Korea Exchange) in February 2004.*

*For the past 29 years, Daekyo has been at the forefront of private education, providing weekly home tutoring services, supplementary learning worksheets and online educational programs based on its unique ‘Noonnoppi’ educational philosophy.*

*At the end of 2004, the company recorded total assets of KRW637.8 billion and total shareholders’ equity of KRW421.8 billion. Sales and net income amounted to KRW839.3 billion and KRW65.1 billion, respectively, rising 4.2% and 6.8% over the year, backed by 3,300 full-time employees and 18,000 tutors and sales agents.*

*Today, Daekyo is poised to take off as a global lifetime educational service provider by actively seeking routes to overseas expansion.*





*Setting new standards and  
taking initiatives*



# NO.1 Brand Power in the Korean Education Market



*Ranked first in brand performance index for seven consecutive years*

Boasting solid brand equity and scale, the one-on-one tutoring-based education system is generating approximately 90% of the company's total revenues, backed by nearly 500 education centers worldwide.

The brand has been recognized with a myriad of honors including the highest ranking in the "2004 Korea Brand Performance Index," "2004 Global Brand Competency Index" and "2005 First Brand."



# Value creation with stock, clarity and priority in shareholder

## *Daekyo listed on the Korea Exchange*

Daekyo's stock was listed on the Korea Exchange (KRX) under the "DK" symbol on February 3, 2004.

During the company's initial public offering on January 15-16, KRW1.3 trillion won was raised at a 148:1 subscription rate. The number of shares listed included 8,470,285 common shares and 1,942,699 preferred shares. Issuing price per share was KRW 42,000 (Par value: KRW 5,000).



# Creating high value-added with R&D activities

## *Exploring new challenges in services and products*

Daekyo has been devoted to the development and advancement of educational products and services backed by its two R&D centers. The Daekyo Educational Research Institute has been committed to R&D activities for the specialization and optimization of Daekyo's educational products with over 100 employees, while the Korea Educational Testing Center is providing theory-based educational testing and evaluation services with know-how and expertise.



# The Largest Sales Network Nationwide

*The largest market coverage in korea*

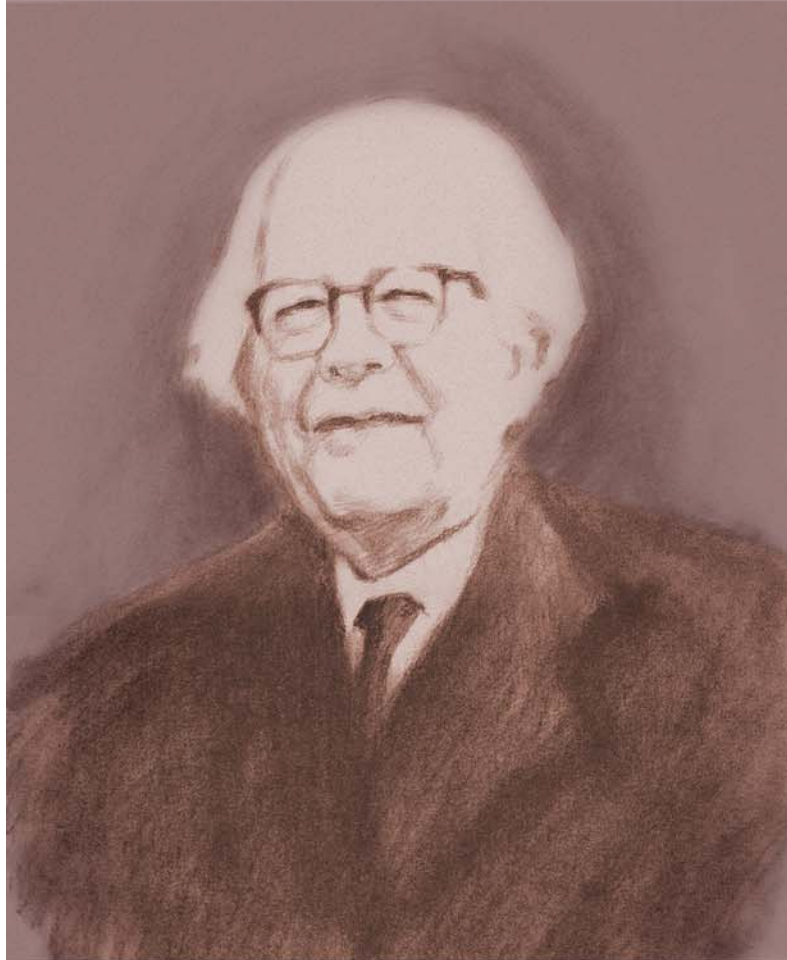
Daekyo has been as one of the largest open education providers in the industry, while maintaining constant growth and leadership in Korea's private education market. Through the introduction of new services and technologies, the Daekyo has pioneered self-study materials and weekly home-tutoring programs, employing around 14,000 tutors within a national sales network comprising 33 regional headquarters with 500 sales branches.







*The Reason why we are the  
leader of Korean Education Industry is  
what we discussed above.*

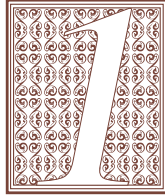


*Jean Piaget*

1896 ~ 1980



## *S t o r y*



*If you want to be creative,  
stay in part a child, with the creativity and  
invention that characterizes children*



### *Setting a new paradigm for education culture and service*

Daekyo believes in student-oriented one-on-one education.

We are committed to meet the needs of children in  
a creative and inventive fashion.

Daekyo is encouraging our children, the future of the world,  
to think good thoughts, hope good hopes, and dream good dreams.

With our motto, "Noonnoppi Love, Noonnoppi Education,"  
Daekyo is developing into a world-class education & information  
service provider for the 21st century.

"We intend to deliver ultimate customer satisfaction through healthy management—creating healthy minds, families and societies. We will support our staff members in realizing their dreams, as we work together to unfold our far-reaching vision as a professional education service provider. Daekyo fulfills its corporate citizenship through people-oriented management."



  
Young-Joong Kang  
Chairman of BOD

## Offering top-tier education products and services for all as Korea's education industry leader

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Underlining the broad sweep of Daekyo's management ideals is a philosophy of "humanism," indicating our deep value and respect for humanity. People are the central axis of management for every organization, and we believe that companies should encourage their individual employees to achieve self-fulfillment as well as professional success. We encourage our staff to develop a sense of ownership, and lend weight to this mission by supporting talent cultivation and guaranteeing fair evaluations and compensations.

We are also convinced that human-centered thinking must be backed by a healthy mind and body: Health is a crucial factor to determine the value of each enterprise and individual. This is the most important asset we possess, as healthy individuals are better able to follow the right path in life. Our corporate strategy carefully divides official and personal matters to ensure the consistent application of fairness and vitality.

This approach allows us to realize genuine customer satisfaction while implanting dreams and a sense of accomplishment in the hearts and minds of our employees. Furthermore, their healthy lives and happiness are better able to contribute to building healthy families and a healthy society.

The philosophy of our Noonnoppi education starts from understanding children at their level and respecting their individual personalities and abilities. "Noonnoppi" in Korean can be translated to "eye-level."

Noonnoppi education is a child-oriented one-on-one style of holistic learning, brought into being through the combined efforts of teachers, students and parents and backed by the most innovative programs and systems. Our Noonnoppi style of education offers a strictly client-centered approach that puts the needs of the child first.

In the Noonnoppi education system, a professional teacher will visit each student's home to conduct one-on-one classes. Through these tailored home visits, our instructors learn exactly what each child needs to excel. We began sending teachers on home visits so that our students could learn in a comfortable environment, and this unique system has differentiated us from others in the industry since Daekyo's foundation in 1976.

Today, Daekyo offers early childhood education, individual tutoring and home schooling to students in primary and middle school, thereby realizing one of our central corporate tenets: "Leave no child behind." We also publish teaching materials in the Korean and English languages, offer online education programs and operate world-class educational institutes.

Daekyo combines good old-fashioned teaching know-how with modern online and web-based resources, and is always hard at work developing new educational material. Through excellent management, teacher training and low-cost delivery, we are now going global and bringing our system to children around the world.

Moving forward, we will continue to realize our vision of becoming a "worldwide education service provider" through advanced educational systems, while helping to build a healthy society for tomorrow.



"What moves the world is humanity. What develops humanity is education. Daekyo wishes to place its leadership and responsibility at the forefront of the education service industry."



송 자

Song - Ja  
CEO and Chairman

## Responsible education that delivers value to customers, shareholders and society

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In the fiscal year 2004, every member of the Daekyo team came together to focus our attention on constructing important internal and external foundations for our shared vision as a worldwide education service provider, through a dedication to the advancement of education for all.

Despite continued economic slowdowns at home and abroad, created by fragile economic recoveries, peaking oil prices, and lackluster consumer demand, we overcame difficult operating conditions and solidified competitiveness by ushering in bold change within our overall systems and structures. We initiated the industry's very first enterprise resource planning (ERP) system: "DREAMS".

The "DREAMS (Digital Realtime Enterprise Asset Management System)" aims at providing a basis for the enhancement of Daekyo's internal and external competitiveness. It seeks the maximization of corporate value by securing an efficient management support tool, strategically created through the integrated management of company resources including human capital, member information and all kinds of data on track records.

Our sweeping reorganization of the "Noonnoppi Mobile system" and "Edupia" is forecast to generate a sharp improvement in customer satisfaction through the advancement and differentiation of education services.

In addition, we proactively carried forward the great workplace (GWP) campaign alongside the careful application of just management, transparent management and customer satisfaction management.

As a result of these and other pioneering initiatives, our sales and net income rose 4.2% and 6.8% over the year to 839.3 billion won and 65.1 billion won, respectively.

In 2005, we will be focused on a number of key management policies.

First, we will reinforce our competitiveness through a series of educational reforms.

Improved competitiveness is essential to secure an aggressive advantage in the education industry. A solid market position will also become a buttress for continuous growth and development, even amidst uncertainties in the years to come. We believe that the competitiveness of every individual can be supported through self-development, and the strength of our own firm will evolve in step with systematic talent education programs.

Second, we will remain strongly committed to customer satisfaction.

We believe that customer satisfaction is the highest value for any commercial enterprise, and know that customer-oriented practices will help us develop into a respected world-class enterprise. To this end, we will concentrate all our energies on realizing ultimate satisfaction for our clientele.

Third, we will firmly secure a foundation for the growth of new businesses and strive for the development of new growth engines.

Building upon the rewarding development of our SOBICS, G-CAMP, Soluny and in-school businesses, we will strive to construct solid corporate models of qualitative and quantitative potential while generating a surplus within all business sectors. Furthermore, we will continue to actively push ahead with our overseas expansion and advance into new forward-looking drivers for revenue. Daekyo education products have been demonstrating considerable growth potential in overseas markets, reflecting public confidence in our unrivaled know-how and expertise as a leading education service provider in Korea.

Lastly, we will continue to strive for GWP creation through the establishment of a new corporate culture, ultimately leading to the maximization of our corporate and shareholder value.

In closing, I would like to thank each of you for your continued support, encouragement and confidence in Daekyo. Thank you.



## Expanding our global leadership

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Daekyo intends to become a global educational service provider. We attach great importance to the development and growth of our customers, and to exerting a continuing, positive influence on society at large. In addition, we are committed to establishing a healthy and sound corporate culture by becoming a Great Work Place (GWP) at each and every level of operation. To do so, we will utilize an enterprise resources planning (ERP) system that was set up in 2004--a first in the educational services industry.

Our long-term vision will focus on strengthening our competitiveness, so that we can secure a position both as a global leader in education services and as a business that delivers the highest equity value in the industry.

Ultimately, Daekyo strives to contribute to a more affluent and knowledge-based society by offering excellent content, learning methods, and educational services.



# Helping to build a better tomorrow

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## **The Core Value of Daekyo: Noonnoppi Love**

Noonnoppi Love starts from helping other people.

For our employees, this means growing together through mutual respect and co-operation. For our customers, it means supporting the growth of their potential by supplying educational services that meet their needs. And for society, Noonnoppi Love means being a highly-respected enterprise that is committed to building a healthier world.

## **Canons for the practice of “Noonnoppi Love”**

Basics—We will stick to our core beliefs with honesty and integrity.

Enthusiasm—We will treat our customers with respect and enthusiasm.

Respect—We will respect other people and co-operate with them.

# A sharply defined mission and philosophy with sound and transparent management

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Daekyo has introduced and executed a strongly ethical style of corporate governance, specifying the distribution of rights and responsibilities among different participants in the corporation – board members, managers, shareholders and other stakeholders – and outlining the rules and procedures for decisions on corporate affairs.

In order to practice ethical management with transparency, we have underlined the three 'Cs' of corporate responsibility:

- (1) Codes of conduct,
- (2) Compliance check organization, and
- (3) Consensus by ethics education.

## Code of Ethics

We are determined to maintain the highest possible workplace standards. We are seeking excellence in the development of quality educational products and services for customers, and pursuing the creation and delivery of value for shareholders.

As part of our ongoing endeavors to evolve into a prestigious global education service company with leadership and competitive strength, we have formulated a code of ethical conduct as a powerful model for our officers and employees.

## The code of conduct pledges to:

- Execute customer-first management for client satisfaction by pursuing a customer-oriented management philosophy.
- Win shareholder confidence through reliable management practices, processes and procedures to ensure transparency and responsibility.
- Maximize shareholder value through continuous growth and competitiveness.
- Respect the individual personalities of each staff members and evaluate their performance objectively and fairly according to competence and contributions, allowing their challenging spirit and creativity to be fully realized.
- Promote co-prosperity with business partners by ensuring mutual trust and guaranteeing fairness and transparency in all transactions and procedures.
- Foster employee sympathy with management ideas and encourage voluntary participation in company management for unity towards a single objective.
- Contribute to the community and national prosperity, cultivating talent and advancing the education industry through fair competition and the fulfillment of corporate citizenship.





**1 Young-Joong Kang** Chairman of BOD

- Chairman of the Daekyo Group
- President of International Badminton Federation
- A Director of the Federation of Korean Industries [FKI]

- President of Asia Badminton Confederation & Korea Badminton Association
- Graduated from Graduate School of Education, Yonsei University

**2 Ja Song** Chairman and CEO

- Served as President of Yonsei and Myongji Universities
- Served as the 41st Minister of Education for the Republic of Korea
- Earned a Doctorate in Business Administration from Washington University, Saint Louis

**3 Jung-Woo Suh** Outsider Director

- Chairman of Korea Press Association
- The Dean of Graduate School of Journalism at Yonsei University
- Graduated from Yonsei University majoring in English Literature

**4 Jae-Ryun Shim** Outside Director

- Currently a Lawyer and previously served as a Senior Prosecutor of the Central Investigation Division at the Supreme Prosecutor General's Office
- Graduated from Seoul National University majoring in Law

**5 Se-Wha Chang** Representative Director and COO

- Served as the CEO of Daekyo Finance and CFO of Daekyo
- Graduated from Yonsei University majoring in Business Administration

**6 Choong-Gu Lee** Outside Director

- CEO of Daekyo D&S
- Served as Representative Director of Daekyo
- Graduated from Konkuk University majoring in Agriculture Chemicals

**7 Jung-Kyu Park** Outside Director

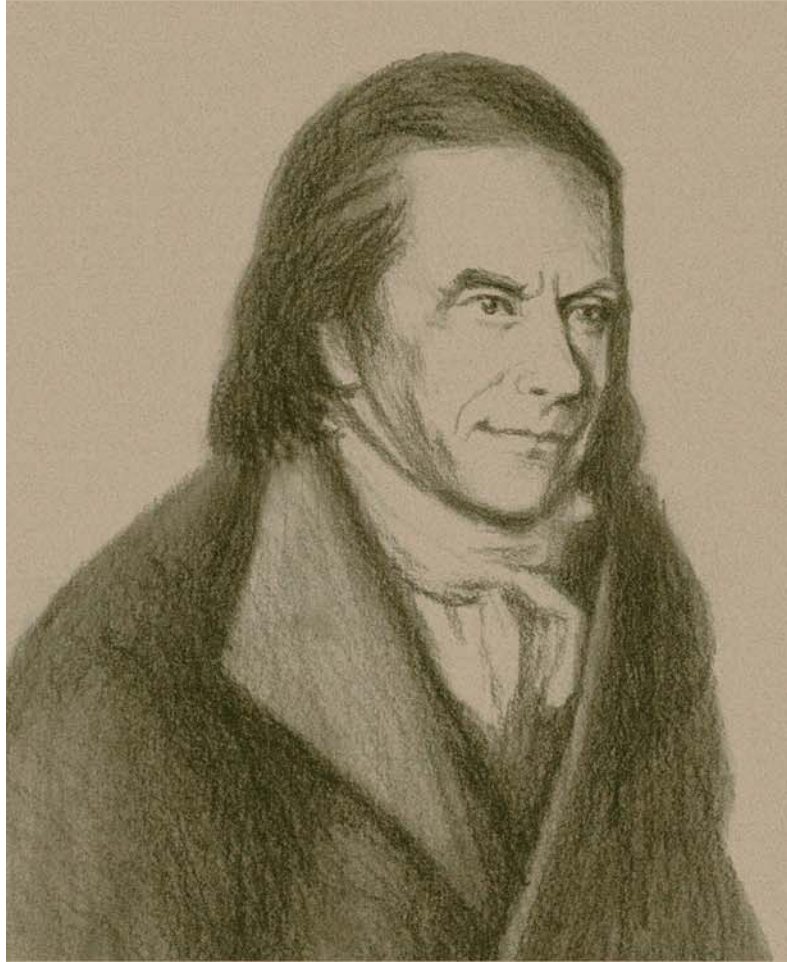
- Served as a member of the Securities Supervisory Board
- Served as the CEO of Hyundai Investment Advisory Co.
- Graduated from Seoul National University majoring in Business Administration

**8 Yoon-Hee Chung** Outside Director

- CEO of Daekyo Networks
- Earned a MBA from Wharton School of University of Pennsylvania

**9 Tae-Young Park** Managing Director and CFO

- Managing Director for Strategic Planning Department
- Earned an Executive MBA from Helsinki School of Business and Economics



*Johann H. Pestalozzi*

1746 ~ 1827

## *S t o r y*



*Education begins from understanding.*



## *Value and Education*

Daekyo educational approach begins with understanding children.

At Daekyo, the needs of students have always been our number one concern. We are seeking excellence in the development of quality educational products and services for customers, as well as the creation and delivery of value for shareholders.

Today, the company is expanding into a global education service provider, backed by strong brand power, the nation's largest subscriber base and constant R&D efforts, boasting exceptional returns on capital and a robust cash flow.

## In 2004, Daekyo was committed throughout the year to the execution of customer-centered management,

### Noonnoppi Education ranked first in brand power for seven consecutive years

Noonnoppi Education was awarded a first-place ranking this March in the 2005 Korea Brand Power Index (K-BPI) (educational materials category), managed by Korea Management Association Consulting, for the seventh consecutive year.

### Above 2.2 million Noonnoppi's subjects are subscribed by our members.

Daekyo currently provides 13 different subjects under brand name of "Noonnoppi" and about 2.2million subjects are currently subscribed.

