

Daekyo Annual Report 2006

STEPPING UP





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DAEKYO will be a global leader in educational services, supported by passion and trust.



Founded in 1975, Daekyo is leading Korea's educational services market with its Noonnoppi educational philosophy. The term "noonnoppi," Korean for "eye level," represents our learner-oriented educational methods. At Daekyo, we think and teach at the learners' level of perception, creating a new educational approach that reflects individual kids' diverse needs and personalities.

We achieved significant results in 2006, and our future is bright. We are making steady progress toward our vision of becoming a world-class educational services company, developing educational contents, laying the foundation for life-long learning, and accelerating the convergence of online and offline learning.

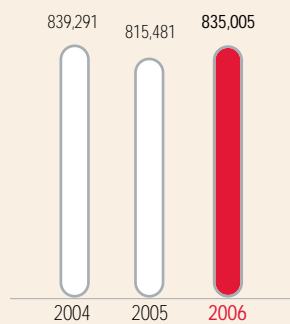
As a top-tier educational services provider in Korea, Daekyo will not spare efforts to enhance competitiveness and develop profitable new businesses. We are determined to realize two trillion won in revenue with an operating margin of fifteen percent by 2010. Daekyo promises to add value to people's lives and become a global leader in the 21st century knowledge society through educational services.



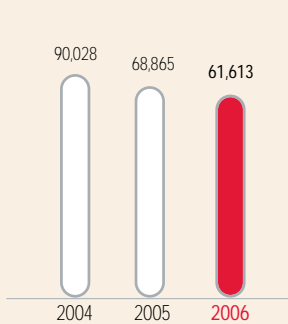
Financial Highlights

	2006	2005	2004
(Unit: KRW in millions)			
Assets	839,344	779,789	637,829
Liabilities	229,528	224,555	216,051
Stockholders' Equity	609,816	555,234	421,777
Sales	835,005	815,481	839,291
Operating Income	61,613	68,865	90,028
Ordinary Income	72,285	87,168	101,295
Net Income	51,451	60,650	65,103
Operating Profit Rate to Sales	7.4%	8.4%	10.7%
Net Profit Rate to Sales	6.2%	7.4%	7.8%
Return On Equity (ROE)	8.8%	12.4%	18.0%
Debt Ratio	37.6%	40.4%	51.2%

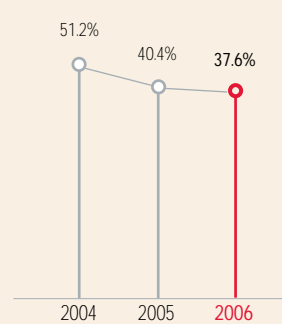
Sales (Unit: KRW in millions)

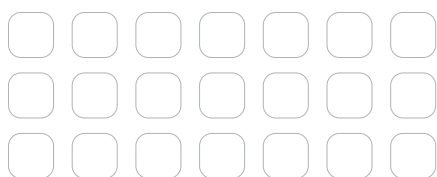


Operating Income (Unit: KRW in millions)



Debt Ratio





Daekyo, with over 30 years' experience, has set the goal of two trillion won in revenue and an operating margin of fifteen percent by 2010. To this end, we will develop new growth engines while enhancing the competitiveness of existing businesses.



❖ Classification of Businesses for Vision 2010

Tutoring

Our core competency and mainstay business that elevated Daekyo to the top of Korea's education service market

Public Education Services

After-school programs and textbook publishing linked to the public educational system

Contents Channels

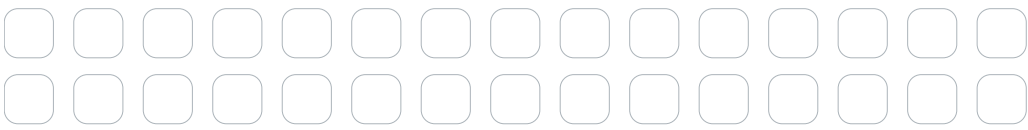
Developing and distributing contents through regional channels

Culture Business

A promising new growth engine by making inroads into the value-added culture industry

Global Business

Cultivating overseas markets through joint venture and cross-border M&As



With a spirit of 'Noonnoppi Education',
Daekyo will be a world-class educational
services company.

We were established in 1975 and during the past three decades we have written a new chapter in Korean children with our Noonnoppi philosophy. We uphold diverse educational methods that can help our children be better prepared for today's increasingly globalizing and pluralizing society.

Daekyo will grow further as an advanced educational services provider by promoting the mutual growth of teachers and learners through synergistic interaction. Our learner-oriented Noonnoppi education philosophy is also in line with our pursuit of mutual development for both teacher and learner.

We are exploring diverse areas to find profitable new businesses that will continue to deliver steady results amid an ever-changing business environment. We aspire to emerge as a world-class education and culture company by realizing Vision 2010. To this end, we will solidify our market standing by strengthening core competencies and drawing up comprehensive marketing strategies.

Daekyo boasts the largest membership in Korea and is now stepping up the move overseas. We are also expanding into the culture industry, which promises to boost our revenue through a synergy effect with our flagship educational services business. We are elevating our organizational work efficiency and leveraging our strong cash flow to pursue M&As and partnerships.

Having enriched people's lives through educational services, Daekyo is now committed to fulfilling social responsibilities through community service and sports sponsorships. The Daekyo Culture Foundation offers scholarship programs, supports public education and academic research, and stimulates the creation of literary works. The company also contributes to public health and balanced development of sports through the operation of the Noonnoppi Women's Badminton Team and Kangaroos Women's Soccer Team.



Young-Joong Kang
Chairman



In 2006, we looked back on three decades of turning crises into opportunities.

At the same time, we started out with a fresh corporate vision on the path to the next three decades.

Dear Shareholders

I would like to sincerely thank you for your unwavering support and encouragement last year which was a truly challenging time for us. In 2006, high oil and raw material prices, a strong Won, and security concerns over North Korea's nuclear tests negatively affected the business environment. Like companies in many other industries, education service providers such as Daekyo faced intense competition, and last year performance did not meet our expectation.

Business Performance Highlights in 2006

Our Noonnoppi membership fell slightly but was offset by earnings from premium products and the public school business. Revenue totaled 835 billion won, up 2.4 percent from 2005, and operating income was 61.6 billion won, a decrease of 10.5 percent year on year. On the other hand, our financial

structure was further strengthened. The gain on valuation of Shinhan Financial Group shares and other available-for-sale securities we hold boosted shareholders' equity 9.8 percent to 609.8 billion won, from 555.2 billion won of 2005. Total assets increased 7.6 percent to 839.3 billion won. The debt-to-equity ratio improved by 2.5 percentage points from 40.4 percent in 2005 to 36.6 percent a year later.

We managed to produce solid results despite the stagnant domestic market and reduced market share thanks to our efforts to strengthen competitiveness. Tutor training was improved and the appraisal system was transformed into a revenue/profit-based business line. PDAs were distributed to tutors for a more systematic membership management.

Premium products are attracting many new members, signaling rapid future growth. The enrollment in the Soluny program grew 42.5% from 15,888 at the beginning of 2006 to 22,633 by year's end. Moreover, the membership of Chai Hong Chinese nearly quadrupled from 12,915 to 47,016. Our after-school business secured the top market position, as the number of schools that have contracts with Daekyo rose from 315 to 419 in 2006. On the occasion of our 30th anniversary in 2006, we looked back on three decades of turning crises into opportunities. At the same time, we started out with a fresh corporate vision on the path to the next three decades. Meanwhile, Daekyo opened Gongbuwarak, an on-line education portal for junior-high students, and took over Permatedu Co., the largest special high school prep service provider in Korea, completing our competitive premium business structure. By entering the junior-high education services market, Daekyo laid the foundation for a steady growth.



Business Plans for 2007

Higher oil prices and exchange-rate concerns are expected to persist in 2007, promising a bumpy road ahead at home and abroad. In the face of this reality, Daekyo will go back to square one, and get a fresh start with the same entrepreneurial spirit and passion that enabled us to start from scratch and grow so successfully during the past three decades.

Research shows that a company with passion enjoys higher customer loyalty, productivity, and profitability than a company without passion. We at Daekyo aspire to replicate the remarkable success of the Noonnoppi education by gearing up with fresh enthusiasm and a challenging spirit. Thus, we drew up the following business plans for the coming year:

First, Enhance the Competency of Noonnoppi

In January, we raised the prices of our reading, English language and math programs to improve our operating margin as well as the high-end image of our core products. From the long-term, macroscopic view, this pricing strategy is also expected to bring about better service quality and solid growth of the Noonnoppi business.

In February, we reorganized the Noonnoppi business division, our traditional mainstay, to provide a fresh start and independent operation. Key functions such as marketing, training, and advertising/promotion are placed under the direct control of the CEO to boost competitiveness. We also combined our infant/toddler members in Noonnoppi and Sobics into a single pool and escalated our marketing efforts targeting this customer base with long-term growth potential.

Furthermore, we overhauled our appraisal system to focus on revenue/profit as a means for more substantial growth. We believe that all of these efforts will help the Noonnoppi division regain lost ground and solidify Daekyo's market leadership.

While bolstering our core competencies, we are also firmly establishing our customer satisfaction program. Customer contact points will be managed more efficiently so that we can deliver better customer services. These endeavors should allow us to increase the number of our loyal customers while attracting many new ones.

Second, Vitalize Newly Launched Businesses

Daekyo is committed to producing tangible results from newly launched businesses not only by strengthening comprehensive marketing activities for an inter-business synergy, but also by diversifying distribution channels.

We will continue the remarkable growth of Chai Hong Chinese and Soluny by reforming the fee structure while lowering the cost of learning materials. Our Sobics division will transfer its infant/toddler business to the Noonnoppi division and reorganize. Efforts will be made to break even with Sobics by boosting the sales of learning toolkits as well as by lowering fixed costs.

At the same time, Daekyo will exert all-out efforts to develop profitable new businesses through M&As and aggressive overseas market penetration. In the US, we will hire managers with professional backgrounds in education services and begin to expand our market presence. We have also started providing English language and math programs to Chinese children through the Shanghai office of our Hong Kong joint venture with Bertelsmann AG. As for the remaining new businesses, divisions with overlapping service areas will be consolidated and non-promising divisions will be spun off. Through this selective concentration of resources, Daekyo will boost revenue and maximize profitability.

Third, Innovate Corporate Culture

We have faced numerous challenges throughout our history. However we have continued to grow by turning challenges into opportunities. This year, Daekyo will be devoted to cultivating a passionate corporate culture. We will help Daekyo people develop their careers and share our business profits with the community. Notably, we have cut costs by moving our headquarters to a smaller building. This can revitalize the entrepreneurial spirit that empowered us to create something from scratch thirty years ago.

Daekyo has remained No. 1 for three decades because we never lost our passion for excellence. In 2007, we have set out with fresh resolve for the coming three decades. We may face rough going because of an uncertain business environment. However, we are confident that we can overcome any obstacle and write a proud new chapter in our corporate history. We will continue to commit ourselves to fulfilling our duties as a corporate citizen through transparent operation, and will deliver best possible results to our customers and shareholders.



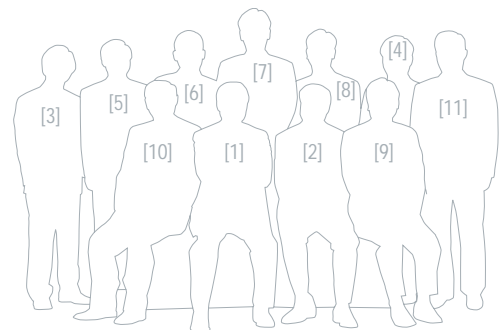
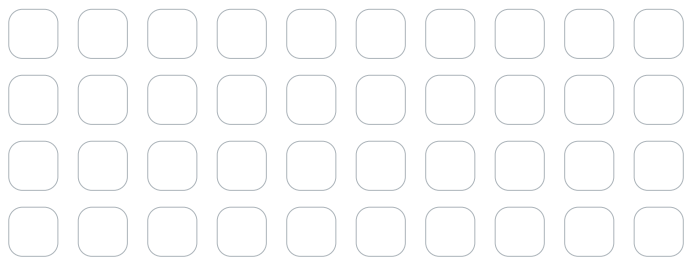
Heui - yong Song, Vice President & CEO



Tae - young Park, Vice President & CEO



Board of Directors



Young-joong Kang

**(Chairman of the Board of Directors /
Group Chairman, Executive) [1]**

B.S. in Agricultural Chemistry, Konkuk University
M.A. in Educational Administration,
Yonsei Univ. Graduate School of Education
CEO, Daekyo Co., Ltd.

Director, Federation of Korean Industries (FKI) (Current)
President, Badminton Korea Association (Current)
President, Badminton World Federation (BWF) (Current)
Chairman of the Organizing Committee for the 38th World Scout
Conference and 10th World Scout Youth Forum (Current)

Heui-yong Song (CEO, Executive) [2]

B.S. in Mechanics, Inha University
MBA, Cyber KAIST
Northwest/North of Han river Center head
Logistic Center Director, Daekyo Co., Ltd.
Noonnoppi Business CEO, Daekyo Co., Ltd. (Current)

Tae-young Park (CEO, Executive) [3]

B.A. in French Literature, Seoul National University
MBA, Helsinki School of Economics
SK / Oasis Records
Strategic Planning Director/CFO, Daekyo Co., Ltd.
New Business CEO, Daekyo Co., Ltd. (Current)

Jong-cheon Yoon

(Management Advisor, Executive) [4]

B.S. in Agricultural Chemistry, Konkuk University
Shinpoong Metal Co., Ltd. / Kirin Co., Ltd.
Director, Clover Plastics Corporation
CEO, Daekyo Co., Ltd.
CEO, Alphome E&C Corp.
CEO, Daekyo Holdings Co., Ltd. (Current)
Executive Council Chairman, Daekyo Co., Ltd. (Current)

Young-gwan Kim (Senior Managing Director, Executive) [5]

B.A. in German Literature, Chung-ang University
M.A., Chung-ang University
Graduate School of International Management
Korea Trade-Investment Promotion Agency (KOTRA)
CEO, Expiaworld Co., Ltd.
CEO, Daekyo Bertelsmann (Current)

Myung-won Noh (Managing Director, Executive) [6]

B.A. in History, Soongsil University
Seoul National University CFO Academy
Innovation Management Team head, Daekyo Co., Ltd.
Marketing Strategy Team head, Daekyo Co., Ltd.
Strategic Planning Director/CFO, Daekyo Co., Ltd. (Current)

Soo-wan Park (Director, Non-executive) [7]

B.S. in Mechanics, Inha University
Hyundai Motor Company
Strategic Planning Team head, Daekyo Co., Ltd.
CFO, Daekyo D&S Co., Ltd. (Current)
CFO, Daekyo Holdings Co., Ltd. (Current)

Yoon-hee Chung (Director, Non-executive) [8]

B.S. in Mechanics, Sungkyunkwan University
MBA, Wharton School of the University of Pennsylvania
Samsung Aerospace / Samsung Electronics
CEO, Daekyo Holdings Co., Ltd. (Current)

Chung-woo Suh (Outside director, Non-executive) [9]

B.A. in English Literature, Yonsei University
Dean, Yonsei University
Graduate School of Journalism and Mass Communication
President, Journalist Federation of Korea
President, Korea Magazine Institute

Jung-kyoo Park (Outside director, Non-executive) [10]

Seoul National University Business School
Director, Securities Supervisory Board (now FSS)
CEO, Hyundai Investment Consulting Co., Ltd.
Advisor, Deloitte Anjin LLC
Certified Public Accountant (Current)

Ji-won Kang (Outside director, Non-executive) [11]

B.A. in Political Science, Seoul National University
Prosecutor, Seoul District Prosecutor's Office
First Chairman, National Youth Commission
Attorney at law (Current)
Co-chair, Korea Manifesto Center (Current)
Publisher of monthly youth magazine,
Keunbawui Eolgul (Current)

Duties and Authorities

The Board of Directors makes decisions on management, company affairs, and other issues defined by statute and Daekyo By-laws. The Board is responsible for ensuring that members fulfill their duties. It has the authority to convene shareholders' meetings, draw up and change mid-/long-term business plans, and make final decisions on primary investments. The Board can also request information on major management issues and check their development.

Operation

The Board convenes regular and special meetings. Regular Board meetings are held once a month, usually on the second or third Monday. At least seven days prior to each meeting, all directors and Audit Committee members are provided with the time, venue and agenda. This procedure can be omitted if there is a unanimous consent of directors and Audit Committee members. At these meeting, a quorum, defined as at least 50% of the directors, is necessary to conduct the official business of the Board. Decisions are made by the majority vote of the quorum. Any director who has special interest in the topic to be discussed cannot participate in the voting.

Formation and Activities

Daekyo's Board of Directors consists of eleven directors, among which eight are inside and three are outside. Two of the three outside directors are non-executive. In 2006, a total of sixteen Board meetings were convened and forty eight issues were discussed.

Outside Directors

In 2006, Messer Jeong-woo Seo, Jeong-gyu Park, and Jae-ryun Shim served as our outside directors. Among them, Mr. Jae-ryun Shim handed over his position to Mr. Ji-won Kang during the general shareholders' meeting in March 2007. The outside directors participated in Board activities with an annual attendance rate of 83.3 percent.

Committees

Daekyo's Board of Directors operates five committees, including the Audit Committee. The Audit Committee is comprised of the three outside directors. Our four registered directors serve on the administrative committees such as the Investment Policy Committee and Compensation Committee. The Audit Committee is responsible for auditing Daekyo's accounting and financial affairs by statute, and has the authority to request any related information and inspect the financial status of the company. In 2006, the five committees convened 59 meetings, where 144 issues were resolved.

Emphasis on Transparency and Ethical Management

Recognizing that corporate governance is a major determining factor in company valuation for global investors, Daekyo is closely observing all facets of corporate rules and regulations. While the company's board makes important management decisions, its senior executives, managers, and employees are expected to contribute to good governance through self-monitoring and sound practices. The company thus emphasizes transparency in governance and ethical behavior in practice. Daekyo has emphasized the "Three Cs" - Code of conduct, Compliance checks, Consensus by ethics education - in management and operations.

Code of Ethics

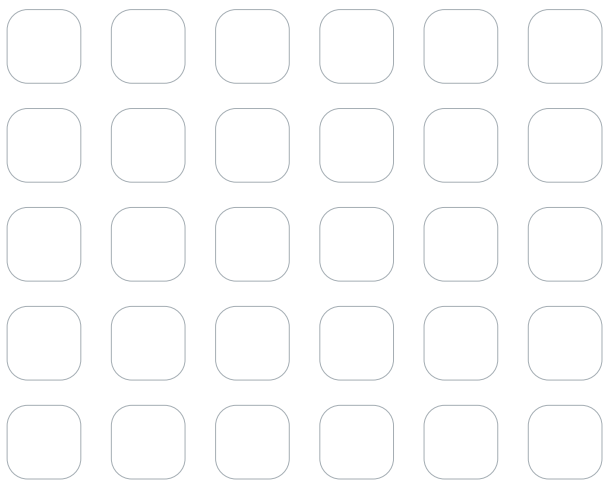
Daekyo has adopted a Code of Ethics to maintain the highest possible workplace standards. We believe that the company and its employees should strive for shareholder as well as stakeholder value creation by pursuing excellence in developing quality products, delivery of services to customers, and overall management and operations. The Code is written to help the company in its ongoing efforts to emerge as a prestigious global education service provider.

