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Business Philosophy

Founding Philosophy From the Eye Level of a Child

- Daekyo was founded on a simple but very powerful thinking:
Understand a child from his or her perspective.
The core of the philosophy is that each and every child
is different and as such their needs are different.
A successful tutor would always learn about his or her student
first before deciding what to teach.
Thus, Daekyo tutors treat each child differently
and there is no single formula to follow.
A child would learn faster if he or she gets a personal
attention of a tutor just for few minutes a day or a week.
By doing this, Daekyo offered to children what a teacher
in a crowded class could not offer.
Noonnoppi education puts this core aspect in all its business.
Look at the eye-level of a child to understand the child.

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Vision

Daekyo's vision is to emerge as a global leader in non-school education services space. Its long-term goal is to supply its excellent study materials and education programs to children of the world so that they can learn over and above what they have been taught at their formal school class rooms.

In Korea, Daekyo's vision is to reduce its dependence for business and revenue growth on its traditional Noonnoppi business of supplying study materials and home visits by tutors. It would carefully analyze developments in the Korean education market and fine niches for expansion and growth by deploying its accumulated technology, management and product development capabilities.

The overall goal is to post a robust growth in business and create value for both shareholders and customers by bringing about efficiency in management, improving flexibility in approaches to market development and building a pool of excellent talents who can add value to the resources that Daekyo had already created.

Fulfill Your Dreams

The World's Largest Open School

and Build Your Future with Daekyo



The 30-year Growth Process



FOUNDATION_1976-1986

Daekyo's business model was refined after 10 years of development, a process which began in July 1976 when the company was a registered research institute. During the long development stage, it was found that a child's acquisition and retention rate was much higher with focused personal attention, even if that attention was only for 30 minutes a week. It was on this basis of insight and that the

Noonnoppi philosophy and education system was formed. The underlying Noonnoppi principle and subsequent business model depended on analyzing and assessing every individual student by knowing his or her special needs. The core of the Noonnoppi philosophy therefore is: Knowing a child from his or her perspective.

BUSINESS GROWTH_1986-1991

When Daekyo officially became a joint stock company, the Noonnoppi education system proved to be popular very quickly. The Noonnoppi system also proved to be a successful business model that worked well and Daekyo saw enrollments in its program rise to 500,000 in February 1991. The company launched mathematics and English tutorials, which were based on the new skills mastered by tutors on how best to provide students with instruction.

BUSINESS CONSOLIDATION_1991-1996

Although business was robust (enrollments surpassed the 1 million mark in 1993), Daekyo continued to focus on consolidating its programs. It founded the Daekyo Cultural Foundation as part of social contribution program and also added the number of tutorials offered. The intervening five years between 1991 and 1996 were deemed 'Business Strengthening Years'.

In May 1991, Daekyo was the first in the industry to introduce a professional teacher's system in mathematics and language instruction. In July of the same year, the Noonnoppi name began to be used, a brand name that has for the past eight years held the top spot in the K-BPI rankings. In April 1995, the number of subscribers to Noonnoppi exceeded 1.5 million after breaking the 1 million mark only two years prior.

BUSINESS DIVERSIFICATION_1997-2001

By June 1999 Noonnoppi had 2 million enrollments. To take advantage of the emerging online market in education services, Daekyo launched its educational portal site called "edupia.com". It also adopted the latest technology to integrate its customer management system, "Midas service" in March 2001. Daekyo then restructured its growing organization by setting up a holding company that would professionally manage the

company's investments. With growth came new competition and Daekyo set up a new business division to strengthen the marketing end of its growing number of services and products. To tap the new market in infant and pre-school educational market, Daekyo launched its Sobics business division. It also set up G-Camp institutes to provide supplementary tutorials in mathematics and English to middle school students.

INTERNATIONALIZATION OF DAEKYO BUSINESS_2002-2005

Although Daekyo had entered into several overseas franchise agreements, it started to take concrete steps that would position it to expand into the mainstream global market. In September 2002, Daekyo set up a subsidiary in China, and in the following year it launched E.nopi as its global brand, as well as setting up a second subsidiary in New Jersey in the US. In 2004, it established a subsidiary in Malaysia. Daekyo also decided to enhance its management efficiency by installing an ERP system called "DREAMS" in March 2003. In February the following year, Daekyo formed a joint venture with Bertelsmann of Germany.

Founder's Message

It was like yesterday when I founded Daekyo 30 years ago. The business has grown from one tutor and couple of students to a major business with over 815 billion won in sales in 2005. Today, about 2.5 million children are enrolled in various educational programs offered by Daekyo. Over 18,800 tutors and over 3,400 back office employees are involved in the Daekyo's offering of quality education. I am proud that Daekyo succeeded in pioneering a new business space in a country where parents do everything to educate their children.