### Listed on the Korea Exchange(KRX)

Daekyo's stock was listed on the Korea Exchange (KRX) on February 3, 2004


### Launched Futurekids

Introduced Futurekids, an efficient study material-oriented thematic curriculum program which has been selected by more than 20 million schools and educational centers across the world in 65 countries including the USA, Canada, Australia and Japan.

With the "Futurekids Boramae Learning Center," launched on June 9, 2004, Daekyo is planning to expand Futurekids business through franchising in Korea.

### Opened Daekyo Malaysia

Opened Daekyo Malaysia in Kuala Lumpur on July 16, 2004, preparing a foothold to introduce Noonnoppi education and its unique educational systems to the Southeast Asian region.



## value-centered management, performance-centered management and change management

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### **Daekyo officially became a full member of IFA (International Franchise Association)**

Officially registered on September 30, 2004 and Daekyo also ranked in Entrepreneur Magazine's Twenty-Sixth Annual Franchise 500.

### **Received the 2004 Trust Company Award**

In January 2005, Daekyo received the Trust Company award in the service category in the 2004 Trust Company Research jointly conducted by the Korea Economic Daily and the Korean Customers' Forum. The awards are given based on the evaluation of consumer confidence levels.

### **Selected as "Korea's Most Admired Company" in the education service category**

Daekyo was selected as "Korea's Most Admired Company" in the education service category by the Korea Management Association Consulting (KMAC) in recognition of its market share, financial soundness, innovative activities, management capabilities and talent cultivation & education.

### **Received Korea's Great Work Place Award**

Daekyo received Korea's Great Work Place Award from the Korea Economic Daily and the ELTech Trust Management Institute, recognizing its efforts to align basic and evaluation systems and to strengthen its organizational culture. The awards are given based on comprehensive examinations of the employee confidence index survey, corporate culture evaluation and more.

### **Received Korea Management Award from KMAC**

Selected as "Company of the Year" by the Korea Economic Daily.

Noonnoppi Fun Math was selected as a 'Hit Product' in the first half of 2004 by a number of local dailies including Hankook Ilbo, Kookmin Ilbo, Kyunghyang Daily.



In 2004, Daekyo hardened a foundation for its stable growth while simultaneously attaining the twin goals of sales expansion and profitability improvement. In February, we confirmed our external reliability and transparency by listing shares on the Korea Exchange (KRX), and were able to invite more shareholders through new rights issues for third parties.

Sales rose 4.2% year-on-year (YoY) to KRW839.3 billion at 2004-end. Operating income surged 27.3% over the year to KRW90.0 billion on the back of efficient profit-oriented strategies, as management sought new avenues for cost and expense curtailments. Ordinary income moved up 17.9% YoY to KRW101.3 billion, while net income climbed 6.8% over the year to record KRW65.1 billion (even after deducting 45% more income tax than paid out a year earlier). Net income per common share decreased marginally by 11.8% YoY to KRW6,369, despite a 15.5% increase in the number of common shares outstanding after new rights issues for third parties.

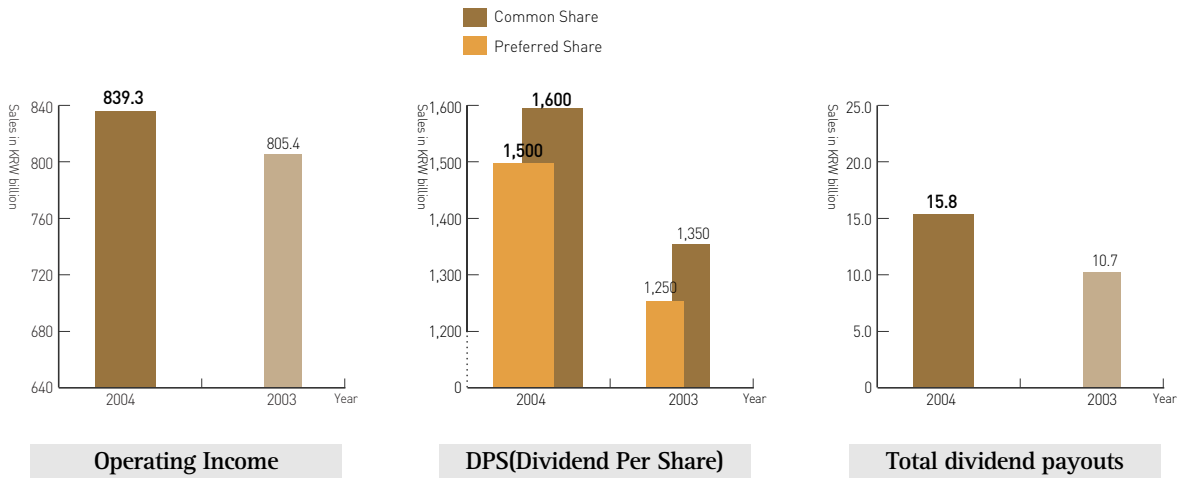
In practicing transparent management and shareholder-first policies, Daekyo raised its dividend payout ratio by 6.73p to 24.29% for 2004 from 17.56% for 2003 with a view to sharing more of our outstanding results with shareholders. Accordingly, total dividends including interim dividends stood at KRW1,500 for common shares and KRW1,600 for preferred shares in 2004.

There were two noticeable changes in our balance sheets in 2004. First, we witnessed a sharp increase in ownership due to the new rights offering for third parties that paralleled our listing on the KRX. Second, there was a significant ascent in assets due to additionally secured current assets following the disposal of treasury stocks and the accomplishment of stable management results. Subsequently, total assets advanced 23.4% YoY to KRW637.8 billion while total liabilities edged up 0.3% YoY to KRW216.1 billion. The number of common shares outstanding as of 2004-end amounted to 8,470,285 boosted by the issuance of 1,310,552 new shares to third parties in February 2004. As a consequence, our total stake expanded 39.9% YoY to record KRW421.8 billion at the end of 2004.

Reflecting such increases in our assets and ownership despite a rise in net income, return on assets (ROA) and return on equity (ROE) backed off 1.7%p and 5.3%p, respectively, over the year, down to 11.28% and 18%. In relative terms, these figures are not only substantially higher than other industry players, but also outstrip the results posted by nearly all listed companies. Together, the debt-to-equity ratio improved 20.17%p over the year to 51.22% from 71.39% in 2003, demonstrating outstanding financial stability.

(Unit: KRW in billion)

OPERATING RESULTS		2004	2003	% Change
Sales		839.3	805.4	4.2%
Operating Income		90.0	70.1	27.3%
Ordinary Income		101.3	85.9	17.9%
Net Income		65.1	601.0	6.8%
Earnings Per Share (won)	Common Share	6,369	7,225	-11.8%
	Preferred Share	6,333	7,325	-13.6%
Dividend Per Share (won)	Common Share	1,500	1,250	20.0%
	Preferred Share	1,600	1,350	18.5%
Total dividend payouts		15.8	10.7	47.6%
Dividend Payout Ratio		24.29%	17.56%	6.73%p
Total Asset		637.8	516.9	23.4%
Total Liabilities		216.1	215.3	0.3%
Shareholder's equity		421.8	301.6	39.9%
Return on assets		11.28%	12.98%	-1.70%p
Return on equity		18.00%	23.30%	-5.30%p
Debt-to-equity ratio		51.22%	71.39%	20.17%p



### Kicked off animated corporate culture Great Work Place(GWP)

Initiated a GWP drive to create a new corporate culture through two foundational pillars: the establishment of ethical/transparent management and foundation of Pro Way, a culture activating community.

### Introduce ERP-DREAMS and SEM Project

Introduced "DREAMS (Digital Realtime Enterprise Asset Management System)," an enterprise resources planning project, and a strategic management support process tool "SEM (Strategic Enterprise Management) project." DREAMS aims at providing a basis for the enhancement of Daekyo's internal and external competitiveness and the maximization of corporate value, while the SEM project seeks to develop strategic performance indicators through diverse channels and establish goals for value and performance-centered management.

### Launched Mobile Office Service(MOS), an industry first

Launched full-scale mobile office service MOS, a first in the industry, using personal digital assistants (PDAs) "Noonnoppi Mobile" to provide real-time information about members' academic achievements and educational contents.

## A leader in next-generation education services

Daekyo was established in 1976 as a research academy with a focus on publishing math home-study materials. It was incorporated in 1986 and launched the most popular brand "Noonnoppi" in 1991.

By 1999 the company had 2 million subscribing subjects, and its shares were listed on the Korea Stock Exchange (currently Korea Exchange) in February 2004.

Today, the company is expanding into a global education service provider, backed by strong brand power, the nation's largest subscriber base and constant R&D efforts, boasting exceptional returns on capital and a robust cash flow.

#### ► 1976~1989: Birth and Growth

##### Opening a new horizon in education with "Noonnoppi"

Daekyo was founded in 1976 as Korea's first research academy specializing in the production of home-study mathematics curricula. Since then, it has grown into a leading education service provider offering individually programmed worksheets and home tutoring, based on its Noonnoppi education philosophy.

#### ► 1990~1995: Development of Noonnoppi Education with Solid Brand Recognition

##### Redefining quality and service in private education

Daekyo successfully introduced a series of

## Unfolded a full array of Social Contribution activities

Operated a variety of community activities, such as donating KRW0.2 billion to Korea Scout Association, sponsoring the first National Mothers' Badminton Championship by the National Council of Sport For All, holding the 2004 Noonnoppi Cup National Soccer Tournament for Elementary Schools and providing free education for about 140 autistic children.

## Implemented nationwide campaign for Children's Safe street crossing

Implemented the "nationwide campaign for children's safe street crossing" at access roads to 500 elementary schools through the co-sponsorship of Safe Kids Korea and Daekyo Noonnoppi Love Volunteers.

## Opened Noonnoppi Cup Korea Open Badminton Competition

Held the 2004 Noonnoppi Korea Open Badminton Competition on February 12 at Cheingju City Hall, Chungbuk Province.



Noonnoppi products including Noonnoppi English, Noonnoppi Korean and Noonnoppi Chinese Characters, following the popularity of Noonnoppi Math.

### ▶ 1996~1999: Solidification of Industry Leadership

#### Changing the market structure

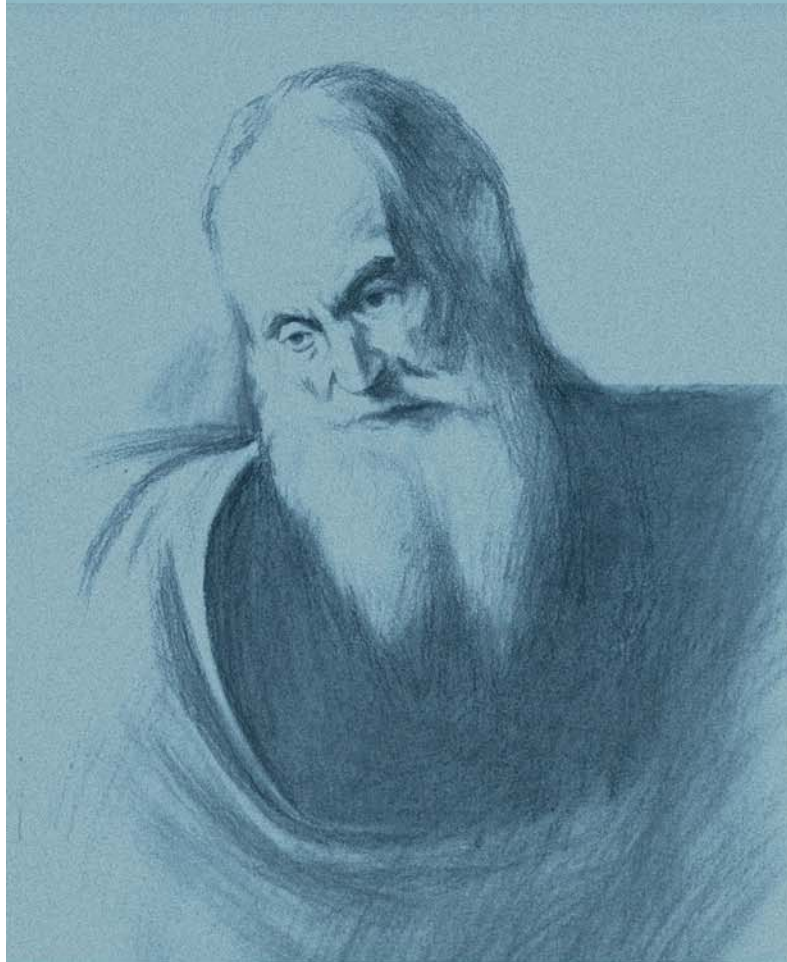
After greeting its 20th anniversary in July 1996, Daekyo changed the domestic education market scene through the release of new products and active social contribution activities, as the number of subscribing subjects exceeded 2 million in 1999.

### ▶ 2000~2004: Diversifying its operations into New business areas

#### Growing into a worldwide premier education service company

Daekyo was committed to diversifying its business into online services, preschool education, publishing, after-school class programs, academic institutions, language schools and home schooling, as well as continuously strengthening its core business—Noonnoppi.

With the aim of becoming a global education service provider, the company concentrated on the sustainable growth of core sector and development of new businesses with high growth potential, introducing the ERP system and carrying forward stock listing.



*Jean-Jacques Rousseau*

1712 ~ 1778



*S t o r y*



*All that we lack at birth is  
the gift of education.*



*Leading with forward-looking initiatives*

Daekyo remains focused on the efficient creation and delivery of educational value for our children—helping to build the future of tomorrow.

Recently, we have been diversifying business scope and expanding into the growing sectors of infant education, academic institution and on-line education.

We will continue our efforts to penetrate new markets while evolving operations to deliver the industry's most up-to-date educational content and teaching expertise.



## Constant Demand for Private Education

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In Korea, the education market has enjoyed continuous growth in line with an incredible zeal for private instruction and subsequent rise in household spending on education.

Since 1998, the private education market has experienced spectacular annual growth of 12.9%, representing about 7% of the nation's GDP. This significantly exceeds the average 5.5% of GDP spent on private education by OECD member nations. The total market size of private education was estimated to exceed KRW20.3 trillion in 2004. Indeed, the monthly private education expenses per household are forecast to expand by 6.6% annually over the next three years, led by a trend towards early learning and extremely strong parental interest in childhood education.

Although the education service industry is relatively insensitive to economic fluctuations and highlights the importance of brand power, competition has become fierce due to a struggle for market dominance by leading companies. Throughout the entire course of industry's exponential growth, however, Daekyo has maintained a dominant position with the largest subscriber base and distribution network.



## Maintaining market dominance with solid brand equity and competitive dynamics

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Daekyo's businesses are currently focused on weekly home tutoring (Noonnoppi), preschoolers' education (SOBICS), academic institutions (G-Camp), sales of door-to-door educational materials (such as anthologies, reference books, encyclopedias and educational toys) and others (after-school class programs, textbooks, e-learning, etc.).

Lately, the education service industry has transformed into an integration of on/ off education services, following the remarkable development of information and communication technologies.

Daekyo has moved to preemptively cope with these rapid market changes while meeting ever-diversifying customer needs as a dominant player in the weekly home tutoring market, backed by robust brand equity and competitive dynamics.

In the long-term, Daekyo plans to grow further into a world-class education service provider. On this note, the company has been actively challenging global markets, establishing footholds via overseas subsidiaries and affiliates and taking into account different systems and cultures.





## Helping children develop to their full potential

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Offering individually programmed worksheets and weekly home tutoring, we are recognized as a leading company that commands over 24% of the 3.25 trillion won tutoring-with-worksheet market.



Noonnoppi education seeks individualized home-based and student-oriented learning with the help of professional tutors.

The “Noonnoppi Education System” provides students with learning contents designed to meet the needs of individual students. Noonnoppi covers all age group from infants to high school students, although elementary school students comprise the primary educational target. Each program is carefully tailored to the learning levels and specific needs of each and every student regardless of age or school year. An accompanying diagnostic test system helps tutors understand the level each student is at and decide on the appropriate content to be used.





“Noonnoppi tutors are qualified and dedicated educators who have developed their teaching skills for effective one-on-one teaching.”

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Noonnoppi tutors are qualified and dedicated educators who have developed their teaching skills for effective one-on-one teaching. Daekyo has introduced a comprehensive assessment system that encompasses diagnostics, development, and oral assessments to identify and shape the best education program for each Noonnoppi member.

Daekyo has always focused on the training of Noonnoppi tutors to maintain a high level of teaching skill, and also employs a large complement of expert R&D staff to develop effective learning materials.

Currently, over 13,000 tutors at around 500 Noonnoppi centers nationwide are delivering top quality tutoring on the back of original weekly learning materials.

Consequently, the Noonnoppi Education System has secured the largest subscriber base among domestic home-study booklets with personal tutoring, contributing more than 90% to the company's total revenues. The Noonnoppi Education Business generated sales of KRW756.1 billion and operating income of KRW111.9 billion as of 2004-end, with tutor commissions representing the largest portion of the company's paid-out expenses (range between 46~49% of sales).

Accordingly, the company has been restructuring its commission structure to introduce performance-based schemes such as the “pro-commission system”.

**The Noonnoppi brand is serviced in 13 products. These include:**

**Noonnoppi Korean** to teach young children of pre-primary and elementary school age basic Korean language skills through reading and writing

**Noonnoppi English** to help improve the four core linguistic skills (listening, speaking, reading and writing) for elementary to high school students

**Noonnoppi Math** to build a solid foundation in mathematics for children of all ages, improving calculation skills and alogical thinking.

**Noonnoppi Science** providing basic science knowledge to students in their first to sixth year of elementary school.

**Noonnoppi Chinese Character** for self-study by students of all ages to master the 1800 most frequently used Chinese characters







## Infant Education Brand

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We are operating efficient programs for preschool educational institutes such as kindergartens and daycare centers and directly managing two SOBICS Schools, apart from one-on-one visits.



Daekyo started “SOBICS” business only for targeting infants and preschoolers. SOBICS business unit is comprised of two divisions.

The SOBICS marketing division is specialized in door-to-door sales. It is in charge of Daekyo’s education and publishing services. Under its slogan of “For smart and lovely children,” It provides quality education products. Established in August 2001, the SOBICS Marketing division is proud of its rapid growth. It has over 3,000 specialized tutors, 30 series of textbooks, learning equipment and tools, and over 35,000 subscribers for its monthly worksheets, “Jump All”.





“SOBICS has been designed to enhance children’s imaginative power, encourage expression and heighten the quality and effectiveness of education for infants.”

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The SOBICS education division was founded in May 2001 and operated by 39 centers and ten teams with about 600 specialized SOBICS tutors, the SOBICS business has attracted more than 49,000 members with differentiated preschool education products and programs.

The SOBICS education division runs one-on-one visitation education programs, as well as education programs for educational institution for infants, such as kindergarten and daily care centers. We also run the SOBICS School, a center of creativity in the development of baby and infant education. Around 200 schools for infants use our programs, and two SOBICS Schools are managed directly from us.

Daekyo will look to expand this business sector with constant research on the learning development of babies and infants. We will also continue to invest in two areas—visiting education programs and institutional learning programs. In addition, backed by the development of optimum programs and tools, Daekyo will remain focused on the training of tutors to provide higher quality services and programs, thereby helping to build a better tomorrow for our children.