Compliance

Daekyo has installed an operational system to ensure that all its business activities comply fully with the company's own internal rules and public laws and regulations.

The Code of Ethics pledges to:

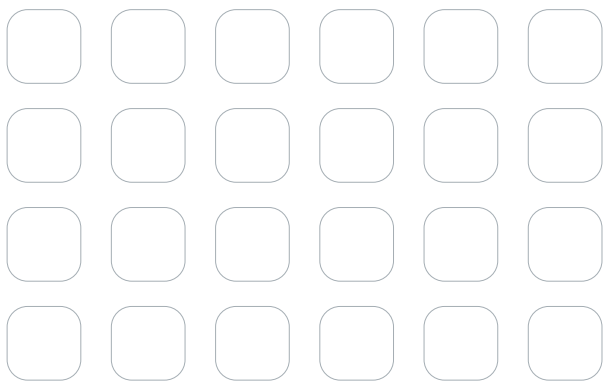
- Put the customer first and satisfy all customers.
- Win the confidence of shareholders through the practice of sound management principles, employing proper operational processes and procedures, and ensuring full transparency in management.
- Maximize shareholder value through steady and profitable business growth, as well as building competitive strength.
- Respect the individuality of each employee and evaluate his/her performance fairly on the basis of creative competence, capability and contribution to the company.
- Promote co-prosperity with business partners by ensuring mutual trust and guaranteeing fairness and transparency in all transactions and procedures.
- Encourage employees to share ideas with management and motivate them to work voluntarily with management toward a common objective.
- Contribute to the community and national prosperity, cultivating talent and advancing the education industry through fair competition and the fulfillment of corporate citizenship.



14,337 Noonnoppi Tutors

CUSTOMER CENTERED

With the corporate motto of “Noonnoppi Love, Noonnoppi Education,” Daekyo is moving forward to become a world-class education and culture company. Guided by our Noonnoppi philosophy and customer-first principle, we are providing individualized, premium education services.

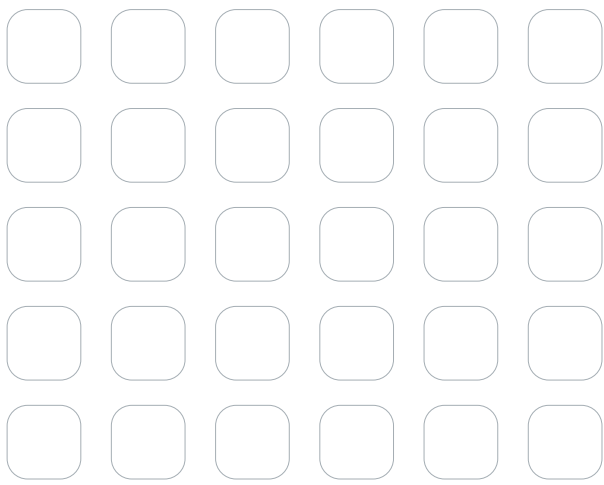




As a company grown on the customer-first principle, Daekyo promotes the Noonnoppi education approach, which is designed to help each child develop the skills needed to perform to his/her full potential at a comfortable pace dictated solely by individual ability and initiative.

In 2006, our Noonnoppi education was widely recognized. For starters, Daekyo was ranked first for the second consecutive year in the membership tutoring services division of the Korean Customer Satisfaction Index (KCSI), which is compiled by the Korea Management Association (KMA). It also topped the National Brand Competitiveness Index (NBCI) measured by the Korea Productivity Center (KPC).

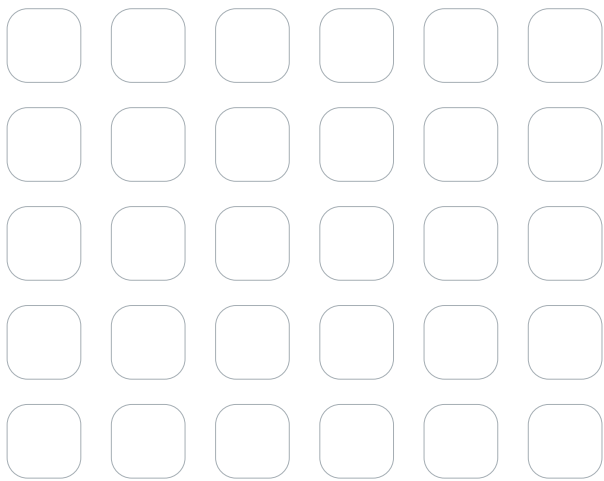
In the Korea Innovative Company Awards, which is hosted by the Korea Chamber of Commerce and Industry (KCCI) and co-sponsored by the Ministry of Commerce, Industry and Energy and the Ministry of Government Administration and Home Affairs, Daekyo received the Prime Minister Prize and the Best CEO Prize in recognition of excellence in education services based on diverse education contents and time-honored know-how acquired over three decades.



Market LEADER

HIGH PERFORMANCE

Daekyo has multiple household-name brands including Noonnoppi. Thanks to our brand power and quality products, we have cemented our industry leadership with a 38.2% share of the membership tutoring market.

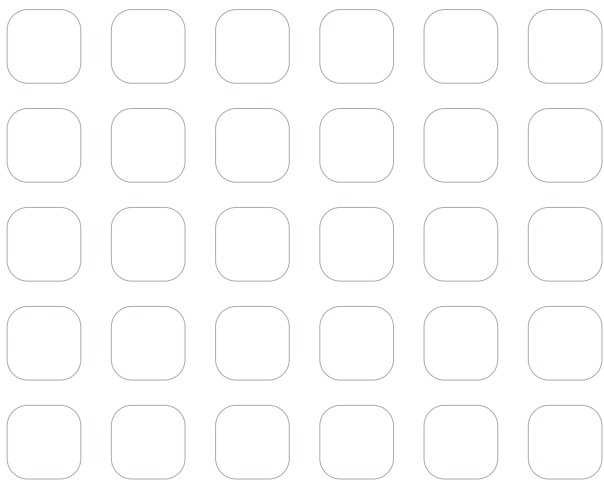




Noonnoppi is one of the largest and most established membership tutoring brands in Korea. Noonnoppi members receive tutoring textbooks and materials every week, and Noonnoppi tutors regularly visit them at home for one-on-one tutoring sessions. This program was ranked first for the ninth consecutive year in the Korea Management Association Consulting (KMAC)'s ninth annual survey of industrial brand power in 2007. The Noonnoppi brand, which boasts the largest membership in the nation, was also selected as a hit product by various newspapers. Now the company is aiming to make Noonnoppi a world-class brand backed by a solid education system. To this end, a new-concept learning system for infants/toddlers is under development.

Soluny, another Daekyo brand, is a customer-oriented home-schooling system that was started in partnership with McKinsey & Company, a world-renowned consulting company.

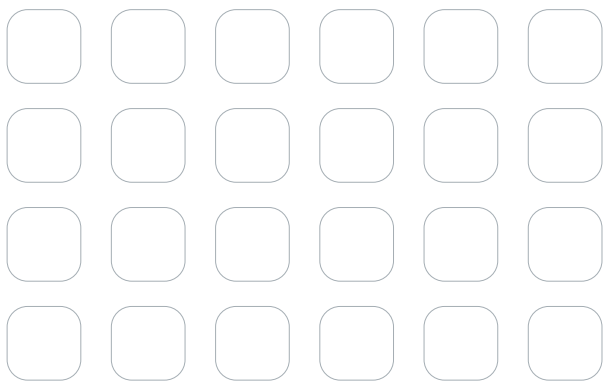
The excellence of Soluny was recognized with the Grand Prize in the Brand of the Year Awards in the Reading and Debate Program division for the second consecutive year in 2006. The award is co-hosted by the Korea Economic Daily and Korean Customers' Forum. Other Daekyo products such as Sobics, Chai Hong, and G-CAMP are receiving favorable reviews from customers. As such, strong brand power is one of the main factors behind Daekyo's impressive growth.



Presence in OVERSEAS

GLOBAL PLAYER

On the strength of our know-how we gained from success at home, Daekyo is aggressively cultivating overseas markets. We promise to become a truly global company that provides quality education services to students the world over.





Daekyo's overseas operation can be categorized into the Noonnoppi business for Korean children living abroad and the E.nopi business targeting the local children in overseas countries. We expand our business abroad through our worldwide branch offices, franchises, and joint ventures, disseminating about our Noonnoppi philosophy, the essence of Daekyo's education know-how, to the world.

In the US, we started our operation with the foundation of the L.A. branch office in 1999 as the starting point. In China, we opened our office in Hong Kong in 1997. As for the Southeast Asian region, we began providing services targeting local customers starting from Singapore in 2000, to Malaysia in 2004, the Philippines in 2006, and Indonesia in 2007. We expect the Southeast Asian market will grow rapidly.

In October 2002, we created our E.nopi brand to represent Daekyo in the world market. Rather than sending out our Korean managers and personnel, we are expanding our business abroad either through partnership and joint venture with local companies, or through franchises. For the Americas and other English-speaking countries, in particular, we have developed a localized math program called E-nopi MATH, which is believed to contribute to Daekyo's standing in the world education service market.



Korea's No.1 Education Brand

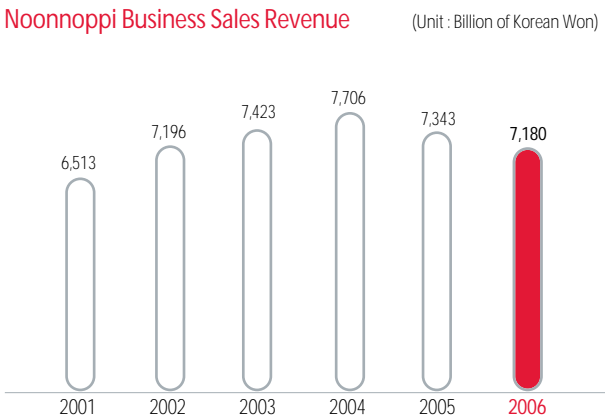


The Noonnoppi business is Daekyo's flagship division. By adopting the home-tutoring model, our Noonnoppi programs effectively help Noonnoppi kids acquire essential skills, knowledge, and information. As of the end of 2006, the Noonnoppi division operated 464 centers and employed 15,766 people, boasting the largest business volume among the membership home tutoring service providers in Korea. The Noonnoppi membership is approximately 2.2 million, also the greatest in Korea. In 2006, our Noonnoppi division recorded 718.0 billion won in revenue, down 2.2 percent from the previous year. Operating profit was reported at 79.9 billion won, a 11.1% of OP margin. We plan to boost operating profit through steady efforts to cut costs.

Daekyo improved the efficiency of our business management in collaboration with McKinsey & Company. We established the customer relationship management (CRM) system, through which Daekyo provides one-on-one, individualized services to customers. We also adopted the Enterprise Resource Planning (ERP) system, greatly improving service quality and membership management practices while offering effective tools to employees for work process innovation. As such, Daekyo is taking solid steps to maximize business efficiency and thereby emerge as a truly world-class company.

The market competition is intensifying constantly, making it harder for us to maintain our leadership. Effective marketing strategies are gaining importance. We are implementing strategies to differentiate Daekyo from competitors by spicing up traditional programs, developing new programs, and adjusting products to the changing education environment using our vast educational contents. At the same time, we are utilizing information and communication technologies to improve customer satisfaction. For example, Daekyo's IT-based CRM system

allows Daekyo parents to check their kids' progress, test results and fee payment status anytime. We are also increasing the number of services delivered through a mobile platform and will expand the learning management system, which plans and adjusts each Daekyo kid's program according to changing needs.





Grower of Young Dreams

Daekyo created Sobics in May 2001 based on the combination of expertise of infant/toddler educators and our time-honored know-how. Sobics is a new-concept program designed to nurture the imagination and expression ability of infants/toddlers. This business line consists of a learning toolkit, book collection, Jump All monthly textbook, sales and marketing, and learning management.

Sobics(infant) unit is responsible for the development and sales of quality products. The nationwide sales network consists of 38 directly-run offices and 25 representative agencies through which our 4,000-member sales force conducts door-to-door sales. As the market competition is growing fiercer, the Sobics division is boosting

competitiveness by strengthening the sales network, upgrading existing products, developing new products and enhancing employee training.

Sobics(marketing) unit operates 16 education centers and 5 dispatch teams, and manages some 200 Sobics tutors and 10,000 Sobics members. In 2006, the learning management unit reported 5.5 billion won in revenue, up 32 percent year-on-year. This part is now focusing resources on boosting the learning toolkit membership through cooperation with Sobics(infant).

A Guide of Children to Think

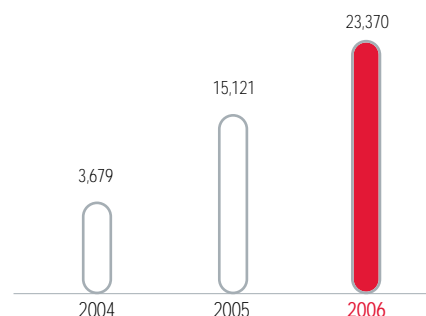


Soluny is a small-group reading and debate program that helps children develop the ability to convey to others what they have learned and what they think. Soluny was born out of Daekyo's learner-oriented education philosophy. Thus the debate sessions unfold with student initiative instead of being prompted by the instructors.

As of the end of 2006, Soluny membership was 23,370 and Soluny sales revenue was 18.1 billion won. The Soluny division stopped providing its English Forum and Math Forum service, refining its position as a reading and debate brand. Soluny plans to develop programs for infants and junior-high students in a bid to broaden the member base. While increasing home-visiting instructors, the division also seeks to adopt diverse business models such as learning

centers and private institute-style branch offices. At the same time, Soluny will advertise on radio and TV, and in newspapers. Promotional events will also be held for prospective customers to improve brand recognition.

Soluny Membership





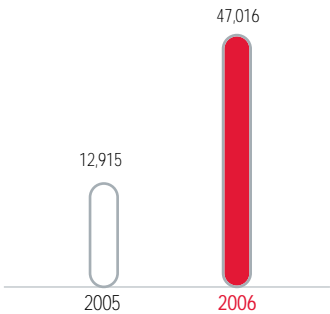
Highly Effective Chinese Language Program

The name CAIHONG (彩虹), the Chinese word for rainbow, represents Daekyo's aspiration to inspire youth through education. CAIHONG Chinese was developed by authors who are specialized in the education of Chinese as a foreign language and have experience in writing Chinese textbooks for children. Studies and tests have verified the effectiveness of this program in improving reading, writing, listening and speaking skills in an easy and fun way. This program's creative teaching methods, which stress the use of diverse teaching aids over dull textbooks and avoid rote memorization, maximize program efficiency.

CAIHONG Chinese Division sales in 2006 jumped to ₩19.6 billion, eleven times from 2005. And the number of CAIHONG tutors in 2006 increased by 33 percent to 1,100 and CAIHONG membership nearly quadrupled to 47,016. In March 2007, CAIHONG members surpassed the 50,000 mark. Also in 2006, the CAIHONG division was selected as the

official Korean administrator of Young Chinese Test (YCT). The goal now is to increase the number of test takers to 8,000 in 2007, 20,000 in 2008, and 40,000 in 2008. In addition, the CAIHONG division will develop a Chinese language program for infants/kindergartners and open two Chinese language institutions in Seoul, solidifying its position as the leading Chinese language brand in Korea.

CAIHONG Chinese Membership



FUTUREKIDS® People creating the education of the future

Futurekids provides superior education programs that are original and provide our growing children with the competitive edge they will need in the future. Futurekids, which is headquartered in the United States, was established in 1983 and is now a franchise brand providing course curriculum and curriculum development to 65 countries worldwide. Our company has concluded a license franchise agreement with Futurekids, giving us exclusive business rights in Korea for ten years. The advantage of Futurekids is a curriculum that can be adapted for use in a variety of businesses and a "problem solving project learning" education system that helps students develop their conversation, debate and public speaking skills.

In 2006, we recorded revenue of over 1.6 billion won and as of the end of last year, there were 2,313 students studying at our 24 learning centers. In 2007, we are strategically focusing on three specific areas, increasing the profitability of our centers, improving the range and quality of our education service system, and launching an aggressive promotion campaign. Our goal is to "provide superior education services by operating centers with substance." We promise to do our best to maximize profits and develop new markets by creating a stable and profitable environment for the twenty-four centers currently in operation and by opening strategically located centers such as the Daejeon Doosan Center, which opened in March 2007.



Efficient Blending of On/Off-line Education

G-CAMP means "a fun place to learn," suggesting "a lively and self-motivating (institute) learning space." and the name "知," the Chinese word, represents the knowledge. This brand brings together the middle school specialty institute, G-CAMP Class and the English Language School, Calritz. G-CAMP Class, as a model of online and offline learning, is basically an institute franchise business that includes the operation of institutes and publication of textbooks. Calritz is a professional early English education institute that operates under the concept of "Kindergarten + School."

In 2006, G-CAMP brought in revenue of over 4.8 billion won, thanks to continuous improvement and efforts to solidify our place in the market. Also, operating income improved from -4.36 billion won in 2004 to +280 million won in 2006, establishing G-CAMP as a stable institute business in

Daekyo. At the end of 2006, total enrollment reached 20,345 students, 19,965 in G-CAMP Class and 380 in Calritz.

Our slogan for 2007 is "Jump Ahead with SEM 2007," which means means that we will be concentrating on three main areas: (1) Satisfaction (enhance fellowship by satisfying our customers) (2) Education (improve competitiveness by training institute managers, teachers, supervisors and staff) and (3) Model (increase stability by creating a business operation model). Also, in 2007, we will be making some organizational changes to promote regional development. The five current operation centers will be divided into 10 operation areas, and the supervisory consulting staff will be increased to provide better education consulting to each and every institute.

Korea's best e-learning site



Edupia started off in 2000, during the early stages of the domestic internet industry, with the task of creating a second Noonnoppi legend as "the first big player in the on-line education market." Edupia has now grown to be the nation's biggest domestic education portal site, with over 2.47 million members.

Edupia.com, as a three-dimensional on/offline linked learning service, is a Noonnoppi support site. Users receive highest quality online learning services in the country through our joint parent-teacher tailored learning service, maximized audio-visual learning system, homework service and trouble-shooting counselors as well our community

service centered on the various clubs and blogs. Also, "JaDo School," a fee-based individually tailored textbook study program, is emerging as a new leader in the school support e-learning area. Edupia, the heart of Daekyo's e-business, has swept various Web Awards and has established itself as the No. 1 portal site in the country. As the frontrunner, we will continue to grow, stay a step ahead of the competition by constantly changing and taking on every challenge.