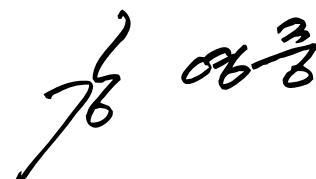
It was common thinking when I first founded Daekyo that it was inevitable that a certain percentage of children in a dense classroom were going to be left behind. Before Daekyo's Noonnoppi system of education became better known, it was a novel idea that a few minutes with a student on a one on one basis would make a world of difference than hundreds of hours of instruction in a classroom setting. I did not view the Noonnoppi system as an alternative to formal classroom teaching-and still don't, but the main focus was, and continues to be, to relate to a student from his or her level of abstraction and provide the necessary guidance. Qualified and experienced tutors visited the homes of students each week for concentrated 15 to 20 minute instructional sessions and ironed out the rough edges on a one-on-one basis. The response was enormously positive and it helped develop the Noonnoppi education system to what it is today.

It is with great pleasure to look back knowing that countless many students successfully went through school with guidance from Daekyo's Noonnoppi program and well-trained teachers. With Daekyo's primary focus in mathematics, a subject difficult for many students in a crowded classroom, I believe that Noonnoppi contributed extensively in helping students appreciate mathematics and perform well in the examinations. Daekyo has unique mathematics study materials for primary and middle school levels. This program provides students with necessary foundation to master higher level math in high school. I am proud that Daekyo is now sharing this effective program with others in Malaysia, China, Singapore and the United States. It is heartwarming to learn that many schools in the United States have adopted Daekyo's own math programs as supplemental teaching materials.

In marking Daekyo's 30 years of adding value to education, I would like to express my deepest appreciation to all Daekyo employees for making it happen-so successfully. Without the burning of the mid-night oil by researchers in our product development department, Daekyo's excellent teaching materials would not have been developed. It is even more gratifying to note that the thousands of tutors, who believed in the founding philosophy of Daekyo and worked hard making door-to-door visits to spend those few precious minutes with young children waiting patiently for the tutor to show up, remain as committed to and supportive of the Daekyo's philosophy as they were in the founding days of the company. And last, but no least, I would like to thank all Daekyo shareholders, both in Korea and abroad. I assure that Daekyo will continue to be committed to maximizing value for our shareholders.

Thank you.

Young-Joong Kang, Founder & Chairman



Continuing the Tradition of Professionalism and Quality Education



CEO's Message

Dear Shareholders and Valued Customers,

For Daekyo, 2006 is a special year as we celebrate the 30th founding anniversary. During that period, our company had grown as one of the largest educational services company in Korea. Thanks to our success, we have now many other companies that are emulating our business model. We thank all the students and parents who had bestowed trust in our system. These loyal customers are our best assets and I am confident that they would continue to be so in the years ahead of us.

As with every major successful venture, Daekyo also needs transformation in order to keep the momentum of growth on a steady course. We have seen changes in market places brought about by socio-economic factors, as well as technological advancement. Children no longer stay home after school, for example, as working parents prefer them to go to nearby institutes to learn anything from ballet dancing to essay writing. Even when they are at home, children spend more time with their computers having fun with games. On a larger scale, a decline in birth rates has resulted in a natural shrinking of market size. Challenges are ahead of us to respond to these market development while achieving continuous growth. We are continuously revising our business model and formulating strategies to spur growth.

Performance in 2005

The past year of 2005 was a year to be noted as our business performance was directly affected by developments in the market. Sales revenue fell 2.8% from a year earlier to 815.5 billion won. Operating profit fell 23.5% from a year earlier to 68.9 billion won. Overall profitability deteriorated slightly as net income at 60.7 billion won fell to 7.44% of total sales in 2005 compared to 7.76 percent from a year earlier.

However, we saw improvement in our financial structure. Total debts fell to 40% of total net worth, which rose by 31.6% from a year earlier to 555.2 billion won. The main contributing factor to the rise in net worth is the capital gains acquired following the merger of Shinhan Life into Shinhan Financial Holdings and consequential rise in market value of our holdings in Shinhan Life. Stability in financial structure was also achieved thanks to a rise of 22.3% of our total assets to 779.8 billion won. The gain in net worth, however, weakened our ROE to 12.4%, down from 18% a year earlier.

Although we suffered weak market conditions in the first three quarters of 2005, we were pleased to note a steady improvement in the enrollment in our Noonnoppi program in the fourth quarter of 2005. I am glad to report that our new business strategies have begun to show good results since late last year. As part of our business diversification within the education service market, we introduced several new study materials covering such subjects as Japanese and social studies. Although the overall sales volume was small, we are encouraged by the fact that our customers valued these new products. Noteworthy is also the fact that we expanded our business horizon by setting up a joint venture with Bertelsmann, the giant global media and publishing group. We also took over the popular Cai hong, which provides

Building Momentum for New Growth



CEO's Message

learning materials for those learning the Chinese language. To facilitate our US business expansion, we signed an agreement with ACT (American College Test) of the US for educational evaluation business.