### Door-to-door sales for Books

Daekyo’s textbook series, SOBICS’s learning equipment and tools, Jump All

### Monthly worksheets “Jump All”

Designed to help students excel in classes with careful reviews of their lessons for all subjects. Jump All features four learning services: a moving picture-based Online Class, easy and fun Icon Study utilizing animations and word puzzles, ARS Study providing detailed explanations and answers by phone, and Jump All Test for exhaustive exam preparations.

### Learning through personal visitation

- SOBICS Bebe: Baby and infant brain development learning program
- SOBICS Infant Korean: Play/activity-based Korean learning program
- SOBICS Infant Math: Math program for brain development utilizing “cerebral nerve teaching method”
- SOBICS School: Creative development center for young children
- Noonnoppi Nori Math: Specialized worksheets for infant math learning
- Noonnoppi Hangeul: Korean alphabet learning program

### Learning through educational institution

- SOBICS Orff-schule: Comprehensive infant music program
- SOBICS Green Beaker: Creative infant science program
- SOBICS Infant Korean: Korean alphabet learning program





## Nurturing talents with creativity



Daekyo launched the “G-CAMP” in July 2001 as an integrated brand comprising G-CAMP Academy (a comprehensive preparatory school for middle school students) and G-CAMP Class (a franchise specialized in a higher grade elementary school to middle school education with English and Math only).

### G-CAMP Class

One-on-One individual clinic institute G-CAMP

G-CAMP Class is an advanced institute franchise, focusing on a higher grade elementary school to middle school education with English and Math only. As a new-concept digital institution, linking on and offline services for maximum effectiveness, G-CAMP Classes provide tailored education in accordance with the characteristics and capabilities of individual students.

G-CAMP Class features unique teaching methods including a scientific learning management system, which effectively combines three stages—Diagnosis, Learning and Assessment—with the aim of raising each student’s grades at school. Presently, there are 21 institutes under the direct management of G-CAMP and two franchises in operation. By the end of 2004, the number of franchising G-CAMP Class increased to 67.

### G-CAMP Academy

G-CAMP Academy was first opened in October 2001 to create a comfortable learning environment for students.

The Academy delivers comprehensive subject-specific understanding through pre- and post-program studies, and also requires students to enroll in online classes at home.



# Developing new engines to meet new markets

## Group-based Interactive Teaching Program

### What is Soluny?

Soluny is an innovative home-schooling learning system developed by education experts for Korea's educational environment. Soluny consists of English, reading and essay "forums." A forum director leads lessons based on small group discussion twice a week.

- **Learning method of Soluny** : Children visit a "System Home School" twice a week, forming small groups of 4-6 persons. Each visit comprises 50 minutes of "Forum-based teaching."
- **What is forum-based learning?** : The word forum originally refers to a public square or marketplace of an ancient Roman city where citizens held open discussions. Similarly, through forum-type discussions, children get a chance to display and develop creative and logical thinking, leadership, and discussion skills.

### Subject (A specialized director manages each subject)

- **Soluny English Forum** : Students are taught math and science in English. Native speakers are used to give lessons once a month and teaching is activity centered.
- **Soluny Reading Forum** : This program is designed to help encourage students to express in English and assist them in improving conversational ability by allowing them to participate in activities. The English programs are developed to help the students learn systematically and use the skills in reading, discussion and writing. Eventually students are asked to make presentations to judge their ability to express.
- **Soluny Essay Forum** : This program is designed to encourage students to build up logical thinking through reading, discussion and writing. The program helps to express students' thoughts logically in their essays.

## Integrated & Computerized Education System through Project Problem-Solving

### What is Futurekids?

Futurekids is a self-motivated project solving integrated learning program that will give young students competitive edge. It is operated in more than 65 countries around the world. Futurekids Korea began with Daekyo in 2004.

### Provides interesting learning experiences

Students can enjoy all sorts of interesting topics through more than 300 theme projects, such as Cool Summer, Kid's Journal, Pop-up Magazine, World Wild Zoo, Little City Planner, Treasure Hunter, UN Agent and many others.

### Develops problem-solving, communication, presentation and computing skills

Students can develop problem solving and computer abilities through exciting project solving. From the small-group based learning environment, students also can improve communication skills as well as presentation skills. The integration of education and technology facilitate and improve students' overall performance that will prepare them to become the future leaders.







## Online & Global Education



### Korea's largest & best Educational Portal Site, Edupia.com!

The educational portal Edupia.com was launched in 2000. The portal was created at a time when internet-based educational program was at its early stage. The first mission of Edupia.com was to utilize a first-mover advantage for Noonnoppi success in the online education market. The portal is now Korea's largest education portal with over 1.6 million subscribers.

Edupia.com is opening the door to a bright new future in e-learning that delivers comprehensive infant-to-adult educational content, a range of learning materials, customer/student services, customer communities and shopping malls. Edupia.com celebrated its 5th anniversary in July 2004 and enjoys an excellent reputation as Korea's finest by winning several awards from professional organizations.

The portal provides several educational programs including Japanese language education. Its contents are based on curriculum used in the Korean schools. The portal, however, provides fun for students by including games, quizzes and other materials that can be played online.





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## Global Education Brand

Daekyo is actively carrying forward overseas expansion in line with its mid- and long-term vision of becoming a global education service provider. To this end, we are developing localized products through our comprehensive global education brand 'e-nopi' while establishing footholds through overseas subsidiaries. Our E.nopi Math programs are available for students in Australia, China, Japan, Malaysia, New Zealand, Singapore and the United States.

### **E•Nopi Math (A unique program developed to teach math for young children from K1 to K8)**

Our worksheets are designed to put fun in math learning for young children who get easily bored in a traditional rote learning environment. With our programs, children look forward to doing their work while having a lot of fun.

After years of research and study in Korea on effective math teaching, we have developed a program that takes into account not only the natural ability of a child in learning math but also to encourage the child in taking interest in math. Our math programs are basically divided into two broad parts. Basic Thinking Math & Critical Thinking Math.

E.nopi Math program was released in April 2003. It is not only brings out potential in children through mathematics, but also expands their range of thinking along with the basic concepts of mathematics. It utilizes teaching tools and materials to boost critical thinking and logical problem solving skills. The training material helps children increase the depth of their thinking skills in all disciplines. It is composed of 23 levels for infantile and elementary learning, and 9 levels for middle school classes. The professionally developed training material reflects the math curriculum used in many schools around the world. The program fosters enhanced problem solving and reasoning skills, as approved by the National Council of Teachers of Mathematics.

## After-School Computer Class

Daekyo extends computer education services to the elementary schools across the nation on a contract basis. We donate all the necessary facilities to operate an in-school multimedia classroom, including computers, Internet access and other equipment, and then supply the teachers, textbooks and software. With this approach, we have secured the highest market share in the business.

As of 2004-end, after-school computer classrooms in 230 elementary schools had chosen Daekyo's OA and certification courses for their curriculum.





## Committed to realizing a great workplace



We recognize “Education first,” “Customer-oriented” and “Organization centered” as our core values, and also remain focused on heightening enterprise and shareholder values.

Daekyo has been committed to creating a new corporate culture by realizing a great workplace (GWP) where employees can nurture their dreams and experience a sense of accomplishment, as part of our efforts to evolve into a global education service company.

To this end, we aim to practice ethical, transparent and just management through the steady improvement and implementation of internal control monitoring systems.

Based on this strong commitment to improving corporate governance standards, we are striving to secure professionalism and effective communications. We aim to enforce the settlement of GWP leadership via education, diagnosis, evaluation and feedback.

Daekyo will continue to push ahead with a corporate culture that recognizes “Education first,” “Customer-oriented” and “Organization centered” as our core values. In addition, we will concentrate efforts on the continuous enhancement of productivity, R&D and cost curtailment.

We intend to facilitate a positive workplace by championing the values of confidence, trust and satisfaction on behalf of our customers, employees, and society.

Ultimately, we will remain focused on heightening enterprise and shareholder values while building a better society and future for all.









## Community Spirit : Helping To Build a Better Tomorrow

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### CSR Philosophy

Daekyo takes corporate social responsibility (CSR) extremely seriously. We have made CSR an important part of our management philosophy and believe that responsible corporate behavior with respect to all stakeholders—consumers, shareholders, employees and the community—must be part of our overall management strategy. Accordingly, we contribute part of our corporate and employee revenue to society.

We also have deployed a variety of social contribution activities and supported a wide range of community groups and organizations involved in sports, cultural programs, arts, community service and social welfare.

### CSR Activities

#### Staying connected to the world, society and future!

Our CSR efforts are primarily led by public service, Noonnoppi Love Volunteer's Organization, Safe Kids In Korea, sports activities and the Daekyo Cultural Foundation.



## Sports Activities

The Noonnoppi Women's Badminton Team was organized in 1997 to promote badminton both as a competitive and leisure sport. In addition, we have sponsored and supported a number of domestic and international badminton tournaments, including the Noonnoppi Korea Badminton International Competition and Noonnoppi Korea Badminton Championship. Daekyo organized the Daekyo Kangaroos Women's Soccer Team to promote the sport in Korea. Since its foundation in 2001, the team has been contributing to the development of women's sports in Korea through diverse activities and successful participation in diverse tournaments. Likewise, Daekyo has supported the development of Korea's youth soccer, assisting the Elementary School Football League Competition hosted by the Korea Football Association and the Elementary School Football League.



## Public Service

Daekyo joined the "Federation of Korean Industries (FKI) 1% Club" in 2001 to participate in a movement to return 1% of our corporate profits to society. The club has about 120 member companies, each of which are required to voluntarily contribute more than 1% of their ordinary income toward socially contributive activities. We also sponsor or donate to a variety of sectors including art and culture, women's, scholastic, children's and juvenile groups, sports activities and welfare foundations. Total contributions in the year 2004 amounted to approximately KRW 2.7 billion.



## Noonnoppi Love Volunteer's Organization

Noonnoppi Love Volunteer's Organization was formed by Daekyo staff members and Noonnoppi teachers to provide important public service activities.



## Safe Kids Korea

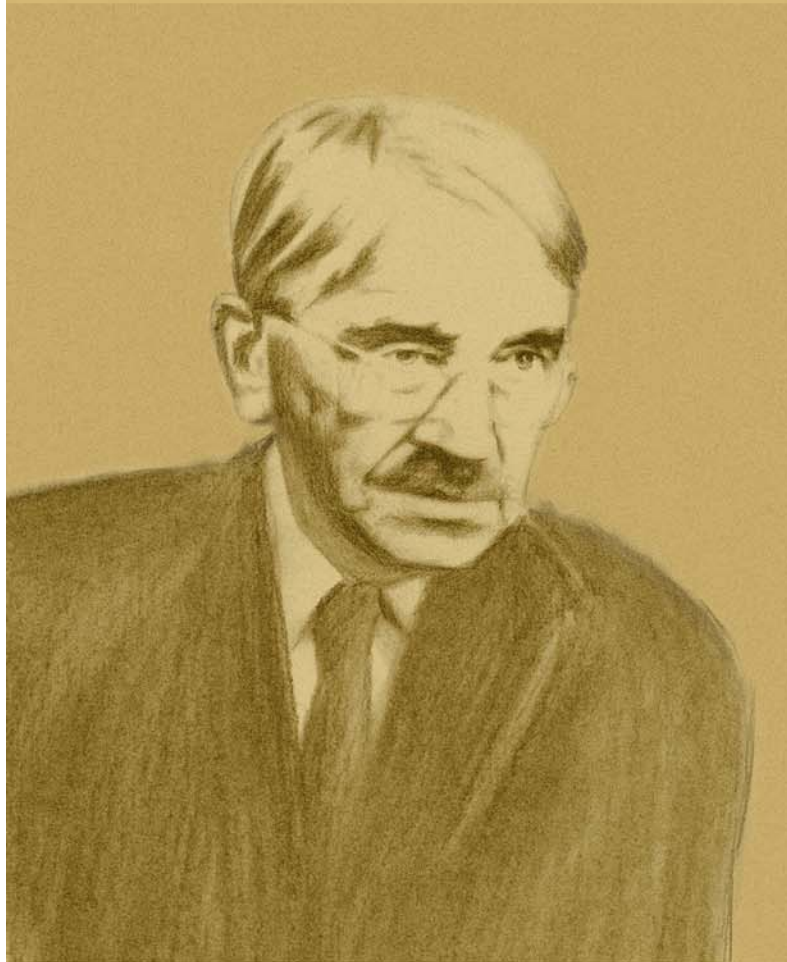
Safe Kids Korea was jointly founded in December 2001 with the Citizens' Coalition for Safety to carry out an accident prevention campaign for children, and now runs bicycle driving tests and the children safety information bank. We are also devising a spectrum of safety measures to guard against fire and accidents within the home.



## Daekyo Cultural Foundation

Meanwhile we promote culture-related activities through the Daekyo Cultural Foundation. Since 1992, the foundation has helped to build healthier families and societies by promoting wholesome educational and cultural environments. Its major business activities are divided into: support for educational activities including the Noonnoppi Tutors Awards and the annual national sculpture contest for college students; scholarship programs; assistance for arts & science; Noonnoppi Children's Literary Prize; Children's Creative Poetry Competition; and social service to link volunteers with welfare facilities in need.





*John Dewey*

1859 ~ 1952

## *S t o r y*



*Education is not preparation for life;  
education is life itself.*



## *Change and innovation*

Daekyo's stellar team is continually improving  
our educational programs and materials,  
seeking experienced learning with change and innovation.

In the long-term, Daekyo plans to grow further  
into a world-class education service provider, backed by strong  
brand power, the nation's largest subscriber base  
and constant R&D efforts, boasting exceptional returns  
on capital and a robust cash flow.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. Operation Performance

In 2004, Daekyo attained sales expansion and profitability improvement at the same time, hardening a foundation for stable growth. The company particularly enhanced its external credibility and transparency through stock listing on the Korea Exchange (KRX) in February. It also strengthened its market dominance as an industry leader and became able to invite more shareholders through new rights offerings for the third parties.

Daekyo also reaped noticeable growth in terms of qualitative aspects as well, such as increased operating margins and diversified sales in addition to external growth including upturns in capital stock and sales.

The company's quick assets amounted to KRW211.8 billion at 2004-end on the back of its outstanding ability to generate cash, and its debt-to-equity ratio in net cash position stood at 51.2%. It also demonstrated high asset value with available-for-sale securities totaling approximately KRW118.0 billion. The company, however, concentrated its efforts on the reinforcement of its capabilities for fundamental sectors such as operational activities, backed by affluent assets, while selling a part of its stake in 2004. Sales rose 4.2% year-on-year (YoY) to KRW839.3 billion at 2004-end. Cost of goods sold (COGS), or sales cost, edged up 1.0% YoY to KRW638.3 billion, leading to a 16.0% increase in gross profit to KRW201.0 billion.

Despite a rise in marketing expenses including advertising expenses, and sales, general & administrative (SG&A) expenses marginally increased by 8.2% YoY to KRW110.9 billion as the company sought efficient operations focusing on substantial management and cost reductions.

Accordingly, operating income surged 27.3% YoY to KRW90.0 billion at 2004-end. Ordinary income advanced 17.9% YoY to KRW101.3 billion, despite a temporary increase in non-operating expenses including the payment of additional income taxes and employee benefits for early retirement. This was due to a rise in non-operating income through the disposal of its shareholdings in other companies including Shinhan Financial Group (SFG).

Net income moved up 6.8% over the year to record KRW65.1 billion even after deducting income taxes, which soared 45% from a year earlier. Net income per common share decreased 11.8% YoY to KRW6,369, although the number of common shares outstanding gained 15.5% YoY to 8,470,285, following new rights issues for the third parties.

[ Figure 1 ] Income Statement Summary

(KRW in million)

	2004	2003	% Change
Sales	839,291	805,388	4.2%
Cost of Sales	638,336	632,126	1.0%
<b>Gross Profit</b>	<b>200,955</b>	<b>173,262</b>	<b>16.0%</b>
Selling and Administrative Expenses	110,926	102,521	8.2%
<b>Operating Income</b>	<b>90,029</b>	<b>70,741</b>	<b>27.3%</b>
Non-Operating Income	36,448	22,627	61.1%
Non-Operating Expenses	25,182	7,424	239.2%
<b>Ordinary Income</b>	<b>101,295</b>	<b>85,944</b>	<b>17.9%</b>
Income before income tax expenses	101,295	85,944	17.9%
Income Tax Expenses	36,192	24,964	45.0%
<b>Net Income</b>	<b>65,103</b>	<b>60,980</b>	<b>6.8%</b>
<b>Net income per share (common share)</b>	<b>6,369</b>	<b>7,225</b>	<b>-11.8%</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### 2. Sales

Sales amounted to KRW839.3 billion at 2004-end, rising 4.2% from a year earlier. Observing by sector, sales from the publication of study materials (Noonnoppi weekly home tutoring), accounting for the majority of total sales, edged up 1.1% over the year to KRW777.5 billion.

However, sales from the new media sector (after-school computer class) and book series swelled 54.7% YoY and 88.0% YoY, respectively, from the previous year's figures.

Sales from G-CAMP and newly advanced businesses also substantially advanced by 16.3% and 238.4%, respectively, over the year. Consequently, the ratio of sales from the publication of study materials to total sales backed off 2.9% YoY to 92.6% in 2004, from 95.5% in 2003, amidst the continued growth of total sales.

Gross profit rates in other businesses including new media sales and book sales markedly improved. Book sales, with their gross profit rate amounting to 27.2%, jumped 88.0% YoY to KRW29.7 billion at 2004-end. The weighting of book sales to total sales also expanded to 3.5%. Gross profit rate for total sales advanced 2.4%p YoY to 23.9%, improving the profitability for overall sales. Gross profit rate for the sales of Noonnoppi educational materials edged up 1.7%p YoY to 24.5%.

Meanwhile, sales from educational institutes displayed gradual improvement in profitability, recording gross profit rate of -10.7% as compared to -41.4% in the prior year.

[ Figure 2 ] Sales Analysis by Product

(KRW in million)

	2004	2003	% Change
<b>Sales</b>	<b>839,291</b>	<b>805,388</b>	<b>4.2%</b>
Publication of study materials	777,483	768,869	1.1%
New media sales	14,711	9,511	54.7%
Book sales	29,717	15,808	88.0%
Sales from educational institute	10,750	9,241	16.3%
Others	6,630	1,959	238.4%
<b>Cost of Sales</b>	<b>638,336</b>	<b>632,126</b>	<b>1.0%</b>
Publication of study materials	587,184	593,689	-1.1%
New media sales	12,290	8,627	42.5%
Book sales	21,635	15,029	44.0%
Sales from educational institute	11,899	13,064	-8.9%
Others	5,328	1,717	210.2%
<b>Gross profit rate</b>	<b>23.9%</b>	<b>21.5%</b>	<b>2.4%p</b>
Publication of study materials	24.5%	22.8%	1.7%p
New media sales	16.5%	9.3%	7.2%p
Book sales	27.2%	4.9%	22.3%p
Sales from educational institute	-10.7%	-41.4%	30.7%p
Others	19.7%	12.4%	7.3%p

## MANAGEMENT DISCUSSION AND ANALYSIS

### 3. Selling, General and Administrative Expense Analysis

Daekyo's selling, general and administrative (SG&A) expenses climbed 8.2% YoY to KRW110.9 billion at 2004-end. This was attributed to advertising expenses and service fees which expanded 11.2% YoY and 47.4% YoY, respectively, making up 38.2% and 20.2% of total SG&A expenses in 2004.