Offering the highest quality on-line contents



The brand name “Gongbuwarac” literally means “pouring study” or “hugging study.” The Chinese character for fun, rac (樂) is used as an icon to represent the fun of studying. “Gongbuwarac” provides education services to students from Grades 4 through 9 with the same individualized approach as Noonnoppi. Gongbuwarac was created to ensure maximum effectiveness by employing a video conference system found on no other online learning sites. The video conference system applies the same methods used by Noonnoppi teachers, who meet directly with their students. As such, students get the same study results and benefits as offline learning. The system is

designed to allow Web Teachers to set up individual study schedules and level tests for each student, ensuring systematic evaluation and grading. In addition, Gongbuwarac has a unique learning system and moreover, the best instructors in the country to work with you in GPA improvement classes, individual subject classes and special interest classes. FermatEdu, Korea's premier special high school preparatory institute, has the special high school contents needed by students wishing to enter specialty high schools in the most competitive districts (Gangnam, Bundang, Pyungcheon) in the country. Gongbuwarac monopolistically provides contents for FermatEdu.

After-School Classes

Daekyo has been involved in the “computer education” aspect of after-school education since 1997. The after-school business began in February 1997 in accordance with the Ministry of Education's policy of “computer supply and education operation by private sector participation,” which was meant to bring the school system into the information age. The computer class business allows a private company to conclude contracts with individual schools to construct multimedia facilities in the schools, provide computers and Internet services free of charge. In return, the schools pay for the teachers, books and contents supplied by the company. Currently there are about 700 elementary schools in the metropolitan area that have set up after-school computer classes. Of those 700, Daekyo has the largest market share with 236 schools, or roughly 30%, operating Daekyo's computer OA courses and computer qualification courses.

The after-school computer class business revenue totaled 27.6 billion won in 2006. Holding the largest market share, we expect the continued growth in 2007 to an estimated revenue of 35 billion won. We instill confidence by teaching students from the basics to practical application. We promote the computer boom in schools and produce results by operating a successful education program.

Showing the parents the step-by-step progress their children are making helps Daekyo maintain its leading position in after-school computer education. Also, in accordance with the progressive policy of open education, we are currently working with native English speakers to create an after-school English class and will continue to research and develop items that can be successfully implemented as after-school classes.



Reference Books

The Daekyo reference book business began in 1997 with a collection of review quizzes for primary school children. Today we offer 165 volumes in fourteen series for primary school and 44 volumes in four series for middle school. In 2004, we also introduced a five-volume series on Chinese character recognition for primary school students. Teachers link these tailored materials for students in primary and middle school to work done in class.

We have developed textbooks and supplementary materials to help instill the proper views about nation and ethical values in primary and middle school children,

providing an educational framework for youth. Our superb sale force and distribution network covers more than 100 exclusive agents and major bookstores around the country.

New curricula will be offered in primary and secondary schools across the country in 2009, and we are developing new products (basic texts as well as review quizzes), expanding the product selection. At the same time, we are creating distinctive, highly competitive materials that cover special topics for niche markets. Thus, we are confident of assembling the product line that will make us the future market leader.

Educational Research Institute

The Daekyo Educational Research Institute was established in 1985 and specializes in the development of education (or educational) services. The approximately one hundred professionals on the staff work with more than 1,200 outside education experts to research and develop educational theories and programs, learning models, educational contents, learning evaluation methods and psychological tests. The Institute also organizes the Science Olympiad for Gifted Students and conducts the American College Testing Program in the Korean market.





Educational Spirit for Overseas Koreans



Daekyo's overseas operations serve two main segments - local populations and Koreans living outside Korea. Noonnoppi, developed over more than thirty years in Korea, is now going global through local subsidiaries, franchises and joint ventures, and Daekyo's presence is expanding worldwide.

The Americas

Daekyo broke into the American market in 1991 with the establishment of the Los Angeles subsidiary, followed by a second subsidiary in New Jersey in 2003. Each year, Entrepreneur Media Inc. evaluates prospective franchise businesses, and Daekyo USA was ranked 167th Overall, 5th in Education Services and 72nd among the Fastest Growing Franchises on the Top 500 list in 2006. The US Headquarters was opened in 2006 to enhance overall business operations and expedite the advance into the mainstream markets of the US and Canada.

China

The Daekyo Hong Kong subsidiary was founded in 1997, and since then our operations have spread many of the country's main markets. A subsidiary was set up in Beijing in 2002, followed by offices in Shanghai and Tianjin in 2003 and the Qingdao office in 2004. The Chinese market has tremendous growth potential, and any company that aspires to be a global player must establish a presence there. Therefore, we established joint ventures with leading Chinese education providers in 2006, and services are being targeted at Chinese users. This market is all the more attractive because as yet no single player dominates the education services sector.

Southeast Asia

Daekyo educational materials were first supplied to businesses operated by local owners in Singapore in 2002, paving the way for entry into the Southeast Asian market. Our Malaysian subsidiary was established in 2004 and a strategy was devised for rapid business localization. We have subsequently implemented a highly successful business model there.

Meanwhile, Daekyo entered the Filipino market in 2002, initially targeting persons of Korean descent. In 2006, the business was expanded to include offerings designed for





Filipinos. We are establishing a subsidiary in Indonesia in 2007 and will proceed to localize the operation there as quickly as possible. These success stories in so many new markets are bringing new confidence and know-how to our overseas business.

Asia-Pacific and Other Regions

Daekyo entered the New Zealand market in 2000 and moved into Australia and the UK in 2002, Germany in 2005, and Thailand in 2006. Our market development efforts are now particularly focused on Vietnam, Thailand and India - regions that desperately need new educational services.

We are not just entering new markets directly and then hiring local staff to run the business. Instead, we are diversifying our approaches to include forming joint venture partnerships with major local players and expanding the franchise network. Our E.nopi MATH line has been localized for North America and other English-speaking countries, providing the first step toward our emerging as a global education services provider.

E.nopi: the Brand for Overseas

E.nopi MATH, first released in April 2003, not only brings out potential in children through mathematics, but also broadens and deepens their range of thinking. The

program consists of diverse teaching materials and divided into two broad parts: Basic Thinking Math develops fundamental math knowledge and skills, while Critical Thinking Math enhances problem solving and deduction skills.

E.nopi MATH was designed according to program-style learning principles, and creative thinking is emphasized. The program reflects the nine math courses in the US recommended by the National Council of Teachers of Mathematics (NCTM). Therefore, we entered our math program in the NCTM Expo and received very positive feedback from US educators. The effectiveness of E.nopi MATH was demonstrated in evaluations by State University of New York professors in 2005. In 2006, the Ohio State University mathematics faculty edited and revised the program, enhancing its effectiveness still more. Now, E.nopi MATH is firmly established as a world-class training material for math students around the world.



FINANCIAL SECTION



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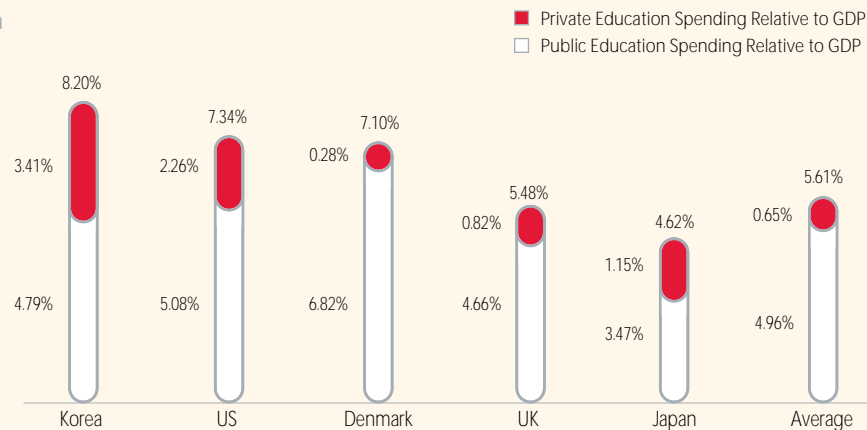
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Market Overview

Korea's education spending was equivalent to 8.2 percent of GDP in 2005, one of the highest among the OECD countries, whose average was 6.2 percent. The private proportion of Korea's total education expenditure relative to GDP was 34.0 percent, more than twice the OECD average of 14.0 percent. Korea's private education services industry was valued at around 22.1 trillion won in 2006, up 2.94 percent from the year earlier. The industry has registered solid growth since 2001 at a compound annual growth rate of 9.94 percent.

_ Educational Spending Trend by Nation

(Source: OECD In Figures-2005)



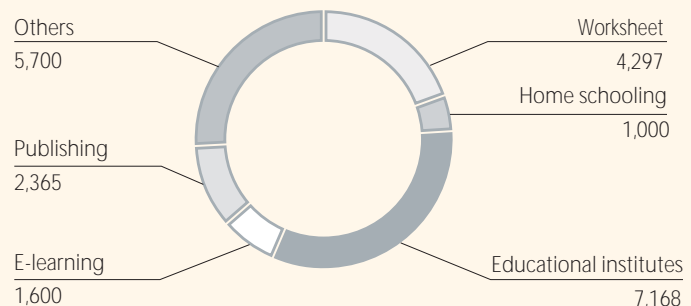
The weekly home tutoring market, Daekyo's mainstay business, has expanded steadily, spearheaded by the top four providers: Daekyo, JEL Corporation, Woongjin, and Kumon. The combined revenue of these four companies amount to 1.9 trillion won and occupy around 85% market share as of 2006.

Nowadays most public and private education services are converging offline programs with online offerings. At the same time, private education service providers are enthusiastically investing to diversify their business from home tutoring to toddler education (learning centers and learning toolkits), private learning institutions for test-prep and languages, door-to-door sales (book collections and learning toolkits) and others (reading & debate, after-school classes, school textbooks, learning-aid books, and e-learning).

Our own survey estimated the value of the entire education services market at 22.1 trillion won as of the end of 2006, a 2.9 percent year-on-year growth. The industry has expanded at a similar pace as Korea's national economy. The makeup of the private educational industry are educational institutes (32.4%), worksheet (19.4%), publishing (10.5%), e-learning (7.2%), home schooling (4.5) and the others (25.8%) such as private tutoring and after-school programs. (As of 2006, source: Daekyo)

_ Breakdown of Private Education Spending in 2006

(Source: In-house Data, Unit: Trillion won)



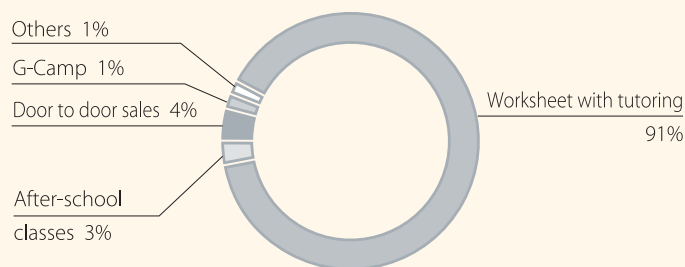
Income Analysis

» Sales Revenue and Gross Profit

(Unit : KRW in Millions)	2006	2005	2004
Sales Revenue	835,005	815,482	839,291
Publishing	761,944	750,380	777,483
After-school classes	27,560	20,762	14,711
Door to door sales	34,378	30,489	29,717
G-CAMP	4,777	9,093	10,750
Others	6,346	4,758	6,630
Cost of Sales	658,802	631,788	635,831
Gross Profit	176,203	183,694	203,460

In 2006, Daekyo achieved 835 billion won in sales revenue, up 2.4 percent from the previous year. Worksheet with tutoring represents 761.9 billion won, or 91.2 percent of the revenue. Which was 0.8 percentage points lower than the 92.0 percent figure for 2005. The proportions of other areas are 3.3 percent for after-school classes, 4.1 percent for door to door sales, 0.6 percent for G-CAMP, and 0.8 percent for other services. COGS was 658.8 billion won and gross profit was 176.2 billion won. The gross profit margin was 21.1 percent, and cost of sales was 78.9 percent, a slight increase from the 77.5 percent posted in 2005.

_ Breakdown of Sales Revenue in 2006

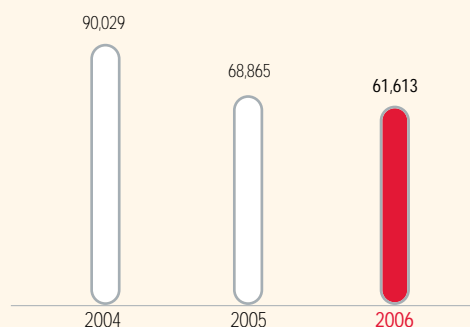


» Income from Operations

(Unit : KRW in Millions)	2006	2005	2004
Gross Profit	176,203	183,694	203,460
SG&A	114,590	114,829	113,431
Operating Income	61,613	68,865	90,029

Daekyo paid 114.6 billion won in SG&A and realized an operating income of 61.6 billion won in 2006, which was 7.3 billion won lower than the 68.9 billion won in operating income for 2005. This drop can be attributed to the stagnating membership tutoring market and fiercer competition. However, SG&A also fell by 200 million won, from 114.8 billion won in 2005, primarily because of lower depreciation costs and advertising expenses.

_ Operating Income Trend
(Unit : KRW in Millions)



❖ Ordinary Profit and Net Profit

(Unit : KRW in Millions)	2006	2005	2004
Operating Income	61,613	68,865	90,029
Non-Operating Income	23,303	27,756	36,448
Non-Operating Expense	12,631	9,453	25,182
Ordinary Profit	72,285	87,168	101,295
Income Tax Expense	20,834	26,519	36,192
Net Profit	51,451	60,650	65,103

Daekyo earned 23.3 billion won in non-operating income and spent 12.6 billion won in non-operating expense, leaving 10.7 billion won in net non-operating gains, down 41.7 percent from the 18.3 billion won figure in 2005. This drop is attributable to an increased loss on valuation using the equity method, an impairment loss on intangible assets, and decreased gains on valuation of marketable securities.

As part of efforts to expand into the junior-high education market, Daekyo acquired a 50.99 percent share in Fermatedu Co., a specialist in high school prep. The acquisition brought the number of subsidiaries subject to equity method to fourteen, among which five are in Korea (including Fermatedu and Daekyo Bertelsmann), while the remains are overseas subsidiaries.

In 2006, the gain on valuation using equity method of these 14 companies was approximately 400 million won. The loss on valuation using equity method reached 1.3 billion won, with 500 million won from Fermatedu, 300 million won from DBES, and 300 million won from Puruni Child Care.

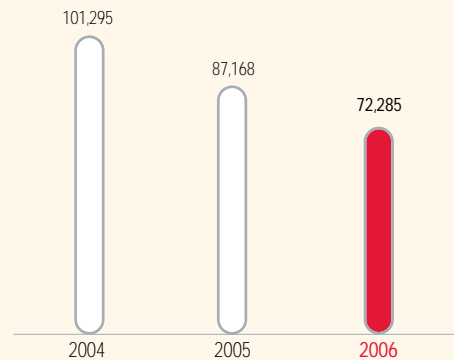
The gain on disposal of marketable securities was 7.9 billion won, down 28.5 percent from the 11.1 billion won posted in 2005, when 9.4 billion was earned by disposing of 500,000 Shinhan Financial Group shares.

Regarding premium service of Soluny the company decided to concentrate resources on the reading and writing essay programs among the four Soluny programs, deciding to stop providing the math and English program development expenses from intangible assets. This resulting impairment loss on intangible assets was around 2.3 billion won.

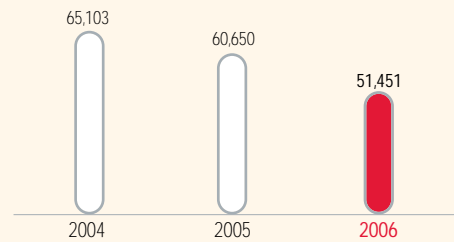
Our net profit in 2006 was 51.451 billion won, a 15.2 percent drop from 60.650 billion won of 2005.

MANAGEMENT'S DISCUSSION & ANALYSIS

_ Changes in Ordinary Profit (Unit : KRW in Millions)



_ Changes in Net Profit (Unit : KRW in Millions)



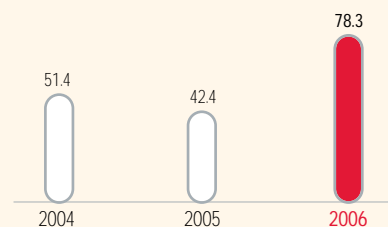
Finance Analysis

(Unit : KRW in Millions)	2006	2005	2004
Total Assets	839,344	779,790	637,829
Total Liabilities	229,528	224,555	216,051
Total Shareholders' Equity	609,816	555,234	421,777

As of the end of 2006, Daekyo's total assets were 839.3 billion won, increased 7.6 percent from 779.8 billion won from a year earlier. Current assets are 205.1 billion won which is slightly decreased from 240.0 billion won of 2005. But fixed assets increased 17.5 percent from 539.8 billion won of 2005 to 634.2 billion won, resulting in higher total assets. Debts edged up from 224.6 billion won in 2005 to 229.6 billion won in 2006. Total shareholders' equity rose 9.8 percent, from 555.2 billion won to 609.8 billion won, thanks mainly to the 22.2 billion won in gain on valuation of marketable securities from the increased value of Shinhan Financial Group shares held by the company.

Capital expenditure was 78.3 billion won, up 84.7 percent compared from the 42.4 billion won figure for 2005. However, the 2006 CapEx figure includes 22.6 billion won spent on one-time investments: 21.5 billion on the training center building, 520 million won on land for Midas Valley Gold Club, and 390 million won on the Gwangjangdong officetel. During 2006, 104 more elementary schools signed contracts with Daekyo for after-school classes, creating a gain in usable and profitable donation assets of 18.1 billion won.

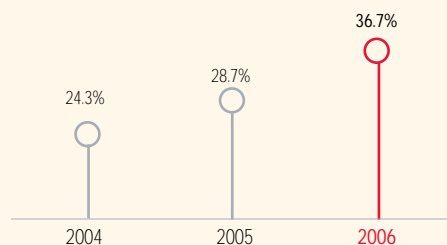
_ Changes in CAPEX
(Unit : KRW in billions)



Dividends

Daekyo is committed to boosting shareholder value. Solid business results have allowed the company to paid out dividends twice a year at ratios of nearly 30 percent on average. The dividend payout ratio came to 28.7 percent in 2005, or 18.9 billion won in dividends from 51.4 billion won in net profit, and rose 8.0 percentage points to 36.7 percent in 2006, with 17.4 billion won being paid out from a net profit of 60.6 billion won. In 2006, cash dividends were 1,800 won per common share and 1,900 won per preferred share.

_ Dividend Payout Ratio by Year



INDEPENDENT AUDITORS' REPORT

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

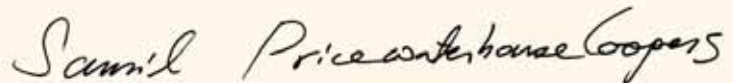
We have audited the accompanying balance sheets of Daekyo Co., Ltd. (the "Company") as of December 31, 2006 and 2005, and the related statements of income, appropriations of retained earnings, and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility 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 non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Daekyo Co., Ltd. As of December 31, 2006 and 2005, 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.

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 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 informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea
March 5, 2007



This report is effective as of March 5, 2007, 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 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.

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005

	(in thousands of Korean won)	
	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	₩ 45,330,613	₩ 68,174,425
Short-term financial instruments (Note 4)	56,562,938	42,521,000
Trading securities (Note 7)	-	4,549,555
Available-for-sale securities (Note 7)	44,508,573	71,484,319
Trade accounts receivable, net (Notes 5 and 23)	23,313,373	21,217,819
Other accounts receivable, net (Notes 5 and 23)	1,502,371	1,924,882
Inventories (Note 6)	21,703,214	18,220,474
Advance payments	509,297	885,668
Deferred income tax assets (Note 18)	2,325,568	2,223,711
Other current assets	9,387,211	8,831,738
Total current assets	205,143,158	240,033,591
Property and equipment, net (Note 9)	198,494,531	166,562,593
Long-term financial instruments (Note 4)	2,500	2,500
Available-for-sale securities (Note 7)	268,677,364	245,799,462
Equity method investments (Note 8)	36,912,161	10,756,770
Long-term accounts receivable (Note 23)	6,780,307	10,900,553
Non-current guarantee deposits	56,410,272	45,450,594
Other investment assets	6,712,577	4,776,270
Intangible assets, net (Note 10)	60,211,510	55,507,290
Total assets	₩ 839,344,380	₩ 779,789,623

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005

	(in thousands of Korean won)	
	2006	2005
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable (Note 23)	₩ 13,833,331	₩ 7,345,089
Other accounts payable (Note 23)	15,487,689	17,647,199
Accrued expenses	39,833,537	38,953,885
Withholdings	6,573,664	4,219,655
Advances received	42,221,137	39,325,296
Income tax payable	4,465,361	7,714,026
Other current liabilities	521,781	1,141,210
Total current liabilities	122,936,500	116,346,360
Long-term accrued expenses	5,835,035	27,946,850
Long-term accounts payable	3,000,000	-
Long-term deposits received (Note 23)	12,379,729	13,167,955
Accrued severance benefits, net (Note 11)	29,501,849	25,886,763
Deferred income tax liabilities (Note 18)	55,875,050	41,207,381
Total liabilities	229,528,163	224,555,309
Commitments and contingencies (Note 12)		
Shareholders' equity		
Capital stock, ₩5,000 par value per share authorized 150 million shares (Note 13)		
Common stock issued and outstanding-8,470,285 shares	42,351,425	42,351,425
Preferred stock issued and outstanding-1,942,699 shares	9,713,495	9,713,495
Capital surplus (Note 14)	71,723,241	71,723,241
Retained earnings (Note 15)	339,483,972	305,929,363
Capital adjustments (Note 16)	146,544,084	125,516,790
Total shareholders' equity	609,816,217	555,234,314
Total liabilities and shareholders' equity	₩ 839,344,380	₩ 779,789,623

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

NON-CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2006 and 2005

	(in thousands of Korean won)	
	2006	2005
Sales (Note 19)	₩ 835,005,197	₩ 815,481,822
Cost of sales (Note 19)	658,801,808	631,787,612
Gross profit	176,203,389	183,694,210
Selling and administrative expenses (Note 20)	114,590,340	114,828,987
Operating income	61,613,049	68,865,223
Non-operating income		
Interest income	7,513,542	7,005,695
Dividend income	4,734,921	4,212,504
Refunded income taxes	-	10,179
Gain on disposal of available-for-sale securities	7,946,397	11,116,860
Reversal of loss on impairment of available-for-sale securities	104,720	-
Gain on foreign currency translation	1,872	14,967
Foreign exchange gains	2,756	6,266
Gain on disposal of property and equipment	668,868	87,949
Gain on valuation of equity method investments (Note 8)	380,810	1,657,340
Gain on valuation of trading securities	-	37,243
Gain on disposal of trading securities	466,032	2,596,066
Reversal of allowance for doubtful accounts	-	559,385
Gain on disposal of equity method investments	128,068	112,661
Others	1,354,584	338,853
	23,302,570	27,755,968
Non-operating expenses		
Foreign exchange losses	36,253	16,905
Loss on foreign currency translation	67,814	75,259
Loss on valuation of inventories	1,477,902	-
Loss on disposal of property and equipment	6,488	1,400
Loss on valuation of equity method investments (Note 8)	1,317,237	595,363
Loss on valuation of options	-	86,498
Loss on impairment of available-for-sale securities	-	104,720
Loss on impairment of intangible assets (Note 10)	2,461,524	1,381,316
Retirement bonus (Note 11)	1,765,101	1,822,467
Donations	1,796,521	3,037,863
Loss on disposal of available-for-sale securities	161,088	66,456
Loss on disposal of trading securities	984,055	1,218,033
Loss on valuation of trading securities	-	13,500
Loss on disposal of equity method investments	65,917	-
Others	2,490,713	1,032,998
	12,630,613	9,452,778
Income before income taxes	72,285,006	87,168,413
Income tax expense (Note 18)	20,834,054	26,518,568
Net income	₩ 51,450,952	₩ 60,649,845
Ordinary income per share (Note 21)		
Common stock	₩ 4,930	₩ 5,806
Preferred stock	₩ 5,010	₩ 5,906
Earnings per share		
Common stock	₩ 4,930	₩ 5,806
Preferred stock	₩ 5,010	₩ 5,906

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

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

Years Ended December 31, 2006 and 2005

(Date of Appropriations: March 16, 2007 and March 17, 2006
for the years ended December 31, 2006 and 2005, respectively)

(in thousands of Korean won)

	2006		
Retained earnings before appropriations			
Unappropriated retained earnings carried over from prior year	₩	6,517,084	₩ 3,242,933
Interim dividends (Note 22)		(7,289,089)	(6,768,440)
Net income		51,450,952	60,649,845
		<u>50,678,947</u>	<u>57,124,338</u>
Appropriations of retained earnings			
Reserve for financial structure improvement		10,000,000	10,000,000
Voluntary reserve		25,000,000	30,000,000
Cash dividends (Note 22)		11,585,551	10,607,254
		<u>46,585,551</u>	<u>50,607,254</u>
Unappropriated retained earnings carried forward to subsequent year	₩	4,093,396	₩ 6,517,084

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

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006 and 2005

	(in thousands of Korean won)	
	2006	2005
Cash flows from operating activities		
Net income	₩ 51,450,952	₩ 60,649,845
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	10,933,479	11,485,711
Amortization of intangible assets	27,613,770	20,172,056
Insurance premium	-	677,514
Interest income	(481,894)	-
Provision for severance benefits	16,974,057	16,035,259
Loss on valuation of equity method investments, net	936,427	(1,061,976)
Loss on impairment of other non-current assets	500,000	-
Gain on disposal of property and equipment, net	(662,380)	(86,549)
Provision for bad debt expense	461,462	-
Provision for other bad debt expenses	-	3,633
Gain on valuation of trading securities, net	-	(23,743)
Loss (gain) on disposal of trading securities, net	518,023	(1,378,033)
Loss on valuation of inventories	1,477,902	135,780
Loss (gain) on valuation of options	-	86,498
Loss on impairment of available-for-sale securities	-	104,720
Reversal of loss on impairment of available-for-sale securities	(104,720)	-
Loss on impairment of intangible assets	2,461,524	1,381,316
Gain on disposal of available-for-sale securities, net	(7,785,309)	(11,050,404)
Gain on disposal of equity method investments, net	(62,152)	(112,661)
Reversal of allowance for doubtful accounts	-	(559,385)
Others	(368,269)	138,805
	52,411,920	35,948,541
Changes in operating assets and liabilities		
(Increase) decrease in trade accounts receivable	(2,557,016)	2,795,169
Decrease in other accounts receivable	422,511	2,492,537
Decrease in advance payments	52,236	668,040
Increase in inventories	(6,675,136)	(1,606,483)
Decrease in deferred income tax assets	5,683,012	335,369
(Increase) decrease in other current assets	(46,618)	1,794,964
Increase (decrease) in trade accounts payable	6,488,242	(250,049)
Increase (decrease) in other accounts payable	840,490	(1,479,448)
Increase in accrued expenses	879,652	2,597,678
Increase (decrease) in withholdings	2,354,009	(1,601,523)
Increase (decrease) in advances received	3,186,611	(7,621,078)
Decrease in income tax payable	(3,248,665)	(20,314,298)
Payment of severance benefits	(14,123,801)	(17,304,236)
Decrease in severance insurance deposits	449,200	1,984,715
Decrease in contributions to the National Pension Fund	315,629	431,014
Decrease in long-term deposits received	(788,227)	(1,607,518)
Decrease in long-term accrued expenses	(22,111,815)	(4,584,957)
Increase (Decrease) in other current liabilities	(485,742)	247,796
	(29,365,428)	(43,022,308)
Net cash provided by operating activities	74,497,444	53,576,078

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006 and 2005

	(in thousands of Korean won)	
	2006	2005
Cash flows from investing activities		
Proceeds from disposal of available-for-sale securities	₩ 99,213,732	₩ 86,087,157
Proceeds from disposal of trading securities	4,031,532	4,705,005
Proceeds from disposal of short-term financial instruments	5,001,000	107,956,950
Proceeds from disposal of long-term financial instruments	-	-
Proceeds from disposal of property and equipment	2,048,130	115,696
Proceeds from other current assets	4,591,389	60,261,843
Proceeds from disposal of other investment assets	-	10,993,575
Proceeds from other current liabilities	-	47,187
Proceeds from other non-current assets	90,000	-
Proceeds from non-current guarantee deposits	10,089,957	18,590,979
Proceeds from equity method investments	123,384	-
Acquisition of equity method investments	(27,071,411)	(4,544,879)
Acquisition of other investment assets	(400,000)	(9,511,926)
Payments for non-current guarantee deposits	(21,049,635)	(16,445,922)
Acquisition of other current assets	(580,000)	(58,557,906)
Acquisition of long-term financial instruments	(1,218,626)	-
Acquisition of available-for-sale securities	(54,442,875)	(109,716,507)
Acquisition of trading securities	-	(7,852,785)
Acquisition of short-term financial instruments	(19,049,178)	(75,947,223)
Acquisition of property and equipment	(43,554,841)	(12,811,295)
Acquisition of intangible assets	(34,794,835)	(26,450,317)
Acquisition of a business	-	(3,150,000)
Net cash used in investing activities	(76,972,277)	(36,230,368)
Cash flows from financing activities		
Cash dividends	(17,896,342)	(15,813,746)
Acquisition of treasury stock	(2,472,637)	-
Net cash provided by (used in) financing activities	(20,368,979)	(15,813,746)
Net increase(decrease) in cash and cash equivalents	(22,843,812)	1,531,964
Cash and cash equivalents		
Beginning of the year	68,174,425	66,642,461
End of the year	₩ 45,330,613	₩ 68,174,425

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

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, 2006, the Company's shareholders of common stock are as follows:

	Number of Shares	Percentage of ownership (%)
Daekyo Holdings Co., Ltd.	4,617,120	54.51
Daekyo Culture Foundation	297,842	3.52
Kang, Young Jung	183,234	2.16
Others	3,372,089	39.81
	8,470,285	100.00

On February 3, 2004, the Company offered its shares for public ownership by listing its common shares on the Korean Stock Exchange, and issued 1,310,552 shares of common stock through public subscription and 689,448 shares of treasury stock through sale, with total proceeds of ₩84,000 million, at ₩42,000 per share.

2. Summary of Significant Accounting Policies

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

Basis of Financial Statement Presentation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (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 non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, and results of operations, or cash flows, is not presented in the accompanying non-consolidated financial statements.

Accounting Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ 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 ("SKFAS"), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. As SKFAS Nos. 18 through 20 became applicable to the Company on January 1, 2006, the Company adopted these standards in its financial statements covering periods beginning January 1, 2006.

Revenue Recognition

Sales of products are recognized upon delivery when the significant risks and rewards of ownership of the products are transferred to the buyer.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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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 are deducted from sales and cost of goods sold, respectively.

Inventories

The Company accounts for inventories under the provision of SKFAS No.10, Inventories.

Inventories are stated at the lower of cost or market, with cost being determined using the moving-average method, except for materials-in-transit, which are stated at actual cost using the specific identification method. If the net realizable value of inventory is less than its cost, the carrying amount is reduced to the net realizable value. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed up to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

Investments in Securities

The Company accounts for equity and debt securities under the provision of SKFAS No. 8, Investments in Securities. This statement requires investments in equity and debt securities to be divided into 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.

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.

Equity-Method Investments

Investments in equity securities of companies, over which the Company exercises a significant control or influence are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investees 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 application of the equity method of accounting for investments in equity method investees when the book value of the investments becomes zero or below as a result of reflecting the Company's share in the accumulated losses of the investee. The Company resumes the application of the equity method when there are changes in its proportionate ownership in the book value of the investees, as a result of the subsequent changes in its proportionate net income of the investees less its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

The Company assesses the potential impairment of equity-method investments when there is significant difference between book value and the estimated realizable value. The book value of the investments is reduced to its estimated realizable value by recording an impairment loss charged to current operations and presenting it as a reduction from the said book value. However, any recovery of the impaired investments is recorded in current operations and should not exceed the carrying amount of the investments before impairment.

Difference of initial purchase price over the Company's initial proportionate ownership in the net book value of the investee is amortized over the relevant period, not to exceed 20 years, using the straight-line method and the amortization is charged to current operations. An excess of the initial proportionate ownership over the purchase price is recognized as income on straight-line basis over the remaining weighted average useful life of the identifiable acquired depreciable asset or at the date of purchasing, depending on the nature of the excess, not related to the losses or expenses expected to occur in the future.

Unrealized profit arising from sales between the Company and the equity-method investees is eliminated based on the percentage of ownership.

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

Property and Equipment

Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. It also includes the present value of the estimated cost of dismantling and removing the asset, and restoring the site after the termination of the asset's useful life, provided it meets the criteria for recognition of provisions.

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method for buildings and structures and the declining-balance method for other property and equipment over the estimated useful lives of the related assets as described below:

	Estimated useful lives
Buildings	40 - 60 years
Structures	3 - 40 years
Machinery	4 years
Vehicles	2 - 5 years
Tools	2 - 6 years
Equipment	2 - 17 years

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

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

Intangible Assets

Intangible assets are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives as described below:

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

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Development costs, directly relating to a new technology or new products whose estimated future benefits are probable, are capitalized as intangible assets.

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

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rates in effect at the balance sheet date (US\$ 1 : ₩929.6, ¥ 100 : ₩781.83, Canada\$ 1 : ₩801.17, NZ\$ 1 : ₩655.74, HK\$ 1 : ₩119.59, AU\$ 1 : ₩734.48, GBP1 : ₩1,824.11, EUR1 : ₩1,222.24, SGD\$ 1 : 605.78, as of December 31, 2006), and the resulting translation gains and losses are recognized in current operations.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

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

Accrued severance benefits are funded through a group severance insurance plan and are presented as a deduction from accrued severance benefits.

Long-Term Accrued Expenses

The Company entered into contracts with freelance instructors to manage its educational service members. In accordance with the contracts, the Company pays instructors a certain amount based on cumulative cash collection amounts from its educational service members during the period of the contract. Long-term accrued expenses represent the amount which would be payable assuming all instructors were to terminate their contracts as of the balance sheet date.

Income Taxes Expenses and Deferred Income Tax Assets (liabilities)

The Company recognizes deferred income tax assets and liabilities, which represent temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred income tax assets and liabilities are computed on such temporary differences, including available net operating loss carryforwards and tax credits, by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred income tax assets are recognized when it is more likely such deferred tax assets will be realized. The total income tax provision includes the current tax expense under applicable tax regulations and the change in the balance of deferred income tax assets and liabilities during the year.

In accordance with SKFAS No. 16, Deferred Income Tax, which became effective on January 1, 2005, the Company classified deferred income tax assets and liabilities into current and non-current, and within each classification, amounts for deferred tax assets and liabilities, which are related to the same tax authorities, are offset against each other and presented as net amount.

Derivatives

Derivative financial instruments for trading or hedging purpose are valued at estimated market price with the resulting unrealized gains or losses recognized in the current operations, except for the effective portion of derivative transactions entered into for the purpose of cash-flow hedges, which is recorded as a capital adjustment.

Provisions for Estimated Liabilities

The Company accrues expense and records a liability for a current obligation, resulting from past events but involving uncertainty as to possible loss, in the financial statements when both information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Contingent Liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow or inflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability in case of an outflow, or the contingent asset in case of an inflow, is made in the notes to the financial statements.

Contingent Assets

Gain contingencies are claims or rights, resulting from past events or transactions, from which an asset may be received or a liability reduced, but whose occurrence is uncertain. The Company discloses gain contingencies in the notes only when the probability is such high that a gain contingency will transpire and records in the financial statements such assets only when such a contingency materializes.

Loss on Impairment of Assets

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

3. Monetary Assets Denominated in Foreign Currencies

Monetary assets denominated in foreign currencies as of December 31, 2006 and 2005, are as follows:

(in thousands)	2006				2005			
	Korean Won equivalent		Foreign currency		Korean Won equivalent		Foreign currency	
Cash and cash equivalents	₩	747,988	US\$	805	₩	315,694	US\$	312
		71,292	CN\$	89		76,801	CN\$	88
		112,828	HK\$	943		47,320	HK\$	362
		179,407	NZ\$	274		179,925	NZ\$	261
		154,995	JP¥	19,825		53,865	JP¥	6,264
		56,929	AU\$	78		38,481	AU\$	52
		26,835	GBP	15		20,848	GBP	12
		101,235	EUR	83		40,804	EUR	34
		77,279	SG\$	128		33,335	SG\$	55

4. Restricted Deposits

As of December 31, 2006 and 2005, 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, 2006, short-term financial instruments amounting to ₩3,520,000 thousand (2005: ₩8,521,000 thousand), were provided as collaterals in connection with guarantees on affiliated companies and others.

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5. Receivables

Receivables, including trade and other accounts receivable, as of December 31, 2006 and 2005, consist of the following:

(in thousands of Korean won)	2006			
	Gross amount	Allowance for doubtful accounts	Discounts on present value	Carrying value
Trade accounts receivable	₩ 27,243,247	₩ 3,929,874	₩ -	₩ 23,313,373
Other accounts receivable	2,831,338	1,328,967	-	1,502,371
	₩ 30,074,585	₩ 5,258,841	₩ -	₩ 24,815,744

(in thousands of Korean won)	2005			
	Gross amount	Allowance for doubtful accounts	Discounts on present value	Carrying value
Trade accounts receivable	₩ 24,686,200	₩ 3,468,381	₩ -	₩ 21,217,819
Other accounts receivable	3,257,433	1,332,551	-	1,924,882
	₩ 27,943,633	₩ 4,800,932	₩ -	₩ 23,142,701

6. Inventories

Inventories as of December 31, 2006 and 2005, consist of the following:

(in thousands of Korean won)	2006	2005
Merchandise	₩ 3,201,562	₩ 377,942
Finished products	14,882,198	13,667,943
Supplies	2,210,178	2,932,880
Raw materials	1,409,276	1,241,709
	₩ 21,703,214	₩ 18,220,474

7. Marketable Securities

Trading securities as of December 31, 2006 and 2005, consist of the following:

(in thousands of Korean won)	2006	2005
Equity securities	₩ -	₩ 4,549,555

Available-for-sale securities as of December 31, 2006 and 2005, consist of the following:

(in thousands of Korean won)	2006	2005
Debt securities	₩ 9,111,847	₩ 11,918,920
Equity securities	304,074,090	305,364,860
	₩ 313,185,937	₩ 317,283,780

Debt securities included in available-for-sale securities as of December 31, 2006 and 2005, consist of the following:

(in thousands of Korean won)	2006		2005	
Convertible bonds	₩	500,000	₩	1,071,304
Government and public bonds		8,611,847		10,847,616
	₩	9,111,847	₩	11,918,920

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, 2006, total interest income from available-for-sale securities amounted to ₩481,894 thousand.