On the contrary, personnel expenses declined 16.4% YoY to KRW25.1 billion behind the restructuring of human resources for management efficiency. In addition, expenses for ordinary research and development (R&D), bad debts and intangible asset amortization increased from the 2003-end results, while depreciation and other SG&A expenses declined from the figures recorded in 2003.

[ Figure 3 ] Major Factor In SG&A Expenses

(KRW in million)

	2004		2003		% Change
<b>Selling, General &amp; Administrative expenses</b>	<b>110,926</b>	<b>100%</b>	<b>102,522</b>	<b>100%</b>	<b>8.2%</b>
Salaries/retirement & employee benefits	25,058	22.6%	29,166	28.5%	-14.1%
Taxes and dues	1,086	1.0%	984	1.0%	10.4%
Depreciation expenses	5,879	5.3%	6,228	6.1%	-5.6%
Advertising expenses	42,341	38.2%	37,617	36.7%	12.6%
Service fees	22,411	20.2%	11,786	11.5%	90.1%
Ordinary R&D	746	0.7%	326	0.3%	128.8%
Bad debt expenses	1,877	1.7%	1,124	1.1%	67.0%
Intangible asset amortization expenses	3,458	3.1%	1,608	1.6%	115.0%
Publication & training	1,743	1.6%	3,950	3.9%	-55.9%
Other S&A expenses	6,327	5.7%	9,733	9.5%	-35.0%

### 4. Non-Operating Income And Expenses

The table below shows significant differences in major items among non-operating revenues and non-operating expenses from the prior year's figures. Non-operating revenues went up KRW13.8 billion YoY to KRW36.4 billion at 2004-end. Among these, interest revenues and gains from disposal of available-for-sale securities expanded KRW3.2 billion YoY and KRW20.7 billion YoY, respectively, while income tax refund decreased KRW11.2 billion YoY.

A jump in gains from disposal of available-for-sale securities included KRW17.0 billion in gains from disposal of KRW10.2 billion worth of equity securities 1.25million shares in Shinhan Financial Group and KRW4.2 billion in gains from disposal of KRW10.8 billion worth of other equity securities during the year.

Non-operating expenses increased KRW17.8 billion to KRW25.2 billion at 2004-end. This was led by sharp YoY upturns in donations, additional payment of income taxes and severance benefits. The company's donations to return part of its profits to society rose by about KRW1.0 billion over the year to total KRW2.7 billion in 2004. The company also additionally paid KRW14.9 billion in income taxes and surtaxes for 2003. Meanwhile, the company implemented voluntary retirement schemes for management efficiency during the year. Subsequently it paid KRW5.9 billion in severance benefits for voluntary retirement and reflected the amount in its non-operating expenses.

## MANAGEMENT DISCUSSION AND ANALYSIS

[ Figure 4 ] Major Difference In Non-Operating Income/Expenses

(KRW in million)

	2004	2003	% Change
<b>Non-operating income</b>	<b>36,448</b>	<b>22,627</b>	<b>61.1%</b>
Interest revenues	8,715	5,543	57.2%
Gains from disposal of available-for-sale	21,179	505	4,093.9%
Income tax refund	1,794	12,993	-86.2%
<b>Non-operating expenses</b>	<b>25,182</b>	<b>7,424</b>	<b>239.2%</b>
Donations	2,695	1,709	57.7%
Additional payment of income taxes	14,904	1,991	648.6%
Severance benefits	5,856	0	-

### 5. Profits

Daekyo's sales increased 4.21% over the year to record KRW839.3 billion at the end of 2004. Operating income rose by 27.27% to KRW90.0 billion. Consequently, operating margin, which is an important indicator for profitability, stood at 10.73%, up 1.95% from 2003. This was attributed to a 24.5% rise in gross profits from the publication of study materials from 22.8% in 2003.

Of note, sales from the publication of study materials accounted for 92.6% of total sales in 2004 (95.5% in 2003). It was also because sales portions of the new media sector and book series advanced by 1.5% and 0.6%, respectively, to 3.5% and 1.8%. These sectors present relatively higher gross margins than others.

Net income increased 6.76% and net income margin edged up 0.19% to 7.76%. Despite such increases in net income and net income margin, the company's return on assets (ROA) and return on equity (ROE) fell by 1.7% and 5.3%, respectively, to 11.28% and 18% at the end of 2004. This was driven by upturns in total assets (23.4%) and total shareholders' equity (39.9%) due to new rights offering for the third parties following the company's stock listing on the KSE.

Daekyo recorded higher ROA and ROE not only compared to industry competitors, but also when compared to those of all listed companies.

[ Figure 5 ] Profits

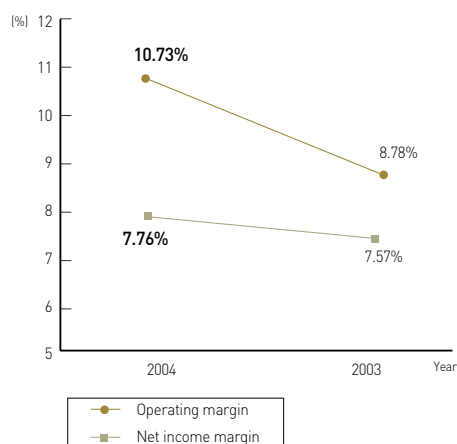
(KRW in million)

	2004	2003	% Change
Sales	839,291	805,388	4.2%
Operating income	90,029	70,741	27.3%
<b>Operating margin</b>	<b>10.73%</b>	<b>8.78%</b>	<b>2.0%p</b>
Net Income	65,103	60,980	6.8%
<b>Net income margin</b>	<b>7.76%</b>	<b>7.57%</b>	<b>0.2%p</b>
Return on assets	11.28%	12.98%	-1.7%p
<b>Return on equity</b>	<b>18.00%</b>	<b>23.30%</b>	<b>-5.3%p</b>

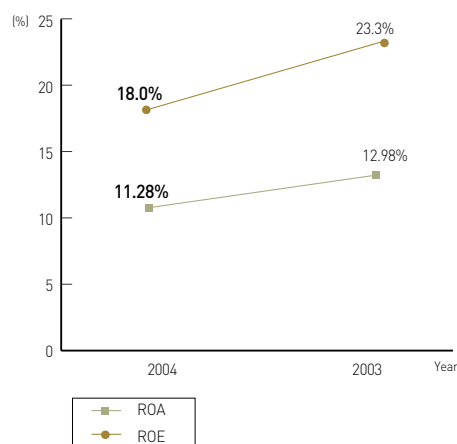


## MANAGEMENT DISCUSSION AND ANALYSIS

[ Graph 5-1] Operating Margin / Net Income Margin



[ Graph 5-2] Return on Assets/ Return on Equity



### 6. Dividend

With regard to the "shareholder-first" policies, Daekyo maintained high dividend payout ratios. The Company's dividend payout ratio climbed 6.73% to a record 24.29% in 2004. Net income rose 6.8% over the year, but total amount of dividends rose by 47.6% to KRW15.8 billion in 2004. The company paid interim dividends of KRW650 per (common and preferred) share, and dividends of KRW850 per common share and KRW950 per preferred share at year-end.

As a consequence, total par value dividends for common and preferred shares amounted to KRW1,500 and KRW1,600, respectively, at the end of 2004. These represented KRW250 increases in dividends for both common and preferred shares. Dividend ratios also moved up 5% to a record 30% for common shares and 32% for preferred shares.

Meanwhile, Daekyo's market prices, reflecting balance sheet data were KRW 69,800 for common shares and KRW35,320 for preferred shares. Accordingly, dividend yield ratios for these shares stood at 2.15% and 4.53%, respectively.

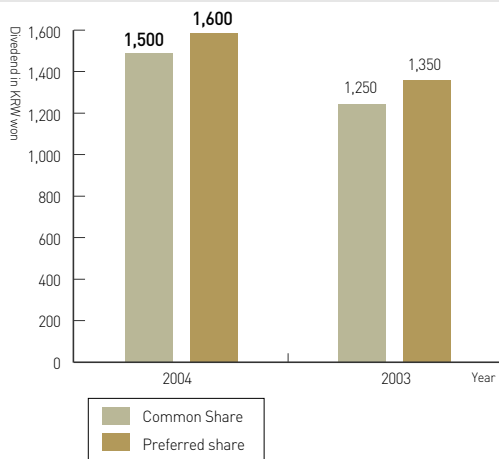
[ Figure 6 ] Dividend

(KRW in million)

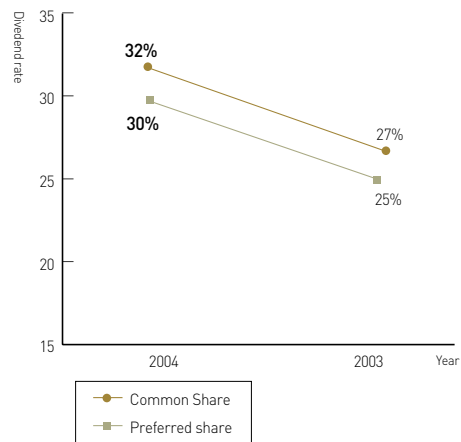
	2004	2003	% Change
Total dividends (in million) (1)	15,814	10,711	47.6%
Net income (in million) (2)	65,103	60,980	6.8%
<b>Dividend payout ratio ( (1)/(2) )</b>	<b>24.3%</b>	<b>17.6%</b>	<b>6.7%p</b>
Dividend per share (in won)			
Common share (interim + year-end)	1,500 (650+850)	1,250	20.0%
Preferred share	1,600 (650+950)	1,350	18.5%
Dividend ratio			
Common share (interim + year-end)	30% (13% + 17%)	25%	5%p
Preferred share	32% (13% + 19%)	27%	5%p

## MANAGEMENT DISCUSSION AND ANALYSIS

[ Graph 6-1] Dividend Per Share



[ Graph 6-2] Dividend Ratio



### 7. Financial Position

Total assets surged 23.4% to record KRW637.8 billion. The rise was primarily led by a 77.1% rise in quick assets to KRW211.8 billion, resulting in a 65.4% climb in current assets (quick assets + inventories) to KRW228.5 billion. This reflects the results of the "stable management" approach, led to steady inflows of assets of cash on hand. Short-term financial products sharply increased through: (1) the payments from new rights offering for the third parties following the company's stock listing and (2) assets of cash on hand secured by the disposal of treasury stocks.

Investment assets fell by 1.6% to KRW197.6 billion as the company sold part of its stake in SFG. These included KRW118.0 billion in available-for-sale securities such as KRW38.9 billion worth of Shinhan Life Insurance shares and KRW57.0 billion worth of SFG shares as of 2004-end (based on book value). Tangible assets, or Property, Plant & Equipment, rose by 18.3% to KRW165.0 billion, mainly because construction in progress increased KRW16.0 billion over the year to KRW16.1 billion at 2004-end. Intangible assets also expanded 21.4% to KRW46.7 billion due to increases in Right to use donated assets and development expenses. Fixed assets, combining investment assets, tangible assets and intangible assets, rose by 8.1% to KRW409.3 billion.

The company's liabilities remained almost identical to 2003, moving up 0.3% to KRW216.1 billion. Current liabilities edged down 0.5%, while fixed liabilities rose by 2.0%. Total shareholders' equity changed significantly behind the rights offering for public ownership through the stock listing. Capital stock increased KRW6.6 billion to KRW52.1 billion, and capital surplus expanded KRW63.1 billion to KRW71.7 billion. Together, retained earnings surged 22.3% to KRW261.1 billion, reflecting accumulated satisfactory operational results. Capital adjustment increased KRW2.9 billion over the year behind the disposal of treasury stocks. As a result, total shareholders' equity rose by 39.9% to record KRW421.8 billion at 2004-end.

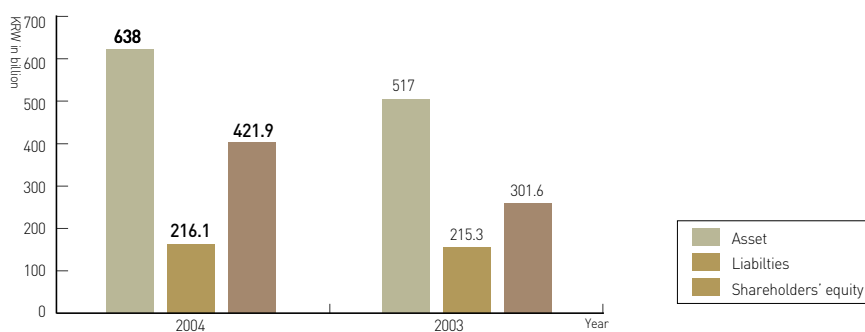
## MANAGEMENT DISCUSSION AND ANALYSIS

[ Figure 7 ] Balance Sheet Summary

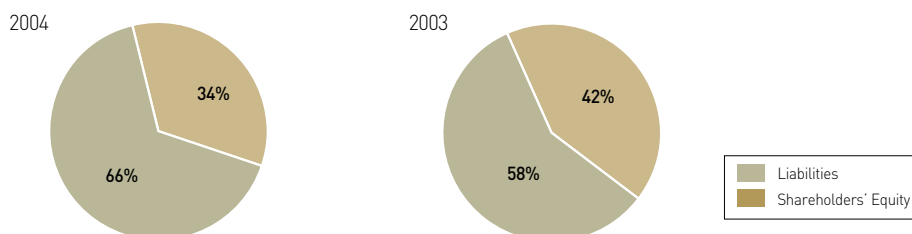
(KRW in million)

	2004	2003	% Change
Current asset	228,499	138,145	65.4%
Quick asset	211,841	119,611	77.1%
Inventories	16,658	18,534	-10.1%
Fixed asset	409,330	378,722	8.1%
Investment assets	197,571	200,754	-1.6%
Tangible assets	165,046	139,498	18.3%
Intangible assets	46,713	38,469	21.4%
<b>Total assets</b>	<b>637,829</b>	<b>516,868</b>	<b>23.4%</b>
Current liabilities	144,004	144,665	-0.5%
Fixed Liabilities	72,047	70,638	2.0%
<b>Total liabilities</b>	<b>216,051</b>	<b>215,303</b>	<b>0.3%</b>
Capital stock	52,065	45,512	14.4%
Capital surplus	71,723	8,613	732.7%
Retained earnings	261,093	213,469	22.3%
Capital adjustment	36,896	33,970	8.6%
<b>Total shareholders' equity</b>	<b>421,777</b>	<b>301,564</b>	<b>39.9%</b>
<b>Total liabilities total shareholders' equity</b>	<b>637,829</b>	<b>516,868</b>	<b>23.4%</b>

[ Graph 7-1-1 ] Total Assets, Liabilities, Shareholders' Equity



[ Graph 7-1-2 ] Equity To Asset Ratio



## MANAGEMENT DISCUSSION AND ANALYSIS

### 8. Capital Stock/Capital Surplus

There were significant changes in total shareholders' equity, following the stock listing on KRX in February 2004. Change in capital stock was generated by new rights issues for common shares through public offering in the wake of stock listing. Capital surplus increased significantly due to a rise in premium on capital stock following new rights issues. It was also because the company realized proceeds from the disposal of treasury stocks as other capital surpluses.

The number of common shares outstanding amounted to 8,470,285 at the end of 2004, from 7,159,733 in the previous year. This change reflected 1,310,552 new shares offered for public ownership in February 2004. The offering generated KRW46.8 billion of premium on capital stock.

Meanwhile, the company held 689,448 common shares as its treasury stocks at the end of 2003. Of these, 120,000 shares were acquired when taking over Daekyo Broadcasting in 1997 and the remaining 569,448 shares were obtained after completing the acquisition of Daekyo Computer, M&C and Daekyo Distribution in 1998. The company sold all of these treasury stocks for KRW29.0 billion, generating gains of about KRW20.0 billion from the disposal at the time of its stock listing. This resulted in a reflection of KRW16.3 billion as other capital surpluses after deducting income tax expenses of KRW3.7 billion.

[ Figure 8-1 ] Capital Stock & Capital Surplus

(KRW in million)

	2004	2003	% Change
<b>Capital Stock</b>	<b>52,064,920</b>	<b>45,512,160</b>	<b>14.4%</b>
Common shares	42,351,425	35,798,665	18.3%
Preferred shares	9,713,495	9,713,495	-
<b>Capital Surplus</b>	<b>71,723,241</b>	<b>8,613,285</b>	<b>732.7%</b>
Additional paid-in capital	46,797,205	0	-
Other capital surplus	24,926,036	8,613,285	189.4%

[ Figure 8-2 ] Change in Common Stock

(KRW in million)

Date of issuance	Type	Number of stock (number)	Par value	Additional paid-in capital
Dec 31, 2003	Beginning balance	7,159,733	35,798,665	
Feb 3, 2004	Issuance of common stock	1,310,552	6,552,760	46,797,205
<b>Dec 31, 2004</b>		<b>8,470,285</b>	<b>42,351,425</b>	<b>46,797,205</b>

### 9. Cash Flows

Cash flows from operating activities decreased by KRW34.8 billion to KRW58.3 billion at the end of 2004. The addition of expenses not involving cash outflows increased KRW1.96billion to KRW42.9billion, due to increases in depreciation expenses, intangible asset amortization expenses and loss from disposal of available-for-sale securities.

While the loss on the retirement of inventories and impairment loss on available-for-sale securities were reflected in 2003 results, they were not included in 2004. However, gains from disposal of available-for-sale securities in the deduction of revenues not involving cash inflows increased to KRW20.7 billion over the year. In addition, cash outflows following change in working capital increased by KRW19.9 billion over the year to KRW28.3 billion at the end of 2004. Net cash outflows following the change in working capital were attributed to rises in accrued income and trade receivables and sharp declines in expenses payable and pre-paid expenses.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 9. Cash Flows

Cash flows from operating activities decreased by KRW34.8 billion to KRW58.3 billion at the end of 2004. The addition of expenses not involving cash outflows increased KRW1.96billion to KRW42.9billion, due to increases in depreciation expenses, intangible asset amortization expenses and loss from disposal of available-for-sale securities.