The carrying value and the fair value of available-for sale securities according to annual maturity, in aggregate, as of December 31, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
One year or less	₩ 1,011,398	₩ 1,011,398	₩ 3,645,324	₩ 3,645,324
More than one year to five years	8,100,449	8,100,449	8,248,816	8,248,816
More than five years to ten years	-	-	24,780	24,780
	₩ 9,111,847	₩ 9,111,847	₩ 11,918,920	₩ 11,918,920

Equity securities included in available-for-sale securities as of December 31, 2006 and 2005, consist of the following:

(in thousands of Korean won)	2006				
	Number of shares owned	Percentage of Ownership (%)	Acquisition cost	Market or net asset value	Carrying value
Current assets					
Beneficiary certificates ¹			₩ 39,050,246	₩ 43,497,175	₩ 43,497,175
Non-current assets					
Marketable equity securities					
Shinhan Financial Group Co., Ltd.	5,344,397	1.460	54,689,402	253,858,857	253,858,857
LG Electronics Inc.	13,000	0.010	907,399	715,000	715,000
Daeshin Securities Co., Ltd.	61,200	0.230	999,959	966,960	966,960
Binggrae Co., Ltd.	8,700	0.080	291,191	370,620	370,620
Hyundai Mobis Co., Ltd.	5,000	0.005	362,566	429,500	429,500
Cheil Communications Inc.	200	0.004	21,305	46,200	46,200
CJ Home Shopping Corp.	9,004	0.078	655,373	693,308	693,308
Hana Tour Service Inc.	2,500	0.180	79,631	177,250	177,250
Donga Pharmaceutical Co., Ltd.	10,400	0.100	377,723	903,760	903,760
GS Home Shopping Inc.	5,900	0.080	487,750	489,700	489,700
Inzi Contorols Co., Ltd.	6,000	0.066	67,502	40,020	40,020
Duzon Digital Ware Co., Ltd.	27,000	0.240	393,948	580,500	580,500
Shinsegae Co., Ltd.	500	0.002	231,226	290,000	290,000
Jinro Distillers Co., Ltd.	7,000	0.100	126,468	134,400	134,400
Korea Zinc Co., Ltd.	4,400	0.020	451,996	434,280	434,280
Kangwon Land Co., Ltd.	4,000	0.000	80,357	80,800	80,800
Daewoong Pharmaceutical Co., Ltd.	3,700	0.030	214,576	217,560	217,560
LG Household & Health Co., Ltd.	1,200	0.000	115,568	148,200	148,200
			60,553,940	260,576,915	260,576,915
			₩ 99,604,186	₩ 304,074,090	₩ 304,074,090

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(in thousands of Korean won)	Number of shares owned	Percentage of Ownership (%)	2005		
			Acquisition cost	Market or net asset value	Carrying value
Current assets					
Beneficiary certificates ¹			₩ 63,050,245	₩ 67,838,994	₩ 67,838,994
Non-current assets					
Marketable equity securities					
Shinhan Financial Group Co., Ltd. ²	5,344,397	1.588	54,690,402	219,387,497	219,387,497
LG Telecom Ltd. ³	1,035,652	0.370	5,395,747	6,876,729	6,876,729
KT Corporation	132,000	0.046	5,685,879	5,392,200	5,392,200
LG Electronics Inc.	13,000	0.009	907,399	1,160,900	1,160,900
Binggrae Co., Ltd	10,000	0.100	333,694	398,500	398,500
Hyundai Mobis Co., Ltd	5,000	0.012	362,567	462,000	462,000
Cheil Communications Inc.	1,700	0.037	282,051	374,850	374,850
CJ Home Shopping Corp.	6,300	0.070	465,669	783,720	783,720
Hana Tour Service Inc.	15,000	0.140	323,942	720,000	720,000
Donga Pharmaceutical Co., Ltd.	10,000	0.100	362,132	870,000	870,000
GS Home Shopping Inc.	5,030	0.070	415,520	648,870	648,870
S1 Corporation	2,000	0.005	80,301	87,600	87,600
Insun Environmental New Technology Co.	11,000	0.090	233,168	148,500	148,500
Inzi Contorols Co., Ltd	6,000	0.039	67,503	63,000	63,000
Duzon Digital Ware Co., Ltd.	10,000	0.116	261,637	151,500	151,500
			<u>69,867,611</u>	<u>237,525,866</u>	<u>237,525,866</u>
			₩ 132,917,856	₩ 305,364,860	₩ 305,364,860

1. The beneficiary certificates are classified as current assets because the certificates mature within one year or is almost certain to be disposed of within one year.

2. Shinhan Life Insurance became a 100% subsidiary of Shinhan Financial Group on December 13, 2005, through a comprehensive stock swap, which was decided at Shinhan Life Insurance's special stockholders meeting held on October 14, 2005. The Company valued the Shinhan Financial Group shares acquired through this swap using the Shinhan Life Insurance's book value amount of ₩38,885,480 thousand.

The Company recognized an amount of ₩73,229,992 thousand as capital adjustment, representing the difference between the book value amount and the fair market value amount of ₩139,892,366 thousand as of December 31, 2005, net of tax effect amount of ₩27,776,894 thousand.

3. The 350,000 shares of this investment were lent under a certain contract with regard to derivative transactions as of December 31, 2005. The investment was disposed of in 2006

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, 2006 and 2005, is as follows:

(in thousands of Korean won)	2006			
	Beginning balance	Increase (decrease)	Disposal (realization)	Ending balance
Dongbu Securities Co., Ltd				
convertible bond	₩ 32,933	₩ (44,496)	₩ 11,563	₩ -
Government and public bonds	135,317	145,558	89,786	370,661
Shinhan Financial Group Co., Ltd.	119,405,394	24,991,736	-	144,397,130
LG Telecom Ltd.	1,073,712	640,465	(1,714,177)	-
KT Corporation	(212,917)	(4,785)	217,702	-
LG Electronics Inc.	183,788	(323,277)	-	(139,489)
Daeshin Securities Co., Ltd.	-	(23,925)	-	(23,925)
Binggrae Co., Ltd	46,984	2,642	7,960	57,586
Hyundai Mobis Co., Ltd	72,089	(23,562)	-	48,527
Cheil Communications Inc.	67,279	(508)	(48,722)	18,049
CJ Home Shopping Corp.	230,587	(203,084)	-	27,503
Hana Tour Service Inc.	287,142	218,060	(434,428)	70,774
Donga Pharmaceutical Co.,Ltd	368,204	13,173	-	381,377
GS Home Shopping Inc.	169,179	(167,765)	-	1,414
S1 Corporation	5,292	1,222	(6,514)	-
Insun Environmental New				
Technology Co.	(61,384)	(37,120)	98,504	-
Inzi Contorols Co., Ltd	(3,265)	(16,660)	-	(19,925)
Duzon Digital Ware Co., Ltd.	(79,849)	215,099	-	135,250
Shinsegae Co., Ltd.	-	42,612	-	42,612
Jinro Distillers Co., Ltd.	-	5,751	-	5,751
Korea Zinc	-	(12,844)	-	(12,844)
Kangwon Land Co., Ltd.	-	322	-	322
Daewoong Pharmaceutical Co., Ltd.	-	2,164	-	2,164
LG Household & Health Co., Ltd.	-	23,658	-	23,658
Beneficiary certificates	3,471,843	1,651,854	(1,899,674)	3,224,023
	₩ 125,192,328	₩ 27,096,290	₩ (3,678,000)	₩ 148,610,618

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(in thousands of Korean won)	2005			
	Beginning balance	Increase (decrease)	Disposal (realization)	Ending balance
KT Corporation exchangeable bonds	₩ (9,900)	₩ -	₩ 9,900	₩ -
Samsung Card Co., Ltd. convertible bond	51,755	-	(51,755)	-
LG Card Co., Ltd. convertible bond	149,576	-	(149,576)	-
Dongbu Securities Co., Ltd convertible bond	-	32,933	-	32,933
Government and public bonds	85,982	48,980	355	135,317
Shinhan Financial Group Co., Ltd.	37,129,504	83,117,283	(841,393)	119,405,394
LG Telecom Ltd.	(1,253,139)	1,912,590	414,261	1,073,712
KT Corporation	(207,879)	(71,038)	66,000	(212,917)
Samsung Electronics Co., Ltd.	336,354	-	(336,354)	-
LG Electronics Inc.	-	183,788	-	183,788
Woori Finance Holdings Co., Ltd.	185,159	-	(185,159)	-
Hyundai Motor Company	291,375	-	(291,375)	-
Binggrae Co., Ltd	-	46,984	-	46,984
Hyundai Mobis Co., Ltd	-	72,089	-	72,089
Cheil Communications Inc.	-	67,279	-	67,279
CJ Home Shopping Corp.	-	230,587	-	230,587
Hana Tour Service Inc.	-	287,142	-	287,142
Donga Pharmaceutical Co., Ltd	-	368,204	-	368,204
GS Home Shopping Inc.	-	169,179	-	169,179
S1 Corporation	-	71,358	(66,066)	5,292
Insun Environmental New Technology Co.	-	(61,384)	-	(61,384)
Inzi Contorols Co., Ltd	-	(3,265)	-	(3,265)
Duzon Digital Ware Co., Ltd.	-	(79,849)	-	(79,849)
Beneficiary certificates	1,974	3,720,304	(250,435)	3,471,843
	₩ 36,760,761	₩ 90,113,164	₩ (1,681,597)	₩ 125,192,328

8. Equity Method Investments

Equity method investments as of December 31, 2006 and 2005, consist of the following:

(in thousands of Korean won)	2006				
	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Market or net asset value	Carrying value
Daekyo Bertelsmann Korea Co., Ltd.	600,000	75.00	₩ 4,165,550	₩ 7,439,863	₩ 5,746,173
Daekyo America, Inc.	209	63.53	960,656	678,602	650,875
Daekyo Hongkong Co., Ltd.	2,272,727	47.89	250,000	247,919	242,362
Beijing Daekyo Co., Ltd. ¹	-	100.00	445,142	354,741	354,741
Yanbian Daekyo Co., Ltd. ¹	-	84.62	166,390	44,428	44,428
Daekyo Educonsulting Co., Ltd. ²	36,138	100.00	501,800	1,612,266	1,612,266
Interesting Creative Co., Ltd.	64,738	20.00	680,000	-	-
Daekyo EOL Co., Ltd.	12,210	56.53	842,490	70,610	70,610
Daekyo Malaysia Sdn. Bhd.	1,940,988	100.00	599,793	219,722	206,094
Sanghai Daekyo Co., Ltd. ¹	-	100.00	274,843	245,027	243,430
Daekyo U.S.A Inc.	333	66.60	558,557	493,283	491,657
Daekyo Bertelsmann Educational Service Limited.	483,000	50.00	591,939	263,280	263,280
Fermatedu Co., Inc.	480,000	51.00	26,564,000	9,999,113	26,056,291
Child-Care Consortium	1,600	18.32	1,728,068	929,954	929,954
			₩ 38,329,228	₩ 22,598,808	₩ 36,912,161

(in thousands of Korean won)	2005				
	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Market or net asset value	Carrying value
Daekyo Bertelsmann Korea Co., Ltd.	600,000	75.00	₩ 4,165,550	₩ 9,909,973	₩ 5,561,609
Daekyo America, Inc.	209	63.53	960,656	708,237	680,103
Daekyo Hongkong Co., Ltd.	2,272,727	47.89	250,000	301,837	301,837
Daekyo Japan Co., Ltd.	508	100.00	258,748	143,879	141,414
Beijing Daekyo Co., Ltd. ¹	-	100.00	445,142	325,080	325,080
Yanbian Daekyo Co., Ltd. ¹	-	84.62	166,390	44,428	44,428
Daekyo Corein Co., Ltd. ²	23,200	72.50	195,200	803,904	803,904
Daekyo Eduvision Co., Ltd. ²	37,980	67.01	306,600	662,191	662,191
MyfriendNet Co., Ltd.	33,334	30.30	333,340	48,775	48,775
Interesting Creative Co., Ltd.	64,738	20.00	680,000	-	-
Daekyo EOL Co., Ltd.	12,210	56.53	842,490	-	-
Daekyo Malaysia Sdn. Bhd.	1,940,988	100.00	599,793	234,836	234,836
Sanghai Daekyo Co., Ltd. ¹	-	100.00	274,843	245,642	243,828
Daekyo U.S.A Inc.	486	66.60	558,557	494,823	494,823
Child-Care Consortium	1,600	21.87	1,600,000	1,129,413	1,129,413
Daekyo Bertelsmann Educational Service Limited	70,500	50.00	84,529	84,529	84,529
			₩ 11,721,838	₩ 15,137,547	₩ 10,756,770

1. No shares are issued according to the local laws and regulations.

2. Daekyo Corein Co., Ltd. and Daekyo Eduvision Co., Ltd., entered into a business combination on July 3, 2006, after which the company's name changed to Daekyo Educonsulting Co., Ltd.

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The details of the equity method valuation as of December 31, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006					
	Acquisition cost	Retained earnings	Gain (loss) on valuation	Capital adjustment	Dividends	Carrying value
Daekyo Bertelsmann Korea Co., Ltd.	₩ 4,165,550	₩ 1,396,060	₩ 185,126	₩ (563)	₩ -	₩ 5,746,173
Daekyo America, Inc.	960,656	(481,001)	29,411	141,809	-	650,875
Daekyo Hongkong Co., Ltd.	250,000	(30,102)	(35,407)	57,871	-	242,362
Daekyo Japan Co., Ltd.	258,748	(229,865)	(28,883)	-	-	-
Beijing Daekyo Co., Ltd.	445,142	(67,847)	46,928	(69,482)	-	354,741
Yanbian Daekyo Co., Ltd.	166,390	(110,727)	-	(11,235)	-	44,428
Daekyo Educonsulting Co., Ltd ¹	501,800	681,488	(96,277)	525,255	-	1,612,266
Interesting Creative Co., Ltd.	680,000	(680,000)	-	-	-	-
Daekyo EOL Co., Ltd.	842,490	(842,490)	70,610	-	-	70,610
Daekyo Malaysia Sdn. Bhd.	599,793	(301,331)	(24,309)	(68,059)	-	206,094
Sanghai Daekyo Co., Ltd. ¹	274,843	7,619	12,323	(51,355)	-	243,430
Daekyo U.S.A Inc.	558,557	(56)	36,412	(103,256)	-	491,657
Daekyo Bertelsmann Educational Service Limited	591,939	-	(313,777)	(14,882)	-	263,280
Fermatedu Co., Inc.	26,564,000	-	(507,709)	-	-	26,056,291
Child-Care Consortium	1,728,068	(487,239)	(310,875)	-	-	929,954
	₩ 38,587,976	₩ (1,145,491)	₩ (936,427)	₩ 406,103	₩ -	₩ 36,912,161

(in thousands of Korean won)	2005					
	Acquisition cost	Retained earnings	Gain (loss) on valuation	Capital adjustment	Dividends	Carrying value
Daekyo Bertelsmann Korea Co., Ltd.	₩ 4,165,550	₩ -	₩ 1,396,059	₩ -	₩ -	₩ 5,561,609
Daekyo America, Inc.	960,656	(425,847)	(55,153)	200,447	-	680,103
Daekyo Hongkong Co., Ltd.	250,000	53,785	(83,886)	81,938	-	301,837
Daekyo Japan Co., Ltd.	258,748	(72,399)	(16,941)	(27,994)	-	141,414
Beijing Daekyo Co., Ltd.	445,142	(77,362)	9,516	(52,216)	-	325,080
Yanbian Daekyo Co., Ltd.	166,390	(107,167)	(3,561)	(11,234)	-	44,428
Daekyo Corein Co., Ltd.	195,200	402,609	53,535	152,560	-	803,904
Daekyo Eduvision Co., Ltd.	306,600	414,304	(188,960)	130,246	-	662,190
MyfriendNet Co., Ltd.	333,340	(246,414)	(38,151)	-	-	48,775
Interesting Creative Co., Ltd.	680,000	(680,000)	-	-	-	-
Daekyo EOL Co., Ltd.	842,490	(841,472)	(1,018)	-	-	-
Daekyo Malaysia Sdn. Bhd.	599,793	(129,860)	(171,471)	(63,626)	-	234,836
Sanghai Daekyo Co., Ltd.	274,843	(11,907)	19,526	(38,634)	-	243,828
Daekyo U.S.A Inc.	558,557	(178,760)	178,704	(63,678)	-	494,823
Child-Care Consortium	1,600,000	(451,016)	(36,223)	16,652	-	1,129,413
Daekyo Bertelsmann Educational Service Limited	84,529	-	-	-	-	84,529
	₩ 11,721,838	₩ (2,351,506)	₩ 1,061,976	₩ 324,461	₩ -	₩ 10,756,769

1. Revenues and expenses of Daekyo Corein Co., Ltd. and Daekyo Eduvision Co., Ltd. are integrated into the net income of Daekyo Educonsulting Co., Ltd.

Changes in the differences between the initial acquisition costs and the Company's initial proportionate ownership in the net book value of the investee for the years ended December 31, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006			
	Beginning alance	Increase (decrease)	Amortization (reversal)	Ending balance
Fermatedu Co., Inc. ¹	₩ -	₩ 17,516,922	₩ 1,459,744	₩ 16,057,178
MyfriendNet Co., Ltd. ¹	-	-	-	-
Daekyo Bertelsmann ²	(4,348,364)	-	(2,654,673)	(1,693,691)
	₩ (4,348,364)	₩ 17,516,922	₩ (1,194,929)	₩ 14,363,487

(in thousands of Korean won)	2005			
	Beginning alance	Increase (decrease)	Amortization (reversal)	Ending balance
MyfriendNet Co., Ltd. ¹	₩ 21,218	₩ -	₩ 21,218	₩ -
Daekyo Bertelsmann ²	-	(5,936,784)	(1,588,420)	(4,348,364)
	₩ 21,218	₩ (5,936,784)	₩ (1,567,202)	₩ (4,348,364)

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

2 The reversal of negative goodwill will be made after deducting future expected losses, if any, over the weighted average service period for the amount assets that are depreciable. In case of the assets that are not depreciable, reversal is made in the period when such assets are expensed.

The elimination of unrealized gains or losses relating to the valuation of equity method investments as of December 31, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006	2005
Daekyo America, Inc.	₩ 27,727	₩ 28,134
Daekyo Japan Co., Ltd.	-	2,465
Sanghai Daekyo Co., Ltd.	1,597	1,814
Daekyo Malaysia Sdn. Bhd.	13,628	-
Daekyo U.S.A Inc.	1,626	-
Daekyo Hongkong Co., Ltd.	5,557	-
	₩ 50,135	₩ 32,413

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Details of investees' financial statements used in the application of the equity method of accounting are as follows:

(in thousands of Korean won)	2006				
	Closing date	Financial statements used ¹	Net assets before adjustment	Adjustment	Net assets after adjustment
Daekyo Bertelsmann Korea Co., Ltd.	Dec. 31, 2006	Statutory audit	₩ 7,439,863	₩ -	₩ 7,439,863
Daekyo America, Inc.	Dec. 31, 2006	No statutory audit	678,602	-	678,602
Daekyo Hongkong Co., Ltd.	Dec. 31, 2006	No statutory audit	247,919	-	247,919
Beijing Daekyo Co., Ltd.	Dec. 31, 2006	No statutory audit	354,741	-	354,741
Yanbian Daekyo Co., Ltd.	Dec. 31, 2005	No statutory audit	44,428	-	44,428
Daekyo Educonsulting Co., Ltd.	Dec. 31, 2006	No statutory audit	1,612,266	-	1,612,266
Interesting Creative Co., Ltd.	Dec. 31, 2004	No statutory audit	-	-	-
Daekyo EOL Co., Ltd.	Dec. 31, 2006	No statutory audit	70,610	-	70,610
Daekyo Malaysia Sdn. Bhd.	Dec. 31, 2006	No statutory audit	219,722	-	219,722
Sanghai Daekyo Co., Ltd.	Dec. 31, 2006	No statutory audit	245,027	-	245,027
Daekyo U.S.A Inc.	Dec. 31, 2006	No statutory audit	493,283	-	493,283
Daekyo Bertelsmann Educational Service Limited	Dec. 31, 2006	No statutory audit	263,280	-	263,280
Fermatedu Co., Inc.	Dec. 31, 2006	Statutory audit	9,999,113	-	9,999,113
Child-Care Consortium	Dec. 31, 2006	No statutory audit	929,954	-	929,954
			₩ 22,598,808	₩ -	₩ 22,598,808

(in thousands of Korean won)	2005				
	Closing date	Financial statements used ¹	Net assets before adjustment	Adjustment	Net assets after adjustment
Daekyo Bertelsmann Korea Co., Ltd.	Dec. 31, 2005	Statutory audit	₩ 9,909,973	₩ -	₩ 9,909,973
Daekyo America, Inc.	Dec. 31, 2005	No statutory audit	708,237	-	708,237
Daekyo Hongkong Co., Ltd.	Dec. 31, 2005	No statutory audit	301,837	-	301,837
Daekyo Japan Co., Ltd.	Dec. 31, 2005	No statutory audit	143,879	-	143,879
Beijing Daekyo Co., Ltd.	Dec. 31, 2005	No statutory audit	325,080	-	325,080
Yanbian Daekyo Co., Ltd.	Dec. 31, 2005	No statutory audit	44,428	-	44,428
Daekyo Corein Co., Ltd.	Dec. 31, 2005	No statutory audit	803,904	-	803,904
Daekyo Eduvision Co., Ltd.	Dec. 31, 2005	No statutory audit	662,190	-	662,190
MyfriendNet Co., Ltd.	Dec. 31, 2005	No statutory audit	48,775	-	48,775
Interesting Creative Co., Ltd.	Dec. 31, 2004	No statutory audit	-	-	-
Daekyo EOL Co., Ltd.	Dec. 31, 2005	No statutory audit	-	-	-
Daekyo Malaysia Sdn. Bhd.	Dec. 31, 2005	No statutory audit	234,836	-	234,836
Sanghai Daekyo Co., Ltd.	Dec. 31, 2005	No statutory audit	245,642	-	245,642
Daekyo U.S.A Inc.	Dec. 31, 2005	No statutory audit	494,823	-	494,823
Child-Care Consortium	Dec. 31, 2004	No statutory audit	1,209,823	(80,410)	1,129,413
Daekyo Bertelsmann Educational Service Limited	Dec. 31, 2005	No statutory audit	84,529	-	84,529
			₩ 15,217,956	₩ (80,410)	₩ 15,137,546

1. Only the most recent non-audited financial statements of the equity-method investees were used in the application of the equity method of accounting, except for Daekyo Bertelsmann Korea Co. Ltd. and Fermatedu Co., Inc. whose audited financial statements were available.

As of December 31, 2006 and 2005, the Company suspended the application of the equity method of accounting on the investment in Interesting Creative Co. Ltd. as the Company's share in the accumulated losses of these companies exceeded the costs of the investments. The operation of Interesting Creative Co., Ltd. has been discontinued. The Company recognized unrealized equity method losses of ₩104,720 thousand as loss on impairment on debt securities issued by Daekyo EOL as of December 31, 2005. The loss on impairment was reversed as the Company resumed the application of the equity method of accounting.

The summarized financial information on the equity-method investees as of and for the year end December 31, 2006, follows:

(in thousands of Korean won)	2006				
	Assets	Liabilities	Net Assets	Sales	Net income (loss)
Daekyo Bertelsmann Korea Co., Ltd.	₩ 18,800,136	₩ 8,899,958	₩ 9,900,178	₩ 26,117,222	₩ (3,292,729)
Daekyo America, Inc.	1,101,786	33,625	1,068,161	818,690	46,376
Daekyo Hongkong Co., Ltd.	835,817	318,133	517,684	413,034	(45,685)
Beijing Daekyo Co., Ltd.	373,649	18,908	354,741	455,585	46,949
Daekyo Educonsulting Co., Ltd. ¹	1,774,096	220,001	1,554,095	4,964,494	(219,794)
Daekyo EOL Co., Ltd.	455,615	330,707	124,908	2,329,560	309,673
Daekyo Malaysia Sdn. Bhd.	263,413	43,691	219,722	248,515	(10,821)
Sanghai Daekyo Co., Ltd.	264,361	19,334	245,027	538,423	15,622
Daekyo U.S.A Inc.	861,832	121,166	740,666	805,883	89,326
Daekyo Bertelsmann Educational Service Limited	677,173	150,614	526,559	18,865	(509,937)
Fermatedu Co., Inc.	26,092,683	6,486,580	19,606,103	14,375,022	1,866,734
Child-Care Consortium	5,546,632	469,666	5,076,966	3,097,333	(763,391)
	₩ 57,047,193	₩ 17,112,383	₩ 39,934,810	₩ 54,182,626	₩ (2,467,677)

1. Revenues and expenses of Daekyo Corein Co., Ltd. and Daekyo Eduvision Co., Ltd. are integrated into the net income of Daekyo Educonsulting Co., Ltd.

The most recent summarized financial information on the equity-method investees, for which financial information as of December 31, 2006 was not available, follows:

(in thousands of Korean won)	Assets	Liabilities	Net Assets	Sales	Net loss
Interesting Creative Co., Ltd	₩ 405,409	₩ 1,196,727	₩ (791,318)	₩ 234,000	₩ (1,246,696)
Child-Care Consortium	56,431	3,928	52,503	32,762	(4,208)
	₩ 461,840	₩ 1,200,655	₩ (738,815)	₩ 266,762	₩ (1,250,904)

9. Property and Equipment

Changes in property and equipment for the years ended December 31, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006				
	Land	Buildings	Structures	Machinery	Vehicles
Balance as of January 1, 2006	₩ 39,643,396	₩ 93,481,917	₩ 2,618,386	₩ -	₩ 76,836
Acquisition during the year	18,344,209	5,568,820	-	-	334,754
Disposal	(462,100)	(835,058)	-	-	-
Depreciation	-	(2,760,903)	(74,204)	-	(119,224)
Transfer	-	-	-	-	-
Balance as of December 31, 2006	₩ 57,525,505	₩ 95,454,776	₩ 2,544,182	₩ -	₩ 292,366
Accumulated depreciation	₩ -	₩ 22,756,539	₩ 349,816	₩ 468,200	₩ 874,040
Accumulated impairment	₩ -	₩ -	₩ -	₩ -	₩ -

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(in thousands of Korean won)	Tools	Equipment	Other	Construction-in-progress	Total
Balance as of January 1, 2006	₩ 18	₩ 10,456,742	₩ 70,000	₩ 20,215,298	₩ 166,562,593
Acquisition during the year	-	8,474,781	143,081	10,689,196	43,554,841
Disposal	-	(89,520)	-	-	(1,386,678)
Depreciation	(9)	(7,979,138)	-	-	(10,933,478)
Transfer	-	697,253	-	-	697,253
Balance as of December 31, 2006	₩ 9	₩ 11,560,118	₩ 213,081	₩ 30,904,494	₩ 198,494,531
Accumulated depreciation	₩ 28,248	₩ 67,863,131	₩ -	₩ -	₩ 92,339,974
Accumulated impairment	₩ -	₩ 5,975	₩ -	₩ -	₩ 5,975

2005					
(in thousands of Korean won)	Land	Buildings	Structures	Machinery	Vehicles
Balance as of January 1, 2005	₩ 39,390,712	₩ 94,746,562	₩ 2,692,589	₩ -	₩ 140,785
Acquisition during the year	220,577	1,276,492	-	-	12,100
Acquisition of a business	-	-	-	-	-
Disposal	(2,402)	-	-	-	-
Depreciation	-	(2,750,157)	(74,203)	-	(76,049)
Impairment	-	-	-	-	-
Transfer	34,509	209,020	-	-	-
Balance as of December 31, 2005	₩ 39,643,396	₩ 93,481,917	₩ 2,618,386	₩ 468,200	₩ 76,836
Accumulated depreciation	₩ -	₩ 20,035,748	₩ 275,612	₩ -	₩ 802,073
Accumulated impairment	₩ -	₩ -	₩ -	₩ -	₩ -

(in thousands of Korean won)	Tools	Equipment	Other	Construction-in-progress	Total
Balance as of January 1, 2005	₩ 39	₩ 11,914,450	₩ 70,000	₩ 16,091,045	₩ 165,046,182
Acquisition during the year	-	7,031,755	-	4,270,371	12,811,295
Acquisition of a business	-	136,080	-	-	136,080
Disposal	-	(30,609)	-	-	(33,011)
Depreciation	(21)	(8,585,281)	-	-	(11,485,711)
Impairment	-	(5,975)	-	-	(5,975)
Transfer	-	(3,678)	-	(146,118)	93,733
Balance as of December 31, 2005	₩ 18	₩ 10,456,742	₩ 70,000	₩ 20,215,298	₩ 166,562,593
Accumulated depreciation	₩ 28,238	₩ 61,186,614	₩ -	₩ -	₩ 82,796,485
Accumulated impairment	₩ -	₩ 5,975	₩ -	₩ -	₩ 5,975

As of December 31, 2006, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, approximates ₩96,491,514 thousand (2005 : ₩69,701,686 thousand).

As of December 31, 2006, buildings and equipment are insured against fire and other casualty losses for up to ₩118,755,071 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, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006						
	Goodwill	Industrial property rights	Right to use Donated assets	Development costs	Intellectual property rights	Software	Franchise
Beginning balance	₩ 4,259,766	₩ 150,057	₩ 13,691,445	₩ 32,573,096	₩ 740,577	₩ 3,884,190	₩ 208,159
Increase	1,573,479	80,656	18,121,353	14,726,764	-	248,715	-
Acquisition of a business	-	-	-	-	-	-	-
Transfer	-	-	401,663	(2,277,642)	-	1,904,525	-
Amortization	(1,264,877)	(74,859)	(11,480,531)	(11,419,017)	(451,406)	(2,851,711)	(71,369)
Impairment ¹	-	-	-	(2,163,480)	-	(298,043)	-
Ending balance	₩ 4,568,368	₩ 155,854	₩ 20,733,930	₩ 31,439,721	₩ 289,171	₩ 2,887,676	₩ 136,790
Accumulated amortization	₩ 2,323,213	₩ 495,453	₩ 16,797,910	₩ 36,244,590	₩ 2,926,191	₩ 3,167,062	₩ 220,054
Accumulated impairment	₩ 51,663	₩ -	₩ -	₩ 3,475,000	₩ 142,523	₩ 298,043	₩ -

(in thousands of Korean won)	2006						
	Goodwill	Industrial property rights	Right to use Donated assets	Development costs	Intellectual property rights	Software	Franchise
Beginning balance	₩ 386,499	₩ 194,725	₩ 10,545,158	₩ 33,648,939	₩ 1,657,733	₩ -	₩ 279,527
Increase	1,045,311	23,442	10,734,873	11,694,736	-	2,601,955	-
Acquisition of a business	3,356,052	-	-	247,794	-	6,907	-
Transfer	-	-	(125,289)	(954,699)	-	1,716,999	-
Amortization	528,096	68,110	7,463,297	10,824,882	774,632	441,671	71,368
Impairment	-	-	-	1,238,792	142,524	-	-
Ending balance	₩ 4,259,766	₩ 150,057	₩ 13,691,445	₩ 32,573,096	₩ 740,577	₩ 3,884,190	₩ 208,159
Accumulated amortization	₩ 1,058,336	₩ 420,594	₩ 25,909,047	₩ 25,693,967	₩ 2,474,785	₩ 441,671	₩ 148,685
Accumulated impairment	₩ 51,663	₩ -	₩ -	₩ 1,311,520	₩ 142,524	₩ -	₩ -

¹ Includes impairment loss on development costs of ₩1,267,171 thousand and ₩896,309 thousand relating to the development of Soluny English Forum and Soluny Math Forum, respectively, and impairment loss on software of ₩123,507 thousand relating to the development of Soluny Math Forum and ₩174,536 thousand relating to educational institute franchise management system as these amounts may not be recoverable.

Amortization of intangible assets incurred for the years ended December 31, 2006 and 2005, follows:

(in thousands of Korean won)	2006	2005
Selling and administrative expenses	₩ 6,454,363	₩ 4,652,236
Cost of goods sold	21,159,407	25,519,820
	₩ 27,613,770	₩ 20,172,056

Research and development costs incurred for the years ended December 31, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006	2005
Expensed	₩ 1,009,878	₩ 1,515,336
Deferred	14,726,764	11,942,530
	₩ 15,736,642	₩ 13,457,866

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The significant expenses, which are expected to have probable future economic benefits but expensed in the year incurred, for the years ended December 31, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006	2005
Training expenses	₩ 9,521,046	₩ 9,220,585
Advertising expenses	39,104,811	41,769,241
	₩ 48,625,857	₩ 50,989,826

11. Accrued Severance Benefits

Changes in accrued severance benefits for the years ended December 31, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006	2005
Balance at the beginning of the year	₩ 70,438,843	₩ 71,707,821
Actual severance payments	14,123,800	17,304,237
Provision for severance benefits	16,974,057	16,035,259
	73,289,100	70,438,843
Less: Cumulative deposits to the National Pension Fund	(1,423,721)	(1,739,350)
Severance insurance deposits	(42,363,530)	(42,812,730)
Balance at the end of the year	₩ 29,501,849	₩ 25,886,763

The severance benefits are funded at approximately 57.80% as of December 31, 2006 (2005: 60.78%) through a severance insurance deposits, which are deducted from the accrued severance benefit liability. The Company paid ₩1,765 million (2005: ₩1,822 million) as severance benefits to voluntarily terminated employees, recorded as non-operating expenses.

12. Commitments and Contingencies

As of December 31, 2006, the Company has credit agreements with Woori Bank amounting to ₩25,000 million for the corporate purchase card and general operations.

As of December 31, 2006, the Company provides guarantees amounting to ₩3,520 million for certain lessees in relation to the lessees' guarantee deposits. Seoul Guarantee Insurance provides the Company with a guarantee for performance and others up to ₩538 million as of December 31, 2006.

The Company has a contract with Mr. Young-Jung Kang, a company shareholder and owner of the intellectual property rights 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 counterparty was changed to Daekyo Holdings (formerly Daekyo Network Co., Ltd.) and was subsequently changed to Daekyo Global Associate in April 2005, as Mr. Kang transferred his intellectual property rights to these companies. Based on these contract, the Company paid ₩2,143 million to Daekyo Global Associates, respectively, during the current year.

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 collections from its educational service members. Expenses in relation to these contracts amounted to ₩360,050 million (2005: ₩360,496 million) for the year ended December 31, 2006. The Company is required to adjust the instructors' monthly 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 collections from its educational service members upon the cancellation of the contracts between the Company and the instructors.

On March 30, 2005, the Company acquired 75% ownership in Bertelsmann Korea Co., Ltd., after which this investee changed its name to Daekyo Bertelsmann Korea Co., Ltd. As committed by the Company, if the said investee incurs cumulative losses totaling ₩4 billion, its shareholdings in the investee may be reduced to 50%. And if the said cumulative losses exceed ₩4 billion, the Company must exercise its preemptive rights to purchase the investee's new shares for up to ₩3 billion, an additional capital infusion. Should the investee be eventually liquidated, the Company will shoulder all liquidation costs.

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.

Kongmun Educational Publishing Corp. filed a suit in the Seoul Central Courts for ₩27,528 million accusing the Company of fictitious advertising activities. The management of the Company believes that the suit will not have a material impact on the financial position of the Company, and the results of the suit are uncertain.

The changes in reserve for returned goods for the year ended December 31, 2006, are as follows:

(in thousands of Korean won)	Beginning Balance		Increase		Decrease		Ending Balance
Reserve for returned goods	₩	1,007,524	₩	402,613	₩	888,356	₩ 521,781

13. Capital Stock

There was no issuances and other movements in common stock in the years ended December 31, 2006 and 2005. Balances are as follows:

(in thousands of Korean won)	Par Value		Additional Paid-in Capital	
December 31, 2005, balance	₩	42,351,425	₩	46,797,205
December 31, 2006, balance	₩	42,351,425	₩	46,797,205

The Company is authorized to issue 112,500,000 Common shares and 37,500,000 preferred shares at a par value per share of ₩5,000. As of December 31, 2006, there are 8,470,285 common shares and 1,942,699 shares issued and outstanding.

14. 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, with the ratification of the Company's majority shareholders.

15. Retained Earnings

Retained earnings as of December 31, 2006 and 2005, consist of:

(in thousands of Korean won)	2006		2005	
Legal reserve	₩	32,300,000	₩	32,300,000
Reserve for business rationalization		1,233,353		1,233,353
Reserve for financial structure improvement		20,000,000		10,000,000
Reserve for business development		110,000,000		110,000,000
Voluntary reserve		125,271,672		95,271,672
Retained earnings before appropriations		50,678,947		57,124,338
	₩	339,483,972	₩	305,929,363

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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, with the ratification of Company's majority 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, 2006, equity of the Company is more than 30% of total assets.