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[ Figure 9 ] Statements of Cash Flows

(KRW in million)

	2004	2003	% Change
<b>Cash Flow from Operating Activities</b>	<b>58,314</b>	<b>93,116</b>	<b>-37.4%</b>
Net Income	65,103	60,980	6.8%
Addition of expenses not involving cash outflows	42,991	41,107	4.6%
Deduction of revenues not involving cash inflows	-21,435	-530	-3,944.2%
Changes in assets and liabilities resulting from operations	-28,346	-8,442	-235.8%
<b>Cash Flow from Investing Activities</b>	<b>-127,163</b>	<b>-46,784</b>	<b>-171.8%</b>
Cash inflows	96,742	33,624	187.7%
Cash outflows	-223,906	-80,408	-178.5%
<b>Cash Flow from Financial Activities</b>	<b>62,374</b>	<b>-9,016</b>	<b>791.8%</b>
Cash inflows	82,307	0	N/A
Cash outflows	-19,933	-9,016	-121.1%
<b>Increase in Cash</b>	<b>-6,476</b>	<b>37,316</b>	<b>-117.4%</b>
Cash at the beginning of year	73,119	35,803	104.2%
<b>Cash at the end of year</b>	<b>66,642</b>	<b>73,119</b>	<b>-8.9%</b>

### 10. 2005 Outlook

Daekyo strengthened its financial foundation and long term growth prospects through the stock listing on the KSE in 2004. The fourth quarter results were hampered compared to the results of the previous quarter and the same period of the prior year due to a temporary increase in advertising expenses.

However, the company moved ahead with its profit-oriented stable management.

The Company achieved an increase in sales (+4.2%), operating income (+27.3%) and net income (+6.8%).

The company now looks forward to stable profitability based on its unrivaled market dominance in the years ahead. It has the financial resources necessary to cope with the rapidly changing market environment by increasing long-term ROE and expanding market dominance on the basis of its strong cash position, as cash on hand amounted to KRW200.0 billion at the end of 2004.

In 2005, the demand for existing study materials will likely increase against the backdrop of government policy to bring back grading academic achievements of elementary school students. Sales including those from Soluny programs will also likely increase while the profitability of newly advanced businesses such as academic institutes and after-school computer classrooms are improving. All these will ultimately enable the company to grow further during 2005. In addition, the company expects to further diversify and expand its sales network in the long and mid-term with the establishment of a new joint venture with Bertelsmann Group.

Ultimately, Daekyo will continue to add value through our "shareholders-first" policies through the pay-out of high dividends, while seeking an increase in its intrinsic value by following a profit-oriented, stable management policy.

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(Yongsan P.O.Box 266, 140-600)

To the Board of Directors and Shareholders of  
Daekyo Co., Ltd.

We have audited the accompanying balance sheets of Daekyo Co., Ltd. (the "Company") as of December 31, 2004 and 2003, and the related statements of income, appropriations of retained earnings, and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daekyo Co., Ltd. as of December 31, 2004 and 2003, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Note 1 to the accompanying financial statements, the Company offered its shares for public ownership on February 3, 2004, and the Company's common stock are listed at the Korean Stock Exchange. The Company issued 1,310,552 new shares of common stock through public subscription and 689,448 shares of treasury common stock through sale, raising a total amount of ₩84,000,000 thousand (₩42,000 per share).

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 conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are knowledgeable about Korean accounting principles or auditing standards and their application in practice.

*Samil PricewaterhouseCoopers*

Seoul, Korea

February 18, 2005

This report is effective as of February 18, 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 thousands of Korean won)

	2004	2003
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 3)	₩ 66,642,461	₩ 73,118,849
Short-term financial instruments (Note 4)	90,534,600	16,163,100
Available-for-sale securities (Note 7)	12,642,484	1,280,301
Trade accounts receivable, net (Notes 5 and 23)	23,453,603	17,978,519
Other accounts receivable, net (Notes 5 and 23)	4,421,052	8,676,666
Inventories (Note 6)	16,657,783	8,534,071
Advance payments	2,913,419	306,702
Other current assets	11,233,061	2,087,287
<b>Total current assets</b>	<b>228,498,463</b>	<b>138,145,495</b>
Property and equipment, net (Note 9)	165,046,182	139,498,635
Long-term financial instruments (Note 4)	680,014	1,514,747
Available-for-sale securities (Note 7)	117,973,780	132,053,257
Equity method investments (Note 8)	4,847,926	3,300,591
Non-current guarantee deposits	47,475,251	49,143,823
Deferred income tax assets (Note 19)	8,838,444	10,465,915
Other investment assets	17,756,050	4,276,270
Intangible assets (Note 10)	46,712,581	38,468,931
<b>Total assets</b>	<b>₩ 637,828,691</b>	<b>₩ 516,867,664</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Trade accounts payable	₩ 7,595,138	₩ 7,834,166
Other accounts payable	18,815,511	19,245,896
Accrued expenses	36,187,637	41,573,497
Withholdings	5,771,297	4,241,212
Advances received	46,846,443	58,924,749
Income tax payable	28,028,324	11,061,585
Current maturities of long-term borrowings (Note 11)	-	559,500
Other current liabilities	759,728	1,224,429
<b>Total current liabilities</b>	<b>144,004,078</b>	<b>144,665,034</b>
Long-term borrowings, net of current maturities (Note 11)	-	1,958,250
Long-term accrued expenses	32,531,807	32,056,497
Long-term deposits received	14,775,473	13,358,131
Liability for loss contingencies	-	500,000
Accrued severance benefits, net (Note 12)	24,740,012	22,765,452
<b>Total liabilities</b>	<b>216,051,370</b>	<b>215,303,364</b>
Commitments and contingencies (Note 13)		
<b>Shareholders' equity</b>		
Capital stock, ₩5,000 par value per share; authorized 150,000,000 shares (Note 14)		
Common stock issued and outstanding-8,470,285 shares	42,351,425	35,798,665
Preferred stock issued and outstanding-1,942,699 shares	9,713,495	9,713,495
Capital surplus (Note 15)	71,723,241	8,613,285
Retained earnings (Note 16)	261,093,264	213,468,992
Capital adjustments (Note 17)	36,895,896	33,969,863
<b>Total shareholders' equity</b>	<b>421,777,321</b>	<b>301,564,300</b>
<b>Total liabilities and shareholders' equity</b>	<b>₩ 637,828,691</b>	<b>₩ 516,867,664</b>

# STATEMENTS OF INCOME

December 31, 2004 and 2003

(In thousands of Korean won)

	2004	2003
<b>Sales (Note 20)</b>	<b>₩ 839,290,676</b>	<b>₩ 805,387,949</b>
<b>Cost of sales (Note 20)</b>	<b>638,335,789</b>	<b>632,125,851</b>
Gross profit	200,954,887	173,262,098
<b>Selling and administrative expenses</b>	<b>110,926,398</b>	<b>102,521,583</b>
Operating income	90,028,489	70,740,515
<b>Non-operating income</b>		
Interest income	8,714,934	5,542,924
Dividend income	2,355,923	2,394,170
Refunded income taxes	1,793,734	12,992,987
Gain on disposal of available-for-sale securities	21,178,747	505,073
Gain on foreign currency translation	85,224	45,829
Foreign exchange gains	129,857	6,054
Gain on disposal of property, plant and equipment	98,013	24,731
Rental income	952,957	936,581
Others	1,138,620	178,670
	<b>36,448,009</b>	<b>22,627,019</b>
<b>Non-operating expenses</b>		
Interest expense	62,020	98,113
Foreign exchange losses	1,505	17,438
Loss on foreign currency translation	44,165	240,750
Loss on valuation of inventories	-	376,104
Loss on disposal of property, plant and equipment	13,499	1,205,657
Loss on valuation of securities using the equity method of accounting	874,835	750,989
Loss on valuation of options	-	40,075
Loss on impairment of available-for-sale securities	-	245,148
Loss on impairment of intangible assets	-	72,728
Provision for guarantee losses	5,161	500,000
Retirement bonus	5,855,965	-
Additional income taxes	14,904,169	1,991,297
Donations	2,695,359	1,709,279
Others	725,238	176,183
	<b>25,181,916</b>	<b>7,423,761</b>
Income before income taxes	101,294,582	85,943,773
Income tax expense (Note 19)	36,191,370	24,963,561
<b>Net income</b>	<b>₩ 65,103,212</b>	<b>₩ 60,980,212</b>
Ordinary income per share (Note 21)		
Common stock	₩ 6,369	₩ 7,225
Preferred stock	₩ 6,333	₩ 7,325
Earnings per share		
Common stock	₩ 6,369	₩ 7,225
Preferred stock	₩ 6,333	₩ 7,325

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



## STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

December 31, 2004 and 2003

(In thousands of Korean won)

	2004	2003
<b>Retained earnings before appropriations</b>		
Unappropriated retained earnings carried over from prior years	₩3,953,467	₩3,683,755
Interim dividend (Note 22)	(6,768,440)	-
Net income	65,103,212	60,980,212
	<b>62,288,239</b>	<b>64,663,967</b>
<b>Appropriations of retained earnings</b>		
Reserve for financial Structure Improvement	10,000,000	-
Voluntary reserve	40,000,000	50,000,000
Cash dividends (Note 22)	9,045,306	10,710,500
	<b>59,045,306</b>	<b>60,710,500</b>
<b>Unappropriated retained earnings carried forward to the subsequent year</b>	<b>₩ 3,242,933</b>	<b>₩3,953,467</b>

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

# STATEMENTS OF CASH FLOWS

December 31, 2004 and 2003

(In thousands of Korean won)

	2004	2003
<b>Cash flows from operating activities</b>		
Net income	₩65,103,212	₩60,980,212
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	9,671,457	8,655,555
Amortization of intangible assets	14,894,162	10,301,511
Provision for severance benefits	14,967,370	17,425,078
Loss on valuation of securities using the equity method of accounting	-	874,835
Loss (gain) on disposal of property and equipment, net	(84,514)	1,180,926
Loss on foreign currency translation, net	-	240,750
Provision for bad debt expense	1,876,937	1,123,626
Provision for other bad debt expenses	44,174	168,086
Provision for return reserve	-	-
Amortization of present value discount	(18,574)	-
Loss on valuation of inventories	-	376,104
Loss (gain) on valuation of options	(140,000)	40,075
Loss on impairment of available-for-sale securities	-	245,148
Loss on impairment of intangible assets	-	72,728
Provision for guarantee losses	5,161	500,000
Gain on disposal of available-for-sale securities, net	(20,791,499)	(504,531)
Others	256,464	1,364
	<b>21,555,973</b>	<b>40,577,410</b>
Changes in operating assets and liabilities		
Increase in trade accounts receivable	(7,352,021)	(3,806,058)
Decrease in other accounts receivable	4,230,014	166,555
(Increase ) decrease in advance payments	(2,606,717)	1,572,173
Increase in inventories	(5,460,175)	(4,789,779)
Decrease in deferred income tax assets	1,627,471	3,107,087
Increase in other current assets	(3,486,714)	(1,668,034)
Increase in trade accounts payable	(239,027)	(1,022,742)
(Decrease) increase in other accounts payable	(430,386)	8,595,955
(Decrease) increase in accrued expenses	(5,385,860)	9,946,046
Increase in withholdings	1,466,697	392,626
(Decrease) increase in advances received	(12,078,306)	18,161,663
Increase (decrease) in income tax payable	13,301,330	(7,659,542)
Payment of severance benefits	(21,460,487)	(28,913,912)
Decrease in severance insurance deposits	7,490,549	1,919,325
Decrease in contributions to the National Pension Fund	977,129	1,195,214

## STATEMENTS OF CASH FLOWS

December 31, 2004 and 2003

(In thousands of Korean won)

	2004	2003
Increase in long-term deposits received	1,417,342	139,665
Increase (decrease) in long-term accrued expenses	475,311	(6,070,598)
Decrease in provision for guarantee losses	(505,161)	-
(Decrease) increase in other current liabilities	(326,648)	292,752
	<b>(28,345,659)</b>	<b>(8,441,604)</b>
<b>Net cash provided by operating activities</b>	<b>58,313,526</b>	<b>93,116,018</b>
<b>Cash flows from investing activities</b>		
Proceeds from disposal of available-for-sale securities	45,090,930	3,674,740
Proceeds from disposal of short-term financial instruments	26,224,198	19,624,480
Proceeds from disposal of long-term financial instruments	1,628,887	10,168
Proceeds from disposal of property, plant and equipment	259,408	1,637,644
Proceeds from other current assets	158,702	34,130
Proceeds from disposal of other investment assets	1,837,620	-
Proceeds from other current liabilities	140,000	97,980
Proceeds from non-current guarantee deposits	21,329,909	8,544,581
Proceeds from equity method investments	72,735	-
Acquisition of equity method investments	(599,793)	(198,368)
Acquisition of other investment assets	(19,802,662)	-
Payments for non-current guarantee deposits	(19,661,338)	(11,925,623)
Acquisition of other current assets	(1,332,500)	-
Acquisition of long-term financial instruments	(794,153)	(446,746)
Acquisition of available-for-sale securities	(29,667,928)	(9,287,399)
Acquisition of short-term financial instruments	(100,595,698)	(18,163,100)
Acquisition of property, plant and equipment	(28,313,898)	(15,429,102)
Acquisition of intangible assets	(23,137,812)	(24,957,509)
Net cash used in investing activities	(127,163,393)	(46,784,124)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock	53,349,965	-
Proceeds from treasury stock	28,956,816	-
Cash dividends	(17,415,552)	(8,510,119)
Repayment of current maturities of long-term borrowings	(2,517,750)	(506,000)
Net cash used in financing activities	62,373,479	(9,016,119)
Net increase in cash and cash equivalents	(6,476,388)	37,315,775
<b>Cash and cash equivalents</b>		
Beginning of the year	73,118,849	35,803,074
End of the year	₩ 66,642,461	₩ 73,118,849

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

# NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

## 1. The Company

Daekyo Co., Ltd. (the "Company") was incorporated in December 1986 under the Commercial Code of the Republic of Korea to provide educational services for children. The Company changed its name from Daekyo Munhwa Co., Ltd. to Daekyo Co., Ltd. in January 1991.

As of December 31, 2004, the Company's shareholders of common stock are as follows:

	Number of shares	Percentage of ownership (%)
Daekyo Network Co., Ltd.	4,953,120	58.48
Daekyo Culture Foundation	297,842	3.52
Kang, Young Jung	183,234	2.16
Others	3,036,089	35.84
	<b>8,470,285</b>	<b>100.00</b>

The Company offered its shares for public ownership on February 3, 2004, and the Company's common stock are listed at the Korean Stock Exchange. The Company issued 1,310,552 new shares of common stock through public subscription and 689,448 shares of treasury common stock through sale, raising a total amount of ₩84,000,000 thousand (₩42,000 per share).

## 2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its financial statements are summarized below:

### Basis of Financial Statement Presentation

The Company maintains its accounting records in Korean Won and prepares statutory financial statements in the Korean language(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 from the Korean language financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, and results of operations, or cash flows, is not presented in the accompanying financial statements.

### Accounting Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from those estimates.

### Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

### 1. The Company

Daekyo Co., Ltd. (the "Company") was incorporated in December 1986 under the Commercial Code of the Republic of Korea to provide educational services for children. The Company changed its name from Daekyo Munhwa Co., Ltd. to Daekyo Co., Ltd. in January 1991.

As of December 31, 2004, the Company's shareholders of common stock are as follows:

The Company offered its shares for public ownership on February 3, 2004, and the Company's common stock are listed at the Korean Stock Exchange. The Company issued 1,310,552 new shares of common stock through public subscription and 689,448 shares of treasury common stock through sale, raising a total amount of ₩84,000,000 thousand (₩42,000 per share).

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The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. As SKFAS Nos. 2 through 9 became applicable to the Company on January 1, 2003, the Company adopted these Standards in its financial statements covering periods beginning on or after this date. And as SKFAS Nos. 10, 12 and 13 became applicable to the Company on January 1, 2004, the Company adopted these Standards in its financial statements as of and for the year ended December 31, 2004.

The Company's financial statements are scheduled to be approved by the Board of Directors on February 21, 2005.

#### Revenue Recognition

Sales of products are recognized when delivered, and revenues from construction contracts are recognized using percentage-



# NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

of-completion method.

## Cash and Cash Equivalents

The Company considers cash on hand, bank deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents.

## Allowance for Doubtful Accounts

The Company provides an allowance for doubtful receivables based on the aggregate estimated collectibility of the receivables.

## Return reserve

Estimated returns and related estimated cost of goods sold were deducted from sales and cost of goods sold, respectively.

## Inventories

Inventories are stated at the lower of cost or market with cost being determined using the weighted-average method. If the net realizable value of inventory is less than its cost, the carrying amount is reduced to the net realizable value. Effective January 1, 2004, the Company changed its method for inventory valuation from annual average to moving average method due to launching new ERP system. As a result of this change, inventory at December 31, 2004, is approximately ₩493 million more than that which would have been reported under previous method.

## Investments in Affiliates and Other Investments

The Company accounts for equity and debt securities under the provision of Statement of Korean Financial Accounting Standards No. 8, Investments (SKFAS No. 8). This statement requires investments in equity and debt securities to be divided into one of three categories: trading, available-for-sale and held-to-maturity.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the moving-average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at a reasonable interest rate determined considering the credit ratings provided by the independent credit rating agencies.

	Estimated useful lives
Buildings	40 - 60 years
Structures	3 - 40 years
Machinery	4 years
Vehicles	2 - 5 years
Tools	2 - 4 years
Equipment	2 - 17 years

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are recorded as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the income statement when the recoverable amounts are less than the acquisition cost of securities or adjusted cost of debt securities for the amortization of discounts or premiums.

Investments in equity securities of companies, over which the Company exercises a significant control or influence (controlled investees), are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership of the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. The Company discontinues the equity method of accounting for investments in equity method investees when the Company's share in the accumulated losses equals the costs of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods when the equity

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

### 1. The Company

Daekyo Co., Ltd. (the "Company") was incorporated in December 1986 under the Commercial Code of the Republic of Korea to provide educational services for children. The Company changed its name from Daekyo Munhwa Co., Ltd. to Daekyo Co., Ltd. in January 1991.

As of December 31, 2004, the Company's shareholders of common stock are as follows:

	Estimated useful lives
Goodwill	5 years
Industrial property rights	5 - 10 years
Development costs	4 years
Intellectual property rights	5 years
Franchise	5 years
Right to use donated assets	1 - 4 years

The Company offered its shares for public ownership on February 3, 2004, and the Company's common stock are listed at the Korean Stock Exchange. The Company issued 1,310,552 new shares of common stock through public subscription and 689,448 shares of treasury common stock through sale, raising a total amount of ₩84,000,000 thousand (₩42,000 per share).

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#### Accounting Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from those estimates.

#### Application of the Statements of Korean Financial Accounting Standards

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# NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

(SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. As SKFAS Nos. 2 through 9 became applicable to the Company on January 1, 2003, the Company adopted these Standards in its financial statements covering periods beginning on or after this date. And as SKFAS Nos. 10, 12 and 13 became applicable to the Company on January 1, 2004, the Company adopted these Standards in its financial statements as of and for the year ended December 31, 2004.

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## Revenue Recognition

Sales of products are recognized when delivered, and revenues from construction contracts are recognized using percentage-of-completion method.

## Cash and Cash Equivalents

The Company considers cash on hand, bank deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents.

## Allowance for Doubtful Accounts

The Company provides an allowance for doubtful receivables based on the aggregate estimated collectibility of the receivables.

## Return reserve

Estimated returns and related estimated cost of goods sold were deducted from sales and cost of goods sold, respectively.