16. Capital Adjustments

Capital adjustments as of December 31, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006	2005
Gain on valuation of available-for-sale securities	₩ 148,816,807	₩ 126,637,003
Loss on valuation of available-for-sale securities	(206,189)	(1,444,676)
Gain on valuation of equity method investments	724,935	581,844
Loss on valuation of equity method investments	(318,832)	(257,381)
Treasury stock	(2,472,637)	-
	₩ 146,544,084	₩ 125,516,790

17. Treasury Stock

As of December 31, 2006, the Company holds treasury stock consisting of 7,047 shares of common stock and 48,030 shares of preferred stock, which were obtained through an agreement of treasury stock trust with Daewoo Securities Co., Ltd., in 2006.

18. Income Taxes

Income tax expense for the years ended December 31, 2006 and 2005, consists of:

(in thousands of Korean won)	2006	2005
Current income taxes	₩ 15,151,127	₩ 26,183,198
Deferred income taxes	62,052,472	47,822,114
Amount to be credited to capital adjustment	(56,369,545)	(47,486,744)
Income tax expense	₩ 20,834,054	₩ 26,518,568

The income tax effects of temporary and non-temporary differences for the years ended December 31, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006		2005	
	Temporary	Non-temporary	Temporary	Non-temporary
Long-term accrued expenses	₩ 5,835,035	₩ -	₩ 27,946,850	₩ -
Accrued income	1,992,020	-	3,595,389	-
Valuation of marketable securities	49,494	-	1,136,264	-
Accrued severance benefits	11,356,058	-	10,147,948	-
Severance insurance expenses	9,330,274	-	9,817,576	-
Allowance for doubtful accounts	4,950,098	-	4,509,735	-
Bad debt expense	-	-	7,254	-
Depreciation	206,135	-	23,830	-
Equity method investments	936,427	-	-	-
Accrued expenses (remuneration)	2,490,000	-	3,150,508	-
Reserve for returned goods	521,781	-	1,007,523	-
Accrued expenses (mileage)	236,591	-	-	-
Amortization of development costs	-	-	320,247	-
Impairment of intangible assets	2,089,324	-	1,315,340	-
Gain on evaluation of trading securities	37,243	-	-	-
Entertainment expenses	-	2,977,487	-	3,256,085
Others	1,314,481	1,949,741	237,591	621,276
Long-term accrued service fee payable	(27,946,850)	-	(32,531,807)	-
Accrued income payable	(2,307,706)	-	(1,992,020)	-
Interest income (MMF)	(51,328)	-	-	-
Accrued severance benefits	(9,330,274)	-	(9,817,576)	-
Severance insurance expenses	(11,169,848)	-	(10,147,948)	-
Bad debt expense	(4,509,735)	-	(4,999,557)	-
Depreciation	(10,988)	-	(10,798)	-
Loss on impairment of available-for-sale securities	(104,720)	-	-	-
Dividend income	-	(1,394,614)	-	(1,261,450)
Others	(5,819,046)	(1,314,481)	(4,637,458)	(10,179)
Total	₩ (19,905,534)	₩ 2,218,133	₩ (921,109)	₩ 2,605,732

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Changes in temporary differences and deferred tax assets and liabilities for the year ended December 31, 2006, are as follows:

		Accumulated temporary differences and loss carryforwards			
(in thousands of Korean won)		Beginning	Differences	Increase (Decrease)	Ending
Long-term accrued service fee payable	₩	27,946,850	₩ -	₩ (22,111,815)	₩ 5,835,035
Accrued income		(1,992,020)	-	(315,686)	(2,307,706)
Interest income (MMF)		-	-	(51,328)	(51,328)
Valuation of marketable securities		(5,120,160)	-	49,494	(5,070,666)
Accrued severance benefits		40,523,956	-	2,025,783	42,549,739
Severance insurance expenses		(40,523,956)	-	(1,839,574)	(42,363,530)
Allowance for doubtful accounts		4,509,735	-	440,362	4,950,097
Bad debt expense		290,408	-	-	290,408
Depreciation		118,001	-	195,147	313,148
Equity method investments		1,338,591	(72,735)	533,914	1,799,770
Accrued expenses (remuneration)		3,150,508	-	(660,508)	2,490,000
Reserve for returned goods		1,007,524	-	(485,743)	521,781
Accrued expenses (mileage)		13,076	-	223,515	236,591
Impairment of intangible assets		1,315,340	-	1,372,262	2,687,602
Inventories		23,603	-	(4,542)	19,061
Impairment of available-for-sale securities		103,906	814	(104,720)	-
Gain on evaluation of trading securities		(37,243)	-	37,243	-
Goodwill		30,573	-	(30,573)	-
Loss on evaluation of trading securities		-	13,500	(13,500)	-
Others		1,565,901	-	834,734	2,400,635
Accumulated temporary difference	₩	34,264,593	₩ (58,421)	₩ (19,905,535)	₩ 14,300,637
Deferred income taxes deducted from shareholders' equity	₩	(172,679,072)	₩ -	₩ (32,301,091)	₩ (204,980,163)
Valuation allowance ¹	₩	(3,344,320)	₩ -	₩ (701,545)	₩ (4,045,865)

Deferred tax assets (liabilities)						
	Beginning	Increase (Decrease)	Ending	Current	Non-current	
Long-term accrued service fee payable	₩ 7,685,384	₩ (6,080,749)	₩ 1,604,635	₩ -	₩ 1,604,635	
Accrued income	(547,806)	(86,813)	(634,619)	-	(634,619)	
Interest income (MMF)	-	(14,115)	(14,115)	(14,115)	-	
Valuation of marketable securities	(1,408,044)	13,611	(1,394,433)	-	(1,394,433)	
Accrued severance benefits	11,144,088	557,090	11,701,178	-	11,701,178	
Severance insurance expenses	(11,144,088)	(505,883)	(11,649,971)	-	(11,649,971)	
Allowance for doubtful accounts	1,240,177	121,100	1,361,277	1,361,277	-	
Bad debt expense	79,862	-	79,862	79,862	-	
Depreciation	32,450	53,666	86,116	-	86,116	
Equity method investments	368,113	126,824	494,937	-	494,937	
Accrued expenses(remuneration)	866,390	(181,640)	684,750	684,750	-	
Reserve for returned goods	277,069	(133,579)	143,490	143,490	-	
Accrued expenses (mileage)	3,596	61,466	65,062	65,062	-	
Impairment of intangible assets	361,719	377,372	739,091	-	739,091	
Inventories	6,491	(1,249)	5,242	5,242	-	
Impairment of available-for-sale securities	28,574	(28,574)	-	-	-	
Gain on evaluation of trading securities	(10,242)	10,242	-	-	-	
Goodwill	8,408	(8,408)	-	-	-	
Loss on evaluation of trading securities	-	-	-	-	-	
Others	430,622	229,552	660,174	-	660,174	
Accumulated temporary difference	₩ 9,422,763	₩ (5,490,087)	₩ 3,932,676	₩ 2,325,568	₩ 1,607,108	
Deferred income taxes deducted from shareholders' equity	₩ (47,486,745)	₩ (8,882,800)	₩ (56,369,545)	₩ -	₩ (56,369,545)	
Valuation allowance ¹	₩ (919,688)	₩ (192,925)	₩ (1,112,613)	₩ -	₩ (1,112,613)	
Deferred tax assets				₩ 2,339,683	₩ 15,286,131	
Deferred tax liabilities				(14,115)	(71,161,181)	
Total				₩ 2,325,568	₩ (55,875,050)	

1. As of December 31, 2006, as the possibility of sale of investments in the near future is remote, the Company did not recognize the income tax effect of temporary differences related to the loss on valuation of equity method investments.

The statutory income tax rate, including resident tax surcharges, applicable to the Company is 27.5% for years ended December 31, 2006 and 2005. After the tax adjustment and deferred income tax expenses, effective tax rate for the year ended December 31, 2006, is 28.8% (2005: 30.4%).

19. Sales and Cost of Sales

Details of sales and cost of sales for the years ended December 31, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006	2005
Sales		
Worksheet with tutoring (weekly & premium)	₩ 761,944,204	₩ 750,379,467
After school class	27,559,446	20,761,800
Door-to-door-sales	34,378,143	30,489,104
Educational institute	4,777,039	9,093,100
Others	6,346,365	4,758,351
	₩ 835,005,197	₩ 815,481,822

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(in thousands of Korean won)	2006		2005	
Cost of Sales				
Worksheet with tutoring (weekly & premium)	₩	603,301,221	₩	583,340,703
After school class		24,699,356		18,071,859
Door-to-door-sales		18,285,060		16,566,750
Educational institute		3,233,768		8,975,880
Others		9,282,403		4,832,420
	₩	658,801,808	₩	631,787,612

20. Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended December 31, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006		2005	
Selling and Administrative Expenses				
Salaries and wages	₩	17,553,060	₩	17,642,685
Severance benefits		1,702,218		3,136,506
Employee benefits		5,736,155		3,899,689
Travel expenses		330,851		443,451
Communication expenses		642,504		496,596
Utility expenses		733,746		670,538
Taxes and dues		1,515,512		1,081,105
Rental expenses		342,692		283,458
Depreciation expenses		5,105,404		6,598,604
Repairs expenses		210,940		374,178
Insurance premium		418,685		1,040,078
Entertainment expenses		691,973		518,567
Advertising expenses		39,103,467		41,633,519
Freight expenses		2,042,085		2,069,806
Commissions		27,233,351		26,744,154
Research and development expenses		391,007		725,830
Bad debt expenses		461,462		-
Supplies expenses		523,056		432,818
Publication expenses		1,072,794		769,442
Training expenses		1,682,928		1,069,024
Vehicles maintenance expenses		168,591		118,796
Broadcasting within the firm expenses		473,158		426,963
Amortization expenses on intangible assets		6,454,363		4,652,236
Miscellaneous		338		944
	₩	114,590,340	₩	114,828,987

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, 2006 and 2005, are calculated as follows:

	2006	2005
Net income allocated to common stock ¹	₩ 41,756,776,911	₩ 49,176,676,883
Weighted-average number of common stock outstanding ³	8,469,444	8,470,285
Earnings per share ⁵	₩ 4,930	₩ 5,806

	2006	2005
Net income allocated to preferred stock ²	₩ 9,694,174,635	₩ 11,473,167,954
Weighted-average number of preferred stock outstanding ⁴	1,935,142	1,942,699
Earnings per share ⁵	₩ 5,010	₩ 5,906

1. Net income allocated to common stock is calculated as follows:

	2006	2005
Net income as reported on the statements of income	₩ 51,450,951,546	₩ 60,649,844,837
Less: Net income allocated to preferred stock	(9,694,174,635)	(11,473,167,954)
Net income allocated to common stock	₩ 41,756,776,911	₩ 49,176,676,883

2. Net income allocated to preferred stock is calculated as follows:

	December 31, 2006	
	Calculation	Amount
Preferred stock (dividend ratio: 35%)	₩ 5,000 × 1,942,699 shares × 14% + ₩ 5,000 × 1,896,199 shares × 24%	₩ 3,635,328,100
Net income additionally allocated to preferred stock	₩ 32,576,312,146(a) × 1,935,142 shares ÷ (1,935,142 shares + 8,469,444 shares)	₩ 6,058,846,535
		₩ 9,694,174,635

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

	Calculation	Amount
Net income		₩ 51,450,951,546
Less: Common stock dividend	₩ 5,000 × 8,470,285 shares × 14% + ₩ 5,000 × 8,463,728 shares × 22%	(15,239,311,300)
Less: Preferred stock dividend	₩ 5,000 × 1,942,699 shares × 14% + ₩ 5,000 × 1,896,199 shares × 24%	(3,635,328,100)
		₩ 32,576,312,146

	December 31, 2005	
	Calculation	Amount
Preferred stock (dividend ratio: 35%)	₩ 5,000 × 1,942,699 shares × 35%	₩ 3,399,723,250
Net income additionally allocated to preferred stock	₩ 43,274,151,337(b) × 1,942,699 shares ÷ (1,942,699 shares + 8,470,285 shares)	₩ 8,073,444,704
		₩ 11,473,167,954

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

	Calculation	Amount
Net income		₩ 60,649,844,837
Less: Common stock dividend	₩ 5,000 × 8,470,285 shares × 33%	(13,975,970,250)
Less: Preferred stock dividend	₩ 5,000 × 1,942,699 shares × 35%	(3,399,723,250)
		₩ 43,274,151,337

3. The weighted-average number of common stock for the year ended December 31, 2006, is calculated as follows:

	December 31, 2006		
	Number of shares	Number of days outstanding	Weighted number
Beginning balance of common stock outstanding	8,470,285	365	3,091,654,025
Treasury stock	(7,047)	-	(306,999)
	<u>8,463,238</u>		<u>3,091,347,026</u>

Weighted-average number of common stock : $3,091,347,026 \div 365 = 8,469,444$

4. The weighted-average number of preferred stock for the year ended December 31, 2006, is calculated as follows

	December 31, 2006		
	Number of shares	Number of days outstanding	Weighted number
Beginning balance of preferred stock outstanding	1,942,699	365	709,085,135
Treasury stock	(48,030)	-	(2,758,350)
	<u>1,894,669</u>		<u>706,326,785</u>

Weighted-average number of preferred stock : $706,326,785 \div 365 = 1,935,142$

5. Because there were no extraordinary gains or losses, basic earnings per share is identical to basic ordinary income per share.

22. Dividends

Details of cash dividends and dividend payout ratio for the years ended December 31, 2006 and 2005, are as follows:

Details of cash dividends

1. Interim dividends

	2006		2005	
(in thousands of Korean won)	Common stock	Preferred stock	Common stock	Preferred stock
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Dividend ratio	14%	14%	13%	13%
Dividend per share	₩ 700	₩ 700	₩ 650	₩ 650
Number of shares outstanding	8,470,285	1,942,699	8,470,285	1,942,699
Amount of dividends	₩ 5,929,199,500	₩ 1,359,889,300	₩ 5,505,685,250	₩ 1,262,754,350

2. Year-end dividends

(in thousands of Korean won)	2006 ¹		2005	
	Common stock	Preferred stock	Common stock	Preferred stock
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Dividend ratio	22%	24%	20%	22%
Dividend per share	₩ 1,100	₩ 1,200	₩ 1,000	₩ 1,100
Number of shares outstanding	8,463,738	1,896,199	8,470,285	1,942,699
Amount of dividends	₩ 9,310,111,800	₩ 2,275,438,800	₩ 8,470,285,000	₩ 2,136,968,900

1. The Company's cash dividends are scheduled to be approved by the shareholders on March 16, 2007.

Dividend payout ratio

	2006	2005
Total dividends (1)	₩ 18,874,639,400	₩ 17,375,693,500
Net income (2)	51,450,951,546	60,649,844,837
Dividend payout ratio ((1)/(2))	36.68%	28.65%

Dividend yield ratio

The Company's dividend yield ratios for the year ended December 31, 2006 and 2005, are as follows:

	2006		2005	
	Common Shares	Preferred Shares	Common Shares	Preferred Shares
Dividend per share (1)	₩ 1,800	₩ 1,900	₩ 1,650	₩ 1,750
Market price as of balance sheet date (2)	₩ 93,000	₩ 42,800	₩ 78,800	₩ 45,000
Dividend yield ratio ((1)/(2))	1.94%	4.43%	2.09%	3.89%

23. Related Party Transactions

The ultimate parent company is Daekyo Holdings Co., Ltd, which is responsible for the consolidated financial statements. And the Company's subsidiaries are Daekyo Bertelsmann Korea Co., Ltd., Daekyo EOL Co., Ltd., Daekyo America, Inc., Daekyo U.S.A Inc., Daekyo Hongkong Co., Ltd., Beijing Daekyo Co., Ltd., Yanbian Daekyo Co., Ltd., Sanghai Daekyo Co., Ltd., Daekyo Malaysia Sdn. Bhd., Daekyo Bertelsmann Educational Service Limited, Daekyo Educonsulting Co., Ltd., and Fermatedu Co., Inc.

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

(in thousands of Korean won)		Sales	Purchases
Parent company	₩	1,395	₩ 972,400
Subsidiaries		1,682,301	8,582,939
Others		1,210,690	74,754,933
2006 Total	₩	2,894,386	₩ 84,310,272
2005 Total	₩	4,130,861	₩ 91,511,216

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

(in thousands of Korean won)		Receivables ¹	Payables ¹
Parent company	₩	127	₩ 155,250
Subsidiaries		760,128	1,684,797
Others		10,329,873	15,550,203
2006 Total	₩	11,090,128	₩ 17,390,250
2005 Total	₩	10,732,415	₩ 13,540,569

¹ Includes guarantee deposits and others.

As of December 31, 2006, the Company has outstanding loans receivables from employees of ₩1,022,739 thousand, related to the stock ownership plan. These loans receivable bear 2% annual interest and are classified as either long-term or short-term depending on the employee's repayment schedule.

For the year ended December 31, 2006, the Company recorded short-term benefits of ₩4,032,743 thousand, and long-term benefits of ₩608,289 thousand as key management compensation. Key management consists of executive officers who have the authority and responsibility in the planning, directing and control of the Company's operations.

24. Value Added Information

Value added information for the years ended December 31, 2006 and 2005, are as follows:

(in thousands of Korean won)	2006	2005
Salaries	₩ 125,472,336	₩ 117,549,840
Employee benefits	25,690,135	24,720,616
Provision for severance benefits	16,974,057	16,035,259
Rental charges	16,397,703	15,220,628
Depreciation	10,933,478	11,485,711
Taxes and dues	1,693,178	1,247,451
	₩ 197,160,887	₩ 186,259,505

25. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended December 31, 2006 and 2005, are as follows:

(in millions of Korean won)	2006	2005
Current maturities of other current assets	₩ 5,845,246	₩ 1,097,577
Current maturities of available-for-sale securities	-	4,075,801
Valuation gain on available-for-sale securities	23,418,291	88,431,567
Valuation gain on equity method investments	81,640	189,327
Reclassification of the advanced payment to other investment	-	500,000
Current maturities of other long-term accounts payable	3,000,000	-
Reclassification of the inventories to other investment asset	1,312,831	-
Reclassification of the inventories to right to use donated assets	401,663	-

26. Operating Results for the Final Interim Period

Significant operation results for the three-month periods ended December 31, 2006 and 2005, are as follows:

(in thousands of Korean won, except per share amounts)	2006	2005
Sales	₩ 210,705,251	₩ 207,502,755
Cost of sales	170,710,908	170,811,824
Operating income	8,784,248	5,344,748
Net income	5,842,861	4,481,104
Earnings per share	₩ 563	₩ 430

27. Acquisition of a Business

On August 19, 2005, the Company acquired a business from Caihong Edu Co., Ltd. in order to increase sales by launching the business in Chinese education. The details of assets, liabilities and goodwill acquired are as follows :

(in thousands of Korean won)		
Total acquisition cost	₩	3,500,000
Details of asset and liabilities acquired		
Current assets	₩	93,716
Property and equipment, net		136,080
Investments asset		120,400
Intangible asset		254,701
Total asset	₩	604,897
Total liabilities	₩	460,949
Goodwill	₩	3,356,052

28. Approval of Non-Consolidated Financial Statements

The December 31, 2006 non-consolidated financial statements of the Company were approved at the Board of Directors' meeting on March 5, 2007.

REPORT OF INDEPENDENT ACCOUNTANTS' REVIEW OF INTERNAL ACCOUNTING CONTROL SYSTEM

The English translation of the report of independent accountants review of internal accounting control system is intended for reference only. The reader is advised to refer to the original report in Korean.

To the President of Daekyo Co., Ltd.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Daekyo Co., Ltd. (the "Company") as of December 31, 2006. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2006, the Company's IACS has been designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2006, and we did not review management's assessment of its IACS subsequent to December 31, 2006. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
March 5, 2007

REPORT ON THE OPERATIONS OF THE INTERNAL ACCOUNTING CONTROL SYSTEM

To the Board of Directors and Audit Committee of
Daekyo Co., Ltd.

I, as the Internal Accounting Control Officer ("IACO") of Daekyo Co., Ltd ("the Company"), assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2006.

The Company's management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS standards.

February 12, 2007

Myung Woan Noh
Internal Accounting Control System Officer

Ja Song
Chief Executive Officer

Daekyo is taking the lead in making a more compassionate society



We are giving back to society as the “Messenger of Noonnoppi Love.”

Daekyo is growing into a world-class education services company under the slogan of “Noonnoppi Love, Noonnoppi Education.” In 1991, the Daekyo Culture Foundation was founded to operate scholarship programs, support public education and stimulate the creation of literary works.

The company has continued to be involved in diverse social service activities, returning part of business profits to society. In 2001, Daekyo joined the Federation of Korean Industries’ “1% Club,” a group of business corporations participating in the FKI’s movement to contribute 1 percent of corporate profits to the society.

We are also running the Noonnoppi Love Team, a volunteer service corps for employees and Noonnoppi tutors. There are 25 branches across the nation, each with a membership of around 10,000. Members donate a portion of their monthly salary to help the needy and marginalized people in society.

Meanwhile, Daekyo helps promote public health and the balanced development of sports by managing the Noonnoppi Women’s Badminton Team and Kangaroos Women’s Soccer Team, created in 2002 to promote soccer among Korean women.

For Daekyo, teaching begins with caring.

The Noonnoppi Love Team shared time and compassion with the less fortunate in 2006. The 450-member CAIHONG branch was newly established in May, bringing the number of branches to 25. The entire Team donated 380 million won, and 1,020 members contributed 420 hours of volunteer service in 2006.

The Team wages the Road Safety for Children Campaign every March, and has continued to provide free lessons to autistic children since its foundation in 2000. In July 2006, eighteen cities and counties were declared special disaster zones in the aftermath of Typhoon Ewinlar. The Team organized a fund-raising event for the flood victims to help relieve their suffering. Among the total funds collected, 50 million won was entrusted to KBS and the remainder was delivered to Daekyo people who had been affected by the storm. The Southern Gyeonggi branch visited Jinbu-myeon, Pyeongchang-gun, Gangwon Province to deliver clothing and footwear to the flood victims there.



We pledge to be a responsible member of society.

In October 2006, our volunteers helped harvest rice at Ja-gyeong Village, Yangyang-gun, Gangwon Province (a community that shares "sisterhood" ties with Daekyo). After the event, we purchased 1,000 sacks of the newly harvested rice and donated them to nursing homes, orphanages and the like, through our twenty-one education center across the nation. It was a meaningful event that allowed Daekyo people to realize the value of labor and experience the joy of sharing.

The Noonnoppi Love Team's regional branches contribute actively to local communities. The Eastern Gyeonggi branch provides student supplies and free education services to Yanggji Sunshine School (a private, non-profit institution located in Yangji-ri, Yangji-myeon, Gyeonggi Province) every month, and visit the House of Enoch, a residence for senior citizens who have no family support, to help bathe the inmates and launder bed linens.

The Noonnoppi Love Team is also reaching out to help people abroad. The branch at the Daekyo headquarters began contributing to school construction, offering scholarships, and donating school uniforms, raincoats, caps, and notebooks to children in Hoabang, Vietnam through World Vision, a major NGO. Those efforts are helping the Vietnamese children to receive education in a safer and better learning environment.

We will continue to safeguard our children and our future.

Daekyo and the Citizen's Coalition for Safety co-created Safe Kids Korea in 2001 to help prevent of traffic accidents involving children. The child safety campaign seeks to lower Korea's children mortality rate from traffic accidents, which is four to five times higher than other OECD nations. Hopefully, Korean children can grow up in a safer environment as time goes on.

Daekyo and Safe Kids Korea have staged the annual Road Safety for Children Campaign every March since 2002, with the Noonnoppi Love Team at the forefront.

In 2006, the campaign was conducted at crosswalks near 500 elementary schools in sixteen cities, and parents were encouraged to raise the "Mother Hand" when crossing the street with their kids in tow. The "Mother Hand" is a yellow plastic, hand-shaped sign reading "Stop."

Road safety educators and some 10,000 Noonnoppi Love Team volunteers distributed the "Mother Hand" signs and copies of the Road Safety for Children Handbook while demonstrating safe road-crossing habits to both the parents and children.

History

1975 1976 1986 1987 1989 1990 1991

1992 1993 1995 1997 1999 2000 2001 2002

January - The founder opened Jong-am Class

July - Korea Gongmoon Math Center opened

December - Daekyo Co., Ltd. founded

September - Daekyo membership exceeded the 100,000 mark

July - Daekyo held the first Math Olympiad for Children

February - Daekyo Publishing Co., Ltd. founded

February - Daekyo Educational Research Institute established
- Daekyo membership exceeded the 500,000 mark
August - L.A.-based Daekyo America founded

January - Daekyo Culture Foundation established

October - Noonnoppi Awards for Children's Books established

September - Daekyo Network Co, Ltd. launched

June - Daekyo membership surpassed the one million mark

December - Daekyo moved to Noonnoppi Boramae Center, the new headquarters building

October - Yong-in Distribution Center constructed

May - Daekyo Canada founded

March - Daekyo Hong Kong Inc. founded
- Noonnoppi Women's Badminton Team formed

June - Noonnoppi brand ranked 1st in the brand power survey by Korea Management Association
- Noonnoppi Math, selected as a Long-Lived Hit Product by KMA
- Noonnoppi membership surpasses the two million mark

December - Daekyo receives Grand Prize in Customer Satisfaction category from KMA

November - New Zealand franchise opened

October - Daekyo receives Grand Prize in the service sector from Korea Standards Association

July - Edupia.com, an Internet education portal, opened

June - Noonnoppi Love Team created

January - Singapore franchise opened

December - Daekyo joins "1%Club" of Federation of Korean Industries
- Safe Kids Korea founded as part of Corporate Social Responsibility Program

December - Philippine franchise opened

November - Kangaroos women's soccer team formed

October - Beijing Daekyo Skills Learning Co., Ltd. established

September - Sobics, a brand for infants/toddlers, developed

September - Yanbian Human Resources Training School established

August - Daekyo Japan Inc. established

July - Australia franchise opened

May - Calritz Language Schools opened

February - Edupia.com membership exceeds the one million mark

February - UK franchise opened



- January** - Noonnoppi and CAIHONG Chinese win Grand Prize at Parents' Education Brand Awards, organized by Women's News
- February** - Daekyo, selected as official Korean administrator of Young Chinese Test (YCT)
- Daejeon Noonnoppi Center opened

- January** - Noonnoppi, CAIHONG Chinese and Futurekids receives Grand Prize in the Parents' Choice of Educational Brand Awards sponsored by the Women's News
- March** - Daekyo ranked first in brand power (K-BPI) for eighth consecutive year
- May** - Daekyo won Grand Prize in Korea's Most Trusted Company Awards co-hosted by the Korea Economic Daily and Korean Consumers' Forum
- Noonnoppi chosen as one of the best brands by women in a survey conducted by the Women's News
- July** - Daekyo wins fourth Korean Educational Industry Award from the Ministry of Education and Human Resources Development (Noonnoppi, CAIHONG, and Sobics)
- Daekyo celebrates 30th anniversary
- Fermatedu Co., Ltd. acquired
- Daekyo wins Korea Great Workplace Award from the Korea Economic Daily and Eltech Trust Management Institute
- Gongbuwarac studio and website opened
- August** - Daekyo stroke a deal on the Public Education Program of the US's California Education District
- September** - Sobics Mungo, Korea's biggest bookstore, opened
- Daekyo tops Korean Customer Satisfaction Index (KCSI) of KMA
- Daekyo wins Grand Prize in Women-Chosen Good Company Awards sponsored by Women's News
- Noonnoppi and Soluny win Grand Prize in Brand of the Year Awards co-hosted by Korea Economic Daily and Korean Consumers' Forum
- October** - Noonnoppi wins Grand Prize in the 6th Best Women-friendly Company Awards of Womantimes
- Noonnoppi Education tops Education Services category in National Brand Competitiveness Index (NCBI), compiled by Korea Productivity Center
- November** - Daekyo wins Prime Minister Prize and Excellent CEO Prize at Korea Innovative Company Awards
- Soluny ad wins Excellence Prize in Broadcasting category at Korea Advertising Awards
- December** - Gongbuwarac, a on-line junior-high education site, launched
- May** - Chairman Young-joong Kang assumed Chairmanship of Badminton World Federation
- Edupia.com membership breaks the 2 million mark
- September** - CAIHONG Chinese launched

2003

2004

2005

2006

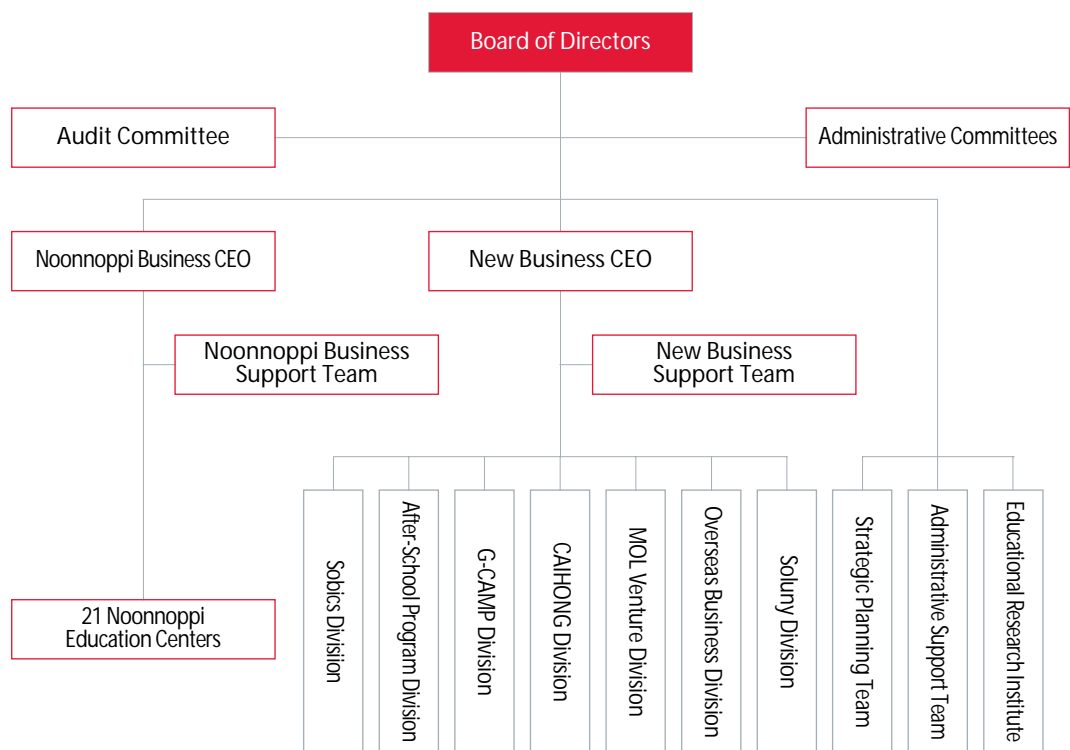
2007

- February** - Daekyo listed on the Korea Stock Exchange
- June** - Sobics Headquarters launched

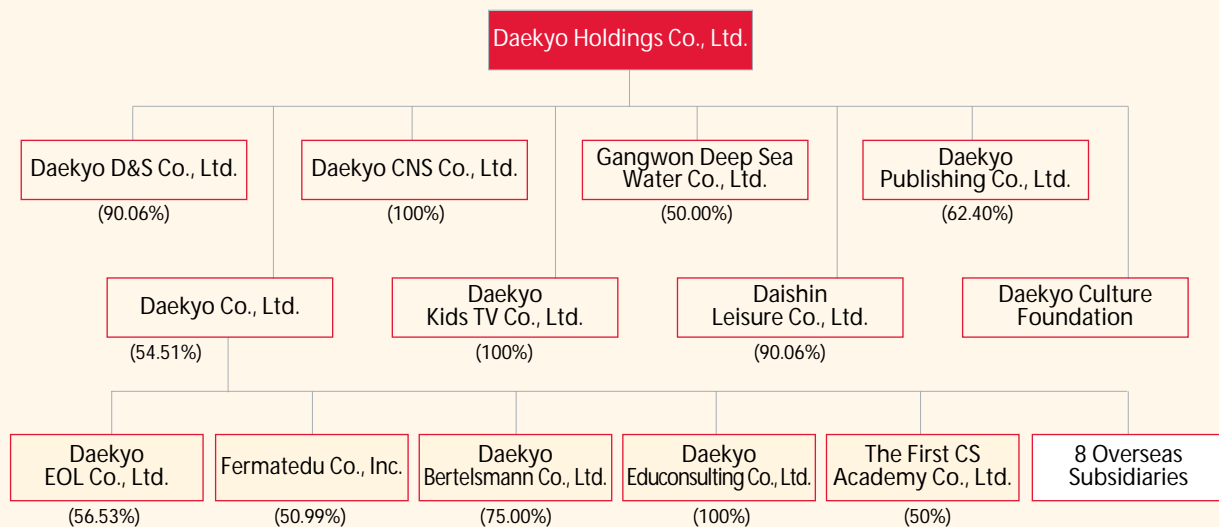
- April** - E. nopi, Daekyo's overseas brand, launched
- Hawaii franchise opened
- May** - Soluny (English language forum/reading forum) launched
- June** - Malaysia franchise opened
- August** - Shanghai & Daekyo Consulting Co., Ltd. established
- September** - Edupia.com membership exceeds the 1.5 million mark
- Tianjin office of Shanghai & Daekyo Consulting Co., Ltd. opened
- October** - Indonesia franchise opened
- December** - Daekyo USA founded

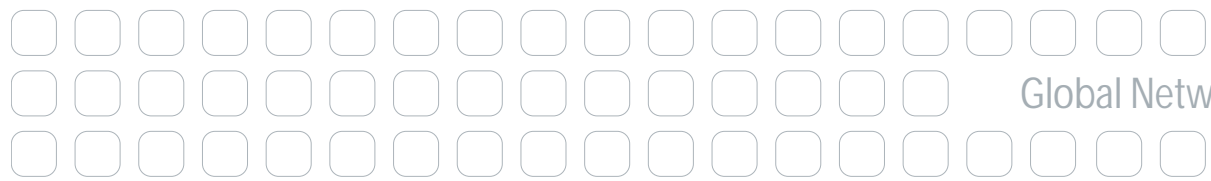


Organization

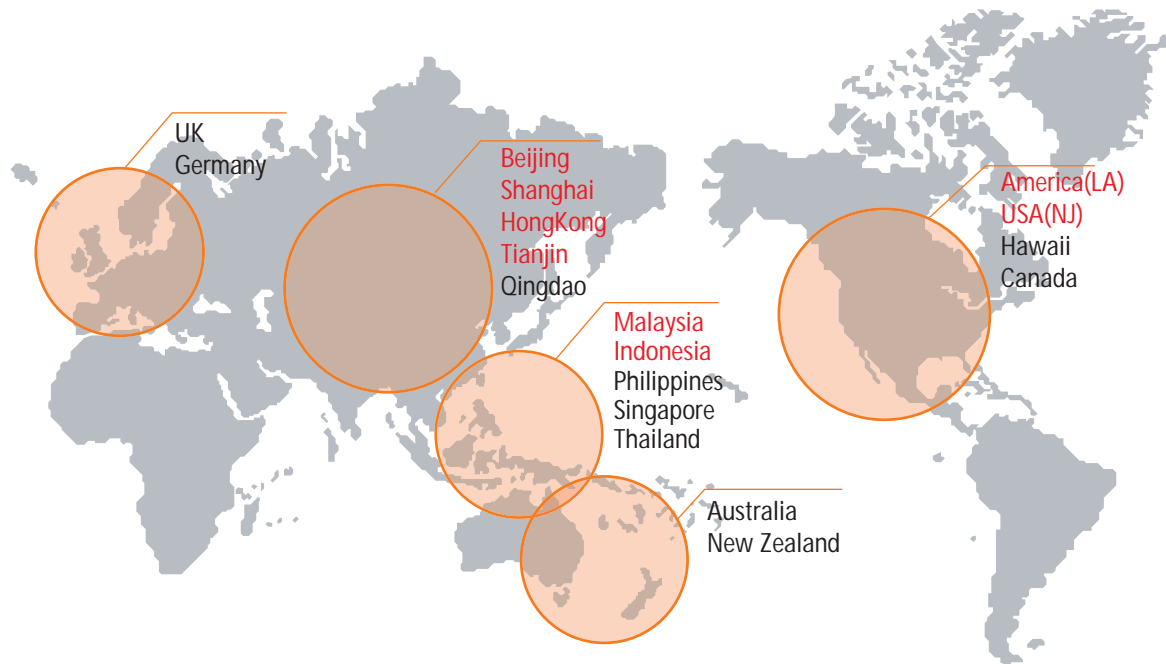


>> Daekyo Group Structure



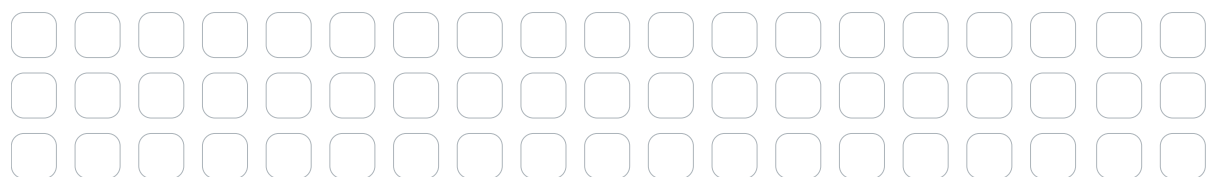


Global Network



- Overseas Subsidiaries
- Franchises

Descriptions	Company Name	Daekyo's Ownership(%)
Overseas Subsidiaries	Daekyo America Co.,Ltd.	63.5
	Daekyo USA, Inc.	66.6
	Daekyo HongKong Co.,Ltd.	47.9
	Beijing Daekyo Co.,Ltd.	100.0
	Shanghai Daekyo Co.,Ltd.	100.0
	Daekyo Malaysia Sdn.Ehd.	100.0
	P.T Daekyo Indonesia	99.0
	Daekyo Bertelsmann Educational Service Ltd.	50.5





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