## Inventories

(In thousands of Korean won)

	2004			2003		
	Korean Won equivalent	Foreign currency		Korean Won equivalent	Foreign currency	
Cash and cash equivalents	₩153,409	US	\$ 147	₩35,982	US	\$ 30
	67,226	Canada	\$ 78	65,980	Canada	\$ 71
	14,487	HK	\$ 108	16,642	HK	\$ 108
	150,505	NZ\$	201	110,390	NZ	\$ 141
	55,189	JP	¥ 5,453	50,621	JP	¥ 4,524
	23,407	AUD	\$ 29	10,372	AUD	\$ 11
	3,233	GBP	2			

## 4. Restricted Deposits

As of December 31, 2004 and 2003, long-term financial instruments amounting to ₩2,500 thousand represent key money deposits required to maintain checking accounts and, accordingly, withdrawal of these deposits is restricted. As of December 31, 2004, short-term financial instruments amounting to ₩8,914,000 thousand (2003: ₩9,463,100 thousand), were provided as collateral in connection with guarantees on affiliated companies and others (Note 13).

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

### 5. Accounts Receivable

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

(In thousands of Korean won)

	2004			
	Gross amount	Allowance for doubtful accounts	Discounts on present value	Carrying value
Trade accounts receivable	₩27,439,974	₩3,986,371	₩-	₩23,453,603
Other accounts receivable	5,798,620	1,377,568	-	4,421,052
	₩33,238,594	₩5,363,939	₩-	₩27,874,655

	2003			
	Gross amount	Allowance for doubtful accounts	Discounts on present value	Carrying value
Trade accounts receivable	₩20,094,806	₩2,116,287	₩-	₩17,978,519
Other accounts receivable	10,031,360	1,336,120	18,574	8,676,666
	₩30,126,166	₩3,452,407	₩18,574	₩26,655,185

### 6. Inventories

Inventories as of December 31, 2004 and 2003 consist of the following:

(In thousands of Korean won)

	2004	2003
Merchandise	₩679,100	₩392,160
Finished products	12,695,341	13,796,352
Supplies	2,457,058	712,206
Raw materials	826,284	-
Work-in-process	-	48,150
Land held for resale	-	1,402,961
Construction in-progress held for resale	-	2,182,242
	₩16,657,783	₩18,534,071

### 7. Available-For-Sale Securities

Available-for-sale securities as of December 31, 2004 and 2003 consist of the following:

(In thousands of Korean won)

	2004	2003
Debt securities	₩13,632,989	₩4,106,979
Equity securities	116,983,275	129,226,579
	₩130,616,264	₩133,333,558

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

Debt securities included in available-for-sale securities as of December 31, 2004 and 2003 consist of the following:

(In thousands of Korean won)

	2004	2003
Exchangeable bonds	₩ 1,717,956	₩ 1,707,974
Convertible bonds	1,533,349	1,315,992
Government and public bonds	10,381,684	1,083,013
	<b>₩ 13,632,989</b>	<b>₩ 4,106,979</b>

Among the above debt securities, securities with maturities of less than one year or securities which are almost certain to be disposed of are classified as current assets. For the year ended December 31, 2004, total interest income from available-for-sale securities amounted to ₩414,286 thousand.

The Company recognized an impairment loss of ₩199,882 thousand, relating to convertible bonds issued by LG Card co.,Ltd, which was charged to current operations for the year ended December 31, 2003.

The carrying value and the fair value of available-for sale securities by annual maturity, in aggregate, as of December 31, 2004 and 2003 are as follows:

(In thousands of Korean won)

	2004		2003	
	Carrying value	Fair value	Carrying value	Fair value
One year or less	₩ 3,590,265	₩ 3,590,265	₩ 214,746	₩ 214,746
More than one year to five years	10,017,944	10,017,944	3,692,814	3,692,814
More than five years to ten years	24,780	24,780	199,419	199,419
	<b>₩ 13,632,989</b>	<b>₩ 13,632,989</b>	<b>₩ 4,106,979</b>	<b>₩ 4,106,979</b>

Equity securities included in available-for-sale securities as of December 31, 2004 and 2003 consist of the following:

(In thousands of Korean won)

	2004				
	Number of shares owned	Market or Percentage of ownership [%]	Acquisition cost	net asset value	Carrying value
<b>Current assets</b>					
Beneficiary certificates <sup>1)</sup>			₩ 9,095,511	₩ 9,052,219	₩ 9,052,219
<b>Non-current assets</b>					
Non-marketable equity securities					
Shinhan Life Insurance Co., Ltd. <sup>2)</sup>	7,776,936	19.44	38,885,480	38,885,480	38,885,480
			<b>38,885,480</b>	<b>38,885,480</b>	<b>38,885,480</b>
Marketable equity securities					
Shinhan Financial Group Co., Ltd.	2,436,544	0.79	19,885,625	57,015,130	57,015,130
LG Telecom Ltd.	1,035,652	0.37	5,395,747	4,142,608	4,142,608
KT Corporation	132,000	0.05	5,732,030	5,478,000	5,478,000
Samsung Electronics Co., Ltd.	2,400	0.001	777,417	1,081,200	1,081,200
Woori Finance Holdings Co., Ltd.	87,443	0.01	564,945	745,889	745,889
Hyundai Motor Company	10,500	0.004	402,851	582,750	582,750
			<b>32,758,615</b>	<b>69,045,577</b>	<b>69,045,577</b>
			<b>₩ 80,739,606</b>	<b>₩ 116,983,276</b>	<b>₩ 116,983,276</b>



## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

2003					
	Number of shares owned	Market or Percentage of ownership (%)	Acquisition cost	net asset value	Carrying value
<b>Current assets</b>					
Beneficiary certificates <sup>1)</sup>	-	-	₩1,095,511	₩1,065,555	₩1,065,555
<b>Non-current assets</b>					
Non-marketable equity securities					
Shinhan Life Insurance Co., Ltd. <sup>2)</sup>	7,776,936	19.44	38,885,480	38,885,480	38,885,480
Shanghai Daekyo Co., Ltd. <sup>3)</sup>	-	100	301,693	301,693	301,693
Daekyo USA, Inc. <sup>3)</sup>	-	66	397,894	397,894	397,894
Child-Care Consortium <sup>3)</sup>	1,600	22.85	1,600,000	1,600,000	1,600,000
			<b>41,185,067</b>	<b>41,185,067</b>	<b>41,185,067</b>
Marketable equity securities					
Shinhan Financial Group Co., Ltd.	3,686,544	1.26	30,089,398	70,228,663	70,228,663
LG Telecom Ltd.	1,035,652	0.37	5,395,747	3,764,595	3,764,595
KT Corporation	13,985	0.005	755,190	623,731	623,731
Samsung Electronics Co., Ltd.	2,400	0.001	777,417	1,082,400	1,082,400
Good Morning Shinhan Securities Co., Ltd.	192,024	0.09	1,167,030	1,056,132	1,056,132
KorAm Bank	203,000	0.09	1,064,333	2,842,000	2,842,000
Woori Finance Holdings Co., Ltd.	87,443	0.01	564,945	596,361	596,361
Hyundai Motor Company	10,500	0.004	402,851	530,250	530,250
Beneficiary certificates <sup>4)</sup>	-	-	4,311,995	6,251,825	6,251,825
			<b>44,528,906</b>	<b>86,975,957</b>	<b>86,975,957</b>
			<b>₩86,809,484</b>	<b>₩129,226,579</b>	<b>₩129,226,579</b>

1) The beneficiary certificates are classified as current assets because the certificates' term ends within one year or is almost certain to be disposed of within one year. The Company recognized an impairment loss amounting to ₩45,267 thousand on the money market fund which included bonds issued by SK Networks. The impairment loss was charged to current operations during the year ended December 31, 2003.

2) The equity securities of Shinhan Life Insurance Co., Ltd. has been recorded at acquisition cost considering the capital increase amounting to ₩50 billion in 2001 and the increasing net income. As of December 31, 2004, the equity securities were recorded at appraisal value as of December 31, 2003 by an independent valuation institute considering the increasing net income in 2004.

3) Shanghai Daekyo Co., Ltd., Daekyo USA, Inc., and Child-Care Consortium which were incorporated in 2003, were excluded from application of the equity method of accounting because the effect of the changes in the carrying value is immaterial. But these were included in application of the equity method accounting in 2004 because the effect of the changes in the carrying value is material.

4) Among the beneficiary certificates, securities linked to the stock price, whose underlying assets are the common stock of Shinhan Financial Group Co., Ltd., are bifurcated to the fair value of the underlying assets and the embedded option. The fair value of the underlying assets and short-option position is recorded under available-for-sale securities and short-option, respectively. The short-option position was recorded at fair value considering factors such as the market value of the underlying assets, market interest rates, volatility of the market value of the underlying assets and the dividend ratio of the underlying assets. As a result of the fair valuation, a loss on valuation amounting to ₩40,075 thousand was charged to current operations in 2003. The Company recognized a gain on disposal of the short-option amounting to ₩138,055 thousand in 2004.a

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

The unrealized gain(loss) on valuation of available-for-sale securities, which is accounted for as a capital adjustment, for the years ended December 31, 2004 and 2003 is as follows:

(In thousands of Korean won)

	2004			
	Beginning balance	Increase (decrease)	Disposal (realization)	Ending balance
KT Corporation exchangeable bonds	₩ [19,882]	₩ 9,982	₩ -	₩ [9,900]
Samsung Card Co., Ltd. convertible bond	[16,027]	67,782	-	51,755
LG Card Co., Ltd. convertible bond	-	149,576	-	149,576
Government and public bonds	-	85,982	-	85,982
Shinhan Financial Group Co., Ltd.	40,139,265	(3,009,761)	-	37,129,504
LG Telecom Ltd.	(1,631,152)	378,013	-	(1,253,139)
KT Corporation	(85,309)	(122,570)	-	(207,879)
Samsung Electronics Co., Ltd.	337,554	(1,200)	-	336,354
Good Morning Shinhan Securities Co., Ltd.	102,413	-	(102,413)	-
KorAm Bank	1,352,400	-	(1,352,400)	-
Woori Finance Holdings Co., Ltd.	35,632	149,527	-	185,159
Hyundai Motor Company	238,875	52,500	-	291,375
Beneficiary certificates	1,955,140	(1,953,166)	-	1,974
	₩42,408,909	₩(4,193,335)	₩(1,454,813)	₩36,760,761

	2003			
	Beginning balance	Increase (decrease)	Disposal (realization)	Ending balance
KT Corporation exchangeable bonds	₩ -	₩ [19,882]	₩ -	₩ [19,882]
Shinhan Financial Group Co., Ltd. investment bonds	[4,246]	-	4,246	-
Samsung Card Co., Ltd. convertible bond	-	(16,027)	-	(16,027)
Shinhan Financial Group Co., Ltd.	16,168,546	24,481,366	(510,647)	40,139,265
LG Telecom Ltd.	(890,660)	(740,492)	-	(1,631,152)
KT Corporation	-	(85,309)	-	(85,309)
Samsung Electronics Co., Ltd.	-	337,554	-	337,554
Good Morning Shinhan Securities Co., Ltd.	-	102,413	-	102,413
KorAm Bank	-	1,352,400	-	1,352,400
Woori Finance Holdings Co., Ltd.	-	35,632	-	35,632
Hyundai Motor Company	-	238,875	-	238,875
Beneficiary certificates	-	1,955,140	-	1,955,140
	₩15,273,640	₩27,641,670	₩(506,401)	₩42,408,909

The Company sold equity securities of Shinhan Financial Group Co., Ltd. of ₩10,201,758 thousands with realized gain of ₩16,955,803 thousands, and other equity securities of ₩10,757,220 thousands with realized gain of ₩4,222,944 thousands and loss of ₩887,248 thousands.

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

## 8. Equity Method Investments

Equity method investments as of December 31, 2004 and 2003 consist of the following:

(In thousands of Korean won)

	2004				
	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Market or net asset value	Carrying value
Daekyo America, Inc.	209	63.53	₩1,049,816	₩870,943	₩832,493
Daekyo Hongkong Co., Ltd.	2,272,727	47.89	250,000	393,981	393,981
Daekyo Japan Co., Ltd.	508	100.00	258,748	189,061	185,109
Beijing Daekyo Co., Ltd. <sup>1)</sup>	-	100.00	467,353	294,851	294,851
Yanbian Daekyo Co., Ltd. <sup>1)</sup>	-	84.62	166,390	48,235	48,235
Corein Consulting Co., Ltd.	14,400	45.00	72,000	474,609	474,609
Eduvision Co., Ltd.	9,000	45.00	45,000	181,271	181,271
E&S Co., Ltd.	18,000	45.00	90,000	404,987	404,987
MyfriendNet Co., Ltd.	33,334	30.30	333,340	65,709	86,927
Interesting Creative Co., Ltd.	64,738	20.00	680,000	-	-
Daekyo EOL Co., Ltd.	12,210	56.53	842,490	1,018	1,018
Daekyo Malaysia Sdn. Bhd.	1,940,988	100.00	599,793	414,737	414,737
Shanghai Daekyo Co., Ltd. <sup>1)</sup>	-	100.00	274,843	203,287	196,146
Daekyo U.S.A Inc.	333	66.60	397,894	184,578	184,578
Child-Care Consortium	1,600	22.65	1,600,000	1,148,984	1,148,984
			₩7,127,667	₩4,876,251	₩4,847,926

	2003				
	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Market or net asset value	Carrying value
Daekyo America, Inc.	209	63.53	₩960,656	₩918,727	₩918,727
Daekyo Hongkong Co., Ltd.	2,272,727	47.89	250,000	449,299	449,299
Daekyo Canada Inc.	100	100.00	89,160	107,560	96,282
Daekyo Japan Co., Ltd.	60	100.00	258,748	223,513	219,047
Beijing Daekyo Co., Ltd. <sup>1)</sup>	-	100.00	467,353	349,534	343,162
Yanbian Daekyo Co., Ltd. <sup>1)</sup>	-	84.62	166,390	66,715	66,715
Corein Consulting Co., Ltd.	14,400	45.00	72,000	511,587	511,587
Eduvision Co., Ltd.	9,000	45.00	45,000	186,013	186,013
E&S Co., Ltd.	18,000	45.00	90,000	369,307	369,307
MyfriendNet Co., Ltd.	33,334	30.30	333,340	98,016	140,452
Interesting Creative Co., Ltd.	64,738	20.00	680,000	-	-
Daekyo EOL Co., Ltd.	12,210	56.53	842,490	-	-
			₩4,255,137	₩3,280,271	₩3,300,591

1) No shares are issued according to the local laws or regulation.

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

The details of the equity method valuation as of December 31, 2004 and 2003 are as follows:

	2004					
	Acquisition cost	Retained earnings	Gain (loss) on valuation	Capital adjustment		Carrying value
Daekyo America, Inc.	₩1,049,816	₩(397,878)	₩(69,129)	₩249,684	₩-	₩832,493
Daekyo Hongkong Co., Ltd.	250,000	50,400	3,385	90,196	-	393,981
Daekyo Japan Co., Ltd.	258,748	(59,169)	(12,956)	(1,240)	(274)	185,109
Beijing Daekyo Co., Ltd.	467,353	(98,781)	21,418	(72,927)	(22,212)	294,851
Yanbian Daekyo Co., Ltd.	166,390	(96,304)	(10,863)	(10,988)	-	48,235
Corein Consulting Co., Ltd.	72,000	439,587	(22,578)	-	(14,400)	474,609
Eduvision Co., Ltd.	45,000	141,012	(4,741)	-	-	181,271
E&S Co., Ltd.	90,000	242,354	44,679	36,954	(9,000)	404,987
MyfriendNet Co., Ltd.	333,340	(192,888)	(53,525)	-	-	86,927
Interesting Creative Co., Ltd.	680,000	(680,000)	-	-	-	-
Daekyo EOL Co., Ltd.	842,490	(842,490)	1,018	-	-	1,018
Daekyo Malaysia Sdn. Bhd.	599,793	-	(129,860)	(55,196)	-	414,737
Sanghai Daekyo Co., Ltd.1	301,693	-	(11,907)	(66,790)	(26,850)	196,146
Daekyo U.S.A Inc.	397,894	-	(178,760)	(34,556)	-	184,578
Child-Care Consortium	1,600,000	-	(451,016)	-	-	1,148,984
	₩7,154,517	₩(1,494,157)	₩(874,835)	₩135,137	₩(72,736)	₩4,847,926

	2003					
	Acquisition cost	Retained earnings	Gain (loss) on valuation	Capital adjustment		Carrying value
Daekyo America, Inc.	₩960,656	₩(384,927)	₩16,490	₩326,508		₩918,727
Daekyo Hongkong Co., Ltd.	250,000	55,061	(4,661)	148,899		449,299
Daekyo Canada Inc.	89,160	(35,876)	6,436	36,562		96,282
Daekyo Japan Co., Ltd.	258,748	(30,514)	(28,655)	19,468		219,047
Beijing Daekyo Co., Ltd.	467,353	(50,907)	(47,874)	(25,410)		343,162
Yanbian Daekyo Co., Ltd.	166,390	-	(96,304)	(3,371)		66,715
Corein Consulting Co., Ltd.	72,000	375,870	63,717	-		511,587
Eduvision Co., Ltd.	45,000	177,008	(35,995)	-		186,013
E&S Co., Ltd.	90,000	192,714	49,639	36,954		369,307
MyfriendNet Co., Ltd.	333,340	(144,771)	(48,117)	-		140,452
Interesting Creative Co., Ltd.	680,000	(680,000)	-	-		-
Daekyo EOL Co., Ltd.	842,490	(216,825)	(625,665)	-		-
	₩4,255,137	₩(743,167)	₩(750,989)	₩539,610		₩3,300,591

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

Changes in the differences between the initial acquisition costs and the Company's initial proportionate ownership of the net book value of the investee for the years ended December 31, 2004 and 2003 are as follows:

(In thousands of Korean won)

	2004			
	Beginning balance	Increase (decrease)	Amortization	Ending balance
MyfriendNet Co., Ltd.	₩42,436	₩-	₩21,218	₩21,218
2003				
	Beginning balance	Increase (decrease)	Amortization	Ending balance
MyfriendNet Co., Ltd.	₩63,654	₩-	₩21,218	₩42,436
Daekyo EOL Co., Ltd.	326,199	-	326,199	-
	₩389,853	₩-	₩347,417	₩42,436

Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized within five years using the straight-line method.

The elimination of unrealized gains or losses relating to the valuation of equity method investments as of December 31, 2004 and 2003 are as follows:

(In thousands of Korean won)

	2004	2003
Daekyo America, Inc.	₩38,450	₩-
Daekyo Canada, Inc.	-	11,277
Daekyo Japan Co., Ltd.	3,952	4,466
Beijing Daekyo Co., Ltd.	-	6,372
Sanghai Daekyo Co., Ltd.	7,141	-
	₩49,543	₩22,115



## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

Details of unaudited financial statements used in the application of the equity method of accounting are as follows:  
(In thousands of Korean won)

	2004				
	Number of Closing date owned	Reason for using unaudited financial statements <sup>1)</sup>	Net assets before adjustment	Adjustment	Net assets after adjustment
Daekyo America, Inc. <sup>2)</sup>	Dec. 31, 2004	Foreign subsidiary	₩870,943	₩-	₩870,943
Daekyo Hongkong Co., Ltd.	Dec. 31, 2004	Foreign subsidiary	393,981	-	393,981
Daekyo Japan Co., Ltd.	Dec. 31, 2004	Foreign subsidiary	189,061	-	189,061
Beijing Daekyo Co., Ltd.	Dec. 31, 2004	Foreign subsidiary	294,851	-	294,851
Yanbian Daekyo Co., Ltd.	Dec. 31, 2004	Foreign subsidiary	48,235	-	48,235
Corein Consulting Co., Ltd.	Dec. 31, 2004	No statutory audit	474,609	-	474,609
Eduvision Co., Ltd.	Dec. 31, 2004	No statutory audit	181,271	-	181,271
E&S Co., Ltd.	Dec. 31, 2004	No statutory audit	404,987	-	404,987
MyfriendNet Co., Ltd.	Dec. 31, 2004	No statutory audit	65,709	-	65,709
Interesting Creative Co., Ltd.	Dec. 31, 2004	No statutory audit	-	-	-
Daekyo EOL Co., Ltd.	Dec. 31, 2004	No statutory audit	1,018	-	1,018
Daekyo Malaysia Sdn. Bhd.	Dec. 31, 2004	Foreign subsidiary	414,737	-	414,737
Sanghai Daekyo Co., Ltd. <sup>1)</sup>	Dec. 31, 2004	Foreign subsidiary	203,287	-	203,287
Daekyo U.S.A Inc.	Dec. 31, 2004	Foreign subsidiary	184,578	-	184,578
Child-Care Consortium	Dec. 31, 2004	No statutory audit	1,229,394	(80,410)	1,148,984
			₩4,956,661	₩(80,410)	₩4,876,251

	2003				
	Number of Closing date owned	Reason for using unaudited financial statements <sup>1)</sup>	Net assets before adjustment	Adjustment	Net assets after adjustment
Daekyo Canada Inc.	Aug. 31, 2003	Foreign subsidiary	₩121,914	₩(14,354)	₩107,560
Daekyo Japan Co., Ltd.	Sept. 30, 2003	Foreign subsidiary	223,513	-	223,513
Daekyo America, Inc.	Dec. 31, 2003	Foreign subsidiary	1,446,130	-	1,446,130
Daekyo Hongkong Co., Ltd.	Dec. 31, 2003	Foreign subsidiary	938,189	-	938,189
Beijing Daekyo Co., Ltd.	Dec. 31, 2003	Foreign subsidiary	349,534	-	349,534
Yanbian Daekyo Co., Ltd.	Dec. 31, 2003	Foreign subsidiary	78,841	-	78,841
Corein Consulting Co., Ltd.	Dec. 31, 2003	No statutory audit	1,136,860	-	1,136,860
Eduvision Co., Ltd.	Dec. 31, 2003	No statutory audit	413,361	-	413,361
E&S Co., Ltd.	Dec. 31, 2003	No statutory audit	820,683	-	820,683
MyfriendNet Co., Ltd.	Dec. 31, 2003	No statutory audit	323,485	-	323,485
Daekyo EOL Co., Ltd.	Dec. 31, 2003	No statutory audit	(7,434)	-	(7,434)
			₩5,845,076	₩(14,354)	₩5,830,722

1) The fiscal year-end of the above two companies is different from the Company's. However, the effect of the difference was considered immaterial. Therefore, the most recently available financial statements were used in the application of the equity method of accounting.

2) Daekyo America, Inc. acquired the business of Daekyo Canada Inc. on November 16, 2004. Because the Company did not obtain Daekyo USA, Inc.'s financial statement for 2004, the Company used combined financial statement of both companies at the date of acquisition.

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

As of December 31, 2004 and 2003, the Company stopped applying the equity method of accounting for the investment in Interesting Creative Co. Ltd. because the Company's share in the accumulated losses of this company exceeded the costs of the investments. As of December 31, 2003, the Company stopped applying the equity method of accounting for the investment in Daekyo EOL Co., Ltd. because the Company's share in the accumulated losses of this company exceeded the costs of the investments but the Company applying the equity method of accounting for Daekyo EOL Co., Ltd. again in 2004 because the Company's share in the accumulated losses of this company was less than the costs of the investments.

### 9. Property and Equipment

Changes in property, plant and equipment for the years ended December 31, 2004 and 2003 are as follows:

(In thousands of Korean won)

	2004				
	Land	Buildings	Structures	Machinery	Vehicles
Balance as of January 1, 2004	₩37,681,355	₩90,369,649	₩2,600,795	₩2	₩168,978
Acquisition during the year	462,100	973,068	168,915	-	145,067
Disposal	-	-	(6,524)	-	(4)
Depreciation	-	(2,568,474)	(70,597)	(2)	(173,256)
Transfer <sup>1)</sup>	1,247,257	5,972,319	-	-	-
<b>Balance as of December 31, 2004</b>	<b>₩39,390,712</b>	<b>₩94,746,562</b>	<b>₩2,692,589</b>	<b>₩-</b>	<b>₩140,785</b>
<b>Accumulated depreciation</b>	<b>₩-</b>	<b>₩17,285,591</b>	<b>₩201,408</b>	<b>₩468,200</b>	<b>₩948,020</b>
	Tools	Equipment	Other	Construction in-progress	Total
Balance as of January 1, 2004	₩128	₩8,492,229	₩70,000	₩115,500	₩139,498,636
Acquisition during the year	-	10,589,205	-	15,975,545	28,313,900
Disposal	-	(307,942)	-	-	(314,470)
Depreciation	(89)	(6,859,042)	-	-	(9,671,460)
Transfer <sup>1)</sup>	-	-	-	-	7,219,576
<b>Balance as of December 31, 2004</b>	<b>₩39</b>	<b>₩11,914,450</b>	<b>₩70,000</b>	<b>₩16,091,045</b>	<b>₩165,046,182</b>
<b>Accumulated depreciation</b>	<b>₩31,018</b>	<b>₩53,058,551</b>	<b>₩-</b>	<b>₩-</b>	<b>₩71,992,788</b>

1) A part of inventories, related construction for sale, was transferred to land and building for rent in 2004.

(In thousands of Korean won)

	2003				
	Land	Buildings	Structures	Machinery	Vehicles
Balance as of January 1, 2003	₩40,277,648	₩83,090,715	₩2,552,504	₩2	₩183,995
Acquisition during the year	353,707	367,163	118,690	-	104,749
Disposal	(1,069,120)	(1,670,733)	-	-	(10)
Depreciation	-	(2,384,158)	(70,399)	-	(119,756)
Transfer	(1,880,880)	10,966,661	-	-	-
<b>Balance as of December 31, 2003</b>	<b>₩37,681,355</b>	<b>₩90,369,648</b>	<b>₩2,600,795</b>	<b>₩2</b>	<b>₩168,978</b>
<b>Accumulated depreciation</b>	<b>₩-</b>	<b>₩14,717,118</b>	<b>₩147,453</b>	<b>₩468,198</b>	<b>₩999,305</b>
	Tools	Equipment	Other	Construction in-progress	Total
Balance as of January 1, 2003	₩89	₩8,626,278	₩87,486	₩2,607,185	₩137,425,902
Acquisition during the year	89	6,009,729	-	8,474,976	15,429,103
Disposal	-	(62,584)	(17,486)	-	(2,819,933)
Depreciation	(50)	(6,081,194)	-	-	(8,655,557)
Transfer	-	-	-	(10,966,661)	(1,880,880)
<b>Balance as of December 31, 2003</b>	<b>₩128</b>	<b>₩8,492,229</b>	<b>₩70,000</b>	<b>₩115,500</b>	<b>₩139,498,635</b>
<b>Accumulated depreciation</b>	<b>₩30,929</b>	<b>₩57,584,798</b>	<b>₩-</b>	<b>₩-</b>	<b>₩73,947,801</b>

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

As of December 31, 2004, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, approximates ₩69,216,650 thousand (2003: ₩61,031,095 thousand).

As of December 31, 2004, buildings and equipment are insured against fire and other casualty losses up to ₩107,180,889 thousand. In addition, the Company is insured against casualty losses relating to its vehicles and donated assets, over which the Company holds the right to use for a certain period.

### 10. Intangible Assets

Changes in intangible assets for the years ended December 31, 2004 and 2003 are as follows: (In thousands of Korean won)

	2004						
	Goodwill	Industrial property rights	Development costs	Intellectual property rights	Right to use donated assets	Franchise	Total
Beginning balance	₩556,931	₩221,330	₩27,708,619	₩2,431,210	₩7,199,944	₩350,897	₩38,468,931
Increase	-	40,044	14,122,903	1,155	8,973,710	-	23,137,812
Amortization	(170,432)	(66,649)	(8,182,583)	(774,632)	(5,628,496)	(71,370)	(14,894,162)
Impairment							
<b>Ending balance</b>	<b>₩386,499</b>	<b>₩194,725</b>	<b>₩33,648,939</b>	<b>₩1,657,733</b>	<b>₩10,545,158</b>	<b>₩279,527</b>	<b>₩46,712,581</b>
<b>Accumulated amortization</b>	<b>₩560,812</b>	<b>₩352,484</b>	<b>₩17,913,575</b>	<b>₩2,215,429</b>	<b>₩18,539,715</b>	<b>₩77,317</b>	<b>₩39,659,332</b>
<b>Accumulated impairment</b>	<b>₩51,663</b>	<b>₩-</b>	<b>₩72,728</b>	<b>₩-</b>	<b>₩-</b>	<b>₩-</b>	<b>₩124,391</b>

	2003						
	Goodwill	Industrial property rights	Development costs	Intellectual property rights	Right to use donated assets	Franchise	Total
Beginning balance	₩641,368	₩103,060	₩9,448,889	₩2,185,537	₩5,581,422	₩-	₩17,960,276
Increase	84,661	179,802	23,550,646	914,207	5,796,734	356,844	30,882,894
Amortization	(169,098)	(61,532)	(5,218,188)	(668,534)	(4,178,212)	(5,947)	(10,301,511)
Impairment	-	-	(72,728)	-	-	-	(72,728)
<b>Ending balance</b>	<b>₩556,931</b>	<b>₩221,330</b>	<b>₩27,708,619</b>	<b>₩2,431,210</b>	<b>₩7,199,944</b>	<b>₩350,897</b>	<b>₩38,468,931</b>
<b>Accumulated amortization</b>	<b>₩390,380</b>	<b>₩285,835</b>	<b>₩9,730,992</b>	<b>₩1,440,797</b>	<b>₩12,911,219</b>	<b>₩5,947</b>	<b>₩24,765,170</b>
<b>Accumulated impairment</b>	<b>₩51,663</b>	<b>₩-</b>	<b>₩72,728</b>	<b>₩-</b>	<b>₩-</b>	<b>₩-</b>	<b>₩124,391</b>

Amortization of intangible assets incurred for the years ended December 31, 2004 and 2003 as follows:

(In thousands of Korean won)

	2004	2003
Selling and administrative expenses	₩3,457,860	₩1,607,657
Cost of goods sold	11,436,302	8,693,855
	<b>₩14,894,162</b>	<b>₩10,301,512</b>

Research and development costs incurred for the years ended December 31, 2004 and 2003 as follows:

(In thousands of Korean won)

	2004	2003
Expensed	₩1,469,158	₩2,457,837
Deferred	14,122,903	9,185,245
	<b>₩15,592,061</b>	<b>₩11,643,082</b>

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

The significant expenses, which are expected to have probable future economic benefits but expensed in the period incurred, for the years ended December 31, 2004 and 2003 are as follows:

(In thousands of Korean won)

	2004	2003
Training expenses	₩8,841,959	₩8,407,177
Advertising expenses	42,341,322	37,616,701
	₩51,183,281	₩46,023,878

### 11. Long-Term Borrowings

Long-term borrowings as of December 31, 2004 and 2003 consist of the following:

(In thousands of Korean won, in thousand of Japanese Yen)

	Annual interest rates(%) as of December 31, 2004	2004	2003
<b>Foreign currency borrowings:</b>			
Woori Bank	-	₩-	₩2,517,750
Foreign currency equivalent	-	-	(¥225)
Less: Current maturities	-	-	(559,500)
		₩-	₩1,958,250

### 12. Accrued Severance Benefits

Changes in accrued severance benefits as of December 31, 2004 and 2003 are as follows:

(In thousands of Korean won)

	2004	2003
Balance at the beginning of the year	₩78,200,938	₩89,689,772
Actual severance payments	21,460,487	28,913,912
Provision for severance benefits	14,967,370	17,425,078
	71,707,821	78,200,938
Cumulative deposits to the National Pension Fund	(44,797,445)	(52,287,994)
Severance insurance deposits	(2,170,364)	(3,147,492)
<b>Balance at the end of the year</b>	<b>₩24,740,012</b>	<b>₩22,765,452</b>

The severance benefits are funded at approximately 62.5% as of December 31, 2004 (2003: 66.9%) through a severance insurance deposit, and the account is deducted from the accrued severance benefit liability. The beneficiaries of the severance insurance deposit are the Company's employees. The Company paid ₩5,856 million of termination benefit to voluntary terminated employees, and recorded it as non-operating expenses.

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

### 13. Commitments and Contingencies

As of December 31, 2003, the Company has entered into credit agreements with various banks amounting to ₩25,000 million for the corporate purchase card and general operations.

As of December 31, 2004, the Company provides guarantees amounting to ₩3,914 million for certain lessees in relation to the lessees' guarantee deposits. For affiliates, in relation to security arising from in damage claims, the Company provides ₩6,166 million, among which ₩5,000 million was put under temporary attachment. Seoul Guarantee Insurance provides the Company with a guarantee for performance and others up to ₩528 million as of December 31, 2004.

The Company and Daekyo America, Inc. were named as defendants in a lawsuit filed in the district court of California, U.S.A. by KUMON U.S.A. INC. in 2003. The plaintiff seeks claims for the alleged illegal use of the plaintiff's intellectual properties. The outcome of these lawsuits is uncertain.

The Company had maintained a contract with Mr. Young-Jung, Kang, the shareholder and owner of the intellectual property right over Noon-no-pi Math, requiring the Company to pay a certain percentage of sales as royalties, since September 1993. In September 2003, the contract was renewed to make the payments to Daekyo Network Co., Ltd., with the approval of Mr. Kang. In accordance with the contract, the Company paid to Daekyo Network Co., Ltd. ₩2,395 million for the year ended December 31, 2004.

The Company entered into contracts with free-lance instructors to manage its educational service members. In accordance with the contracts, the Company pays instructors a certain percentage of monthly cash collection amounts from its educational service members. Expenses in relation to these contracts amounted to ₩337,495 million (2003: ₩346,269 million) for the years ended December 31, 2004. The Company is the required to pay or collect instructors one month's fees of educational service depending upon net increase or decrease in number of educational service members. The Company is also required to pay instructors a certain amount based on cumulative cash collection amounts from its educational service members upon the cancellation of the contracts between the Company and the instructors.

### 14. Capital Stock

The Company offered its shares for public ownership on February 3, 2004, and the Company's common stock are listed at the Korean Stock Exchange.

Issuances and other movements in common stock in the years ended December 31, 2004 and 2003 are as follows:

(In thousands of Korean won)

Date of Issuance	Type	Par Value	Additional Paid-in Capital
December 31, 2003	Beginning balance	₩35,798,665	₩-
February 3, 2004	Issuance of common stock	6,552,760	46,797,205
Balance as of December 31, 2004		₩42,351,425	₩46,797,205

As of December 31, 2004, the authorized share capital of the Company consists of 150,000,000 shares of stock. The Company has 8,470,285 (2003 : 7,159,733) shares of common stock and 1,942,699 shares of preferred stock issued and outstanding, with a par value per share of ₩5,000.

### 15. Capital Surplus

Capital surplus shall not be used for the payment of cash dividends. However, it may be transferred to capital stock through an appropriate resolution by the Company's Board of Directors, or may be used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.



## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

### 16. Retained Earnings

Retained earnings as of December 31, 2004 and 2003 are as follows:

(In thousands of Korean won)

	2004	2003
Legal reserve	₩32,300,000	₩32,300,000
Reserve for business rationalization	1,233,353	1,233,353
Reserve for business development	110,000,000	110,000,000
Reserve for foreign investment losses	-	-
Voluntary reserve	55,271,672	5,271,672
Retained earnings before appropriations	62,288,239	64,663,967
	<b>₩261,093,264</b>	<b>₩213,468,992</b>

The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock through an appropriate resolution by the Company's Board of Directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders. However, the amount exceeding the minimum legal requirement may be transferred to voluntary reserve and used for the payment of cash dividends.

Pursuant to the tax law, the Company is required to appropriate, as a reserve for business development, a portion of retained earnings, which is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any. However, the amount exceeding the minimum legal requirement may be transferred to voluntary reserve and used for the payment of cash dividends.

In accordance with the regulations regarding securities issuance and disclosure [formerly the provisions of the Financial Control Regulation for publicly listed companies], the Company is required to appropriate, as a reserve for improvement of financial structure, a portion of retained earnings equal to a minimum of 10 % of its annual income plus at least 50% of the net gain from the disposal of property, plant and equipment after deducting related taxes, until equity equals 30% of total assets. As of December 31, 2004, equity of the Company is more than 30% of total assets.

### 17. Capital Adjustments

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

(In thousands of Korean won)

	2004	2003
Treasury stock	₩-	₩[8,978,656]
Gain on valuation of available-for-sale securities	38,249,032	44,161,278
Loss on valuation of available-for-sale securities	[1,488,271]	[1,752,369]
Gain on valuation of equity method investments	135,135	539,610
	<b>₩36,895,896</b>	<b>₩33,969,863</b>

# NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

## 18. Treasury Stock

As of December 31, 2004, the Company holds 689,448 shares as treasury stock, among which 120,000 shares (with a book value of ₩2,335 million) were acquired in relation to the merger of Daekyo Broadcasting Co., Ltd., and 569,448 shares (book value of ₩6,644 million) in relation to the merger of Daekyo Computer Co., Ltd., M&C Co., Ltd. and Daekyo Distribution Co., Ltd. All treasury stock were sold at a public offering upon the listing of the Company's shares at the Korean Stock Exchange in February 2004. Gain on disposal of treasury stock amounting to ₩16,313million, net of income tax expense of ₩3,665 million, was recorded as capital surplus.

## 19. Income Taxes

Income tax expense for the years ended December 31, 2004 and 2003 are as follows: (In thousands of Korean won)

	2004	2003
Current income taxes	₩38,229,308	₩21,856,474
Deferred income taxes	1,627,471	3,107,087
Amount to be credited to shareholder's equity <sup>1)</sup>	(3,665,409)	-
<b>Income tax expense</b>	<b>₩36,191,370</b>	<b>₩24,963,561</b>

1) The Company reduced capital surplus of ₩3,665,409 thousand relating to corporate tax effect of the treasury stocks disposition.

The income tax effect of temporary differences, comprising the deferred income tax assets and liabilities as of December 31, 2004 and 2003, are as follows: (In thousands of Korean won)

	2004	2003
Long-term accrued expenses	₩32,531,807	₩32,056,497
Accrued income	(3,595,389)	(293,860)
Accrued severance benefits	11,517,089	36,815,884
Severance insurance deposits	(11,517,089)	(36,815,884)
Allowance for doubtful accounts	5,012,912	3,085,656
Bad debt expense	286,145	276,565
Depreciation	104,969	173,889
Development costs	(320,247)	(1,690,988)
Donations	-	3,980,246
Others	1,382,689	(651,843)
	<b>₩35,402,886</b>	<b>₩36,936,162</b>
Effective tax rate	27.5%	29.7%, 27.5%
Tax effect	₩9,735,794	₩11,116,980
Less: Valuation allowance <sup>1)</sup>	(897,350)	(651,065)
	<b>₩8,838,444</b>	<b>₩10,465,915</b>

1) Bad debt expense relating to affiliates and valuation losses on equity method investments are excluded from deferred income tax assets because these items are not certain to be realized.

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

The reconciliations from income before income taxes to taxable income for years ended December 31, 2004 and 2003 are as follows:

(In thousands of Korean won)

	2004	2003
Income before income taxes	₩101,294,582	₩85,943,774
Long-term accrued expenses	475,311	(6,070,598)
Accrued income	(3,301,530)	72,349
Allowance for doubtful accounts	2,011,253	506,748
Depreciation	(68,920)	(221,394)
Development costs	1,370,741	1,737,108
Valuation of securities	3,778,969	1,310,882
Entertainment expenses	2,530,891	2,187,537
Gain on disposal of Treasury Stock	12,341,444	-
Additional income taxes	14,904,169	1,991,296
Refunded income taxes	(1,793,734)	(12,992,986)
Donation	(3,891,753)	(2,247,318)
Provision for guarantee losses	(500,000)	500,000
Accrued expenses	(162,794)	1,384,680
Others	964,189	313,943
<b>Taxable income</b>	<b>₩129,952,818</b>	<b>₩74,416,021</b>

The statutory income tax rate, including resident tax surcharges, applicable to the Company was approximately 29.7% in 2004 and 2003, and was amended to 27.5% effective for fiscal years beginning January 1, 2005, in accordance with the Corporate Income Tax Law enacted in December 2003. Deferred income tax assets are computed by applying enacted statutory tax rates applicable to the years when temporary differences are expected to reverse.

After the tax adjustment and deferred income tax expenses, effective tax rates for the years ended December 31, 2004 are 35.7% (2003: 29.0%).

# NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

## 20. Sales and Cost of Sales

Details of sales and cost of sales for the years ended December 31, 2004 and 2003 are as follows:

(In thousands of Korean won)

	2004	2003
<b>Sales</b>		
Publication of study materials	₩ 777,483,018	₩ 768,869,433
New media sales	14,711,287	9,510,671
Book sales	29,716,462	15,807,881
Sales from educational institute	10,749,548	9,240,486
Others	6,630,361	1,959,478
	<b>₩ 839,290,676</b>	<b>₩ 805,387,949</b>
<b>Cost of Sales</b>		
Publication of study materials	₩ 587,184,154	₩ 593,688,557
New media sales	12,289,729	8,626,666
Book sales	21,635,383	15,028,941
Sales from educational institute	11,899,096	13,064,335
Others	5,327,428	1,717,352
	<b>₩ 638,335,789</b>	<b>₩ 632,125,851</b>

## 21. Earnings Per Share

Earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the year. Ordinary income per share is computed by dividing ordinary income allocated to common stock, which is net income allocated to common stock as adjusted by extraordinary gains or losses, net of related income taxes, by the weighted-average number of common shares outstanding during the year.

Basic earnings per share for the years ended December 31, 2004 and 2003 are calculated as follows:

(in Korean Won)

	2004	2003
Net income allocated to common stock <sup>2)</sup>	₩ 52,799,201,345	₩ 46,749,449,700
Weighted-average number of common shares outstanding <sup>3)</sup>	8,289,957	6,470,285
<b>Earnings per share<sup>5)</sup></b>	<b>₩ 6,369</b>	<b>₩ 7,225</b>
Net income allocated to preferred stock <sup>1)</sup>	₩ 12,304,010,676	₩ 14,230,762,756
Weighted-average number of preferred shares Outstanding <sup>4)</sup>	1,942,699	1,942,699
<b>Earnings per share<sup>5)</sup></b>	<b>₩ 6,333</b>	<b>₩ 7,325</b>

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

1) Net income allocated to preferred stock is calculated as follows:

(in Korean Won)

2004		
	Calculation	Amount
Preferred stock (dividend ratio: 32%)	₩5,000 * 1,942,699 shares * 32%	₩3,108,318,400
Net income additionally allocated to preferred stock	₩49,289,466,121 (a) * 1,942,699 shares / (1,942,699 shares + 8,470,285 shares)	9,195,692,276
		<b>₩12,304,010,676</b>

(a) Net income, which can be allocated to preferred stock after the allocation of net income in accordance with the dividend ratio, is calculated as follows:

(in Korean Won)

	Calculation	Amount
Net income		₩65,103,212,021
Less: Common stock dividend	₩5,000 * 8,470,285 shares * 30%	(12,705,427,500)
Less: Preferred stock dividend	₩5,000 * 1,942,699 shares * 32%	(3,108,318,400)
		<b>₩49,289,466,121</b>

(in Korean Won)

2003		
	Calculation	Amount
Preferred stock (dividend ratio: 27%)	1,942,699 shares * ₩5,000 * 27%	₩2,622,643,650
Net income additionally allocated to preferred stock	₩50,269,712,556 (b) * 1,942,699 shares / (1,942,699 shares + 6,470,285 shares)	11,608,119,106
		<b>₩14,230,762,756</b>

(b) Net income, which can be allocated to preferred stock after the allocation of net income in accordance with the dividend ratio, is calculated as follows:

(in Korean Won)

	Calculation	Amount
Net income		₩60,980,212,456
Less: Common stock dividend	6,470,285 shares * ₩5,000 * 25%	(8,087,856,250)
Less: Preferred stock dividend	1,942,699 shares * ₩5,000 * 27%	(2,622,643,650)
		<b>₩50,269,712,556</b>

2) Net income allocated to common stock is calculated as follows:

(in Korean Won)

	2004	2003
Net income as reported on the statements of income	₩65,103,212,021	₩60,980,212,456
Less: Net income allocated to preferred stock	(12,304,010,676)	(14,230,762,756)
<b>Net income allocated to common stock</b>	<b>₩52,799,201,345</b>	<b>₩46,749,449,700</b>

3) The weighted average number of common shares for the years ended December 31, 2004 and 2003 are calculated as follows:

(in Korean Won)

2004			
	Number of shares	Number of days outstanding	Weighted number
Beginning number of common stock outstanding	7,159,733	366	2,620,462,278
Issuance of common stock for cash	1,310,552	333	436,413,816
Treasury stock	(689,448)	33	(22,751,784)
			<b>3,034,124,310</b>

Weighted-average number of common shares: 3,034,124,310 ÷ 366 = 8,289,957



# NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

(in Korean Won)

2003			
	Number of shares	Number of days outstanding	Weighted number
Beginning number of common stock outstanding	7,159,733	365	2,613,302,545
Treasury stock	(689,448)	365	(251,648,520)
			<b>2,361,654,025</b>

Weighted-average number of common shares:  $2,361,654,025 \div 365 = 6,470,285$

4) The weighted-average number of shares of preferred stock is the number of preferred shares at the beginning and end of the years 2004 and 2003. There has been no event that may change the weighted-average number of preferred shares.

5) Because there were no extraordinary gains or losses, basic earnings per share is the same as basic ordinary income per share.

## 22. Dividends

Details of cash dividends and dividend payout ratio for the years ended December 31, 2004 and 2003 are as follows:

### Details of cash dividends

#### 1) Interim Dividends

(In Korean won)

2004		
	Common stock	Preferred stock
Par value per share	₩5,000	₩5,000
Dividend ratio (%)	13%	13%
Dividend per share	₩650	₩650
Number of shares outstanding	8,470,285	1,942,699
<b>Amount of dividends</b>	<b>₩5,505,685,250</b>	<b>₩1,262,754,350</b>

#### 2) Year-end dividends

(In Korean won)

2004 <sup>1)</sup>		
	Common stock	Preferred stock
Par value per share	₩5,000	₩5,000
Dividend ratio (%)	17%	19%
Dividend per share	₩850	₩950
Number of shares outstanding	8,470,285	1,942,699
<b>Amount of dividends</b>	<b>₩7,199,742,250</b>	<b>₩1,845,564,050</b>

2003		
	Common stock	Preferred stock
Par value per share	₩5,000	₩5,000
Dividend ratio (%)	25%	27%
Dividend per share	₩1,250	₩1,350
Number of shares outstanding	6,470,285	1,942,699
<b>Amount of dividends</b>	<b>₩8,087,856,250</b>	<b>₩2,622,643,650</b>

1) The Company's cash dividends are scheduled to be approved by the General meeting of Shareholders on March 18, 2005.

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

## Dividend payout ratio

(In Korean won)

	2004	2003
	Common stock	Preferred stock
Total dividends (1)	₩ 15,813,745,900	₩10,710,499,900
Net income (2)	65,103,212,021	60,980,212,456
Dividend payout ratio [(1)/(2)]	24.29%	17.56%

## Dividend yield ratio

The Company's dividend yield ratios for the years ended December 31, 2004 and 2003 are:

(In Korean won)

	2004		2003 <sup>1)</sup>	
	Common Shares	Preferred Shares	Common Shares	Preferred Shares
Dividend per share (1)	₩1,500	₩1,600	-	-
Market price as of balance sheet date (2)	₩69,800	₩35,320	-	-
Dividend yield ratio (1/2)	2.15%	4.53%	-	-

1) The Company offered its shares for public ownership on February 3, 2004, and the Company's common stock are listed at the Korean Stock Exchange. In 2003, there was no market price and dividend yield ratios in 2003 were omitted.

## 23. Transactions with Related Parties

Significant transactions with related companies for the years ended December 31, 2004 and 2003, and the related account balances outstanding as of December 31, 2004 and 2003, are summarized as follows:

(In thousands of Korean won)

	Sales	Purchases	Receivables <sup>1)</sup>	Payables <sup>1)</sup>
Daekyo D&S Co., Ltd.	₩2,569	₩25,954,398	₩4,000,069	₩ 17,854
Daekyo Publishing Co., Ltd.	17,574	4,502,257	138	1,138,401
Eduvision Co., Ltd.	7,793	1,821,430	666	154,432
Corein Consulting Co., Ltd.	19,081	4,206,639	315	655,887
E&S Co., Ltd.	22,485	3,175,790	1,596	389,091
Daekyo Network Co., Ltd.	25,062	20,106,214	22,030	2,390,859
Tara Distribution Co., Ltd.	-	18,960,017	-	3,042,904
Tara T.P.S Co., Ltd.	6,831	18,960,227	10	3,317,152
Others	258,806	1,726,989	218,407	14,582
<b>2004 Total</b>	<b>₩360,201</b>	<b>₩99,413,961</b>	<b>₩4,243,231</b>	<b>₩11,121,162</b>
<b>2003 Total</b>	<b>₩1,829,773</b>	<b>₩77,870,421</b>	<b>₩4,063,980</b>	<b>₩17,409,799</b>

1) Includes guarantee deposits and others.

As of December 31, 2004, the Company lends ₩14,682,375 thousand (interest rate: 2% per annum) to employee for employee stock ownership plan, these amount classified long-term loan to employee and short-term loan to employee based on payment schedule.

## NOTES TO FINANCIAL STATEMENT

December 31, 2004 and 2003

### 24. Value Added Information

Value added information for the years ended December 31, 2004 and 2003 is as follows:

(In Korean won)

	2004	2003
Salaries	₩114,884,066	₩118,875,137
Employee benefits	24,395,694	22,929,027
Provision for severance benefits	14,967,370	17,425,078
Rental charges	15,553,733	15,167,537
Depreciation	9,671,457	8,654,349
Taxes and dues	1,278,838	1,176,018
	₩180,751,158	₩184,227,146

### 25. Supplemental Cash Flow Information

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

(In Korean won)

	2004	2003
Current maturities of other current assets	₩4,485	₩-
Reclassification of long-term other accounts receivable to other accounts receivable	-	36
Reclassification of long-term borrowings to current maturities of long-term borrowings	-	506
Current maturities of available-for-sale securities	3,597	-
Reclassification of advance payments to development costs	-	5,925
Reclassification of land to the inventories	-	1,881
Valuation gain (loss) on available-for-sale securities	5,648	₩27,135
Valuation gain (loss) on equity method investments	404	87
Gain on Sale of Treasury Stock	19,978	-
The effect of gain on disposal of Treasury Stock to Income Taxes Payable	3,665	-
Reclassification of construction in-progress to buildings	-	10,967
Reclassification of the inventories to land	1,247	-
Reclassification of the inventories to buildings	5,972	-

### 26. Operating Results for the Final Interim Period

Significant operation results for the three month periods ended. December 31, 2004 and 2003, are as follows:

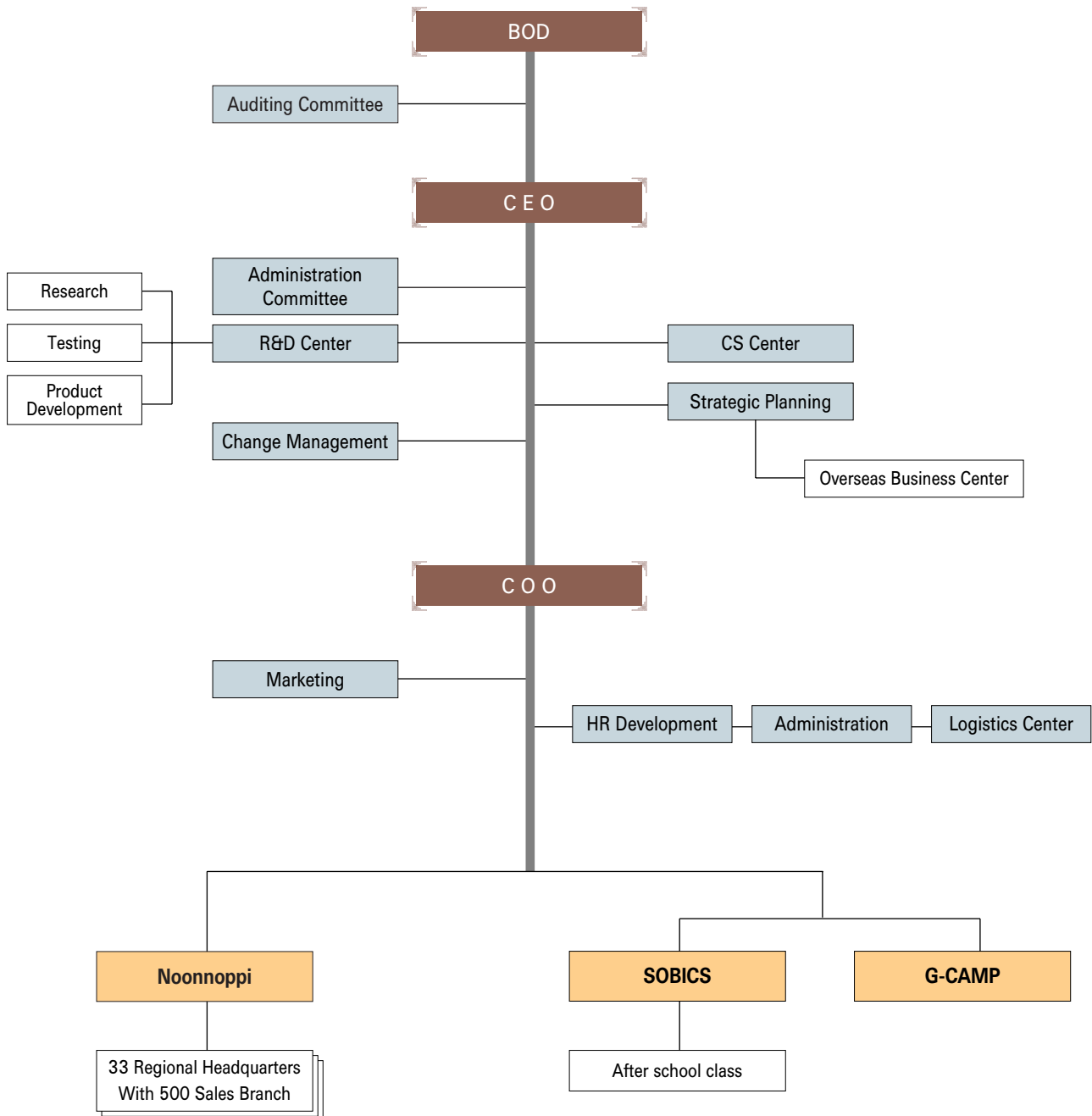
(in thousands of Korean Won, except per share amounts)

	2004	2003
Sales	₩203,194,151	₩204,875,714
Cost of Sales	161,285,189	168,647,483
Operating income	8,656,366	10,268,844
Net income	1,621,886	14,167,465
Earnings per share	156	2,190

### 27. Reclassification of Prior Year Financial Statement Presentation

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

# Organization



## Subsidiary Companies



- Overseas Subsidiaries
- Franchises

Descriptions	Company Name	Daekyo's Ownership(%)
Domestic Subsidiaries	Daekyo Corein Co., Ltd.	72.5
	Daekyo Eduvision Co., Ltd.	61.2
	Daekyo EOL Co., Ltd.	56.5
	Daekyo Bertelsmann Co., Ltd.	75.0
Overseas Subsidiaries	Daekyo America, Inc.	63.5
	Daekyo USA, Inc.	66.6
	Daekyo HongKong Co., Ltd.	47.9
	Daekyo Japan Co., Ltd.	100.0
	Beijing Daekyo Co., Ltd.	100.0
	Yanbian Daekyo Co., Ltd.	84.6
	Sanghai Daekyo Co., Ltd.	100.0
	Daekyo Malaysia Sdn. Bhd.	100.0

## Corporate Data

**Establishment:** July.9.1976

**Incorporation :** December.20.1986

**Total Assets :** KRW 637.8bn (Capital Stock: KRW 52bn)

**Brand :** 7 consecutive year winner of K-BPI\*

**R&D :** Employing 130 specialists

**Employees :** 3,300

**Domestic network :** Over 600

**Address:** Daekyo Co., Ltd.

Finance Team (IR Part)

Noonnoppi Boramae Center, 729-21,

Bongchon-dong, Kwanak-gu, Seoul, Korea, 151-706

**Telephone:** 82-2-829-0664

**FAX:** 82-2-829-0647

**e-mail:** dkir@edupia.com





## *Education Without Walls and Borders*

*At the heart of Daekyo's educational philosophy has been two ideals:*

*"No Child Left Behind" and "Education For All."*

*As a forerunner in the field of private education,  
Daekyo has been committed to seeking diversity and variety  
in education with choice and flexibility.*

*Today, we are reshaping the education service industry,  
providing innovative supplemental educational services on and offline.*

*Possessed of a clear vision and the necessary  
implementation strategies, we are primed to take off as an  
international lifetime educational service provider.*

*Our ultimate goal is one of utilizing "education without walls and borders"  
to maximize human development and promote ethical values in  
this fast-changing age of information.*