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Going Forward

Significant developments in the Korean and global education market point that Daekyo must adapt to changing conditions if we are to continue to repeat the successful years of the past.

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Parents tend to use our services when they believe that their children need supplementary study materials to keep pace or stay ahead in regular school classes. In this regard, there are some concerns that Daekyo might have to change its business model in response to regulatory changes in non-school and after-hour school teachings. However, these concerns are premature since no concrete steps have been taken so far either by the government or by the National Assembly to reform primary and middle level school systems. Even if such a reform were to be introduced, programs like Daekyo's that focus on developing basic learning skills would not be affected as the purpose of the legislation would be to curtail and excessive financial burden of private tutoring to parents and the dominance of after school hour educational institutes called *hakwon*.

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Other issues that may affect Daekyo's mid and long-term business include Korea's falling birth rates. We are aware that a falling birth rate would result in a smaller market size. However, by introducing premium products with higher average price rate, we would be able post steady growth in sales. We recently introduced premium products like Soluny and Cai Hong that target infants and adults, respectively.

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Similarly, Daekyo may also face greater competition from a variety of programs offered by either, or both, private and public institutions. In the case of online education systems, it is a difficult market to be successful in the early grades of elementary school (Grades 1~3) with a system that is solely online. But having determined that viability exists online for students in Grades 7-10, Daekyo has kicked off an internal project with plans to launch an online education system for middle-school students by 2007.

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Although the developments in the market seemed a direct threat to our business, I see it differently. The changes in the market place brought about by the technology give as opportunity to us as they do to others. We are working on to take full advantage of the new technology by offering internet-based program through our educational portal. We are undertaking research and development on how we take maximum advantage from the technology and use it to complement our traditional business model.

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Specifically, we are taking four specific steps to strengthen our business and build momentum for future growth.

We are strengthening our traditional business of Noonnoppi by incorporating new technology to support it. We became the first educational company in the competition to deploy ERP. This would allow our tutors to manage their students' learning activities using updated information delivered to the personal digital assistant "Noonnoppi Mobile". Through our educational portal (edupia.com), we support learning activities of our customers (children). And, the "Renaissance 2006" is helping us to expand the market share of our core products. All in all, our emphasis is on creating value for customers by deploying the latest technology and training our tutors and staff to manage the learning of students qualitatively.

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While the Noonnoppi system helped our company to reach new heights, we admit that we must also create new business space and take advantage of the new opportunities offered by the market. For fourth, fifth, and sixth graders, as well as for students in middle school, we have founded a unique learning institution called G-Camp, which helps students supplement their regular school classes in English and math subjects. We have also entered into several other businesses that are presented in the subsequent pages and all of these businesses would substantially contribute to our business growth in the near future.

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We also believe that we should foster entrepreneurship. Each new business we enter into would require its managers to be armed with entrepreneurial spirit just as our founder did 30 years ago. The twin pillars of our founder's entrepreneurial spirit were passion and perseverance. And our managers managing new businesses will possess the same spirit and be successful and thus create higher value for our customers and shareholders.

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The future is a double-edge sword. It could be challenging as well as rewarding. We have plans to face the challenge squarely by streamlining our operations, raising efficiency and reinstalling the founding spirit of passion and perseverance. We are confident that the future will reward us as we intend to follow the market developments and respond to the changes as quickly and as effectively as possible. Business growth will continue and we would be working hard to create value for all those involved, including our shareholders.

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Thank you.

Ja - Song, CEO and Chairman

송라

30 Years of Leadership in Education Service

Daekyo will celebrate the 30th year of founding in July 2006. With its start in 1976 as the *Korea Kongmoon Math Research Institute* pioneering groundbreaking methods in math education to school children, Daekyo focused on motivating school children to appreciate the many wonders that math provides. It was in December 1986 that Daekyo became a joint stock company by commercializing its educational model developed during its research.

When Daekyo was launched, the business model was very simple and clear: Children need personal attention and a tutor must understand the needs of a child. Daekyo started an education service that focused on a novel idea of a tutor directly visiting a child’s home. The basic goal was—and still is—to make learning math fun for a child. The service became popular and by September 1987, Daekyo enrolled 100,000 children in its program. The enrollment sized doubled in the next 12 months to 200,000. In July 1989, it organized the country’s first Math Olympiad for Children.

Encouraged by the phenomenal response from children and parents, Daekyo decided to expand business in 1990. In the next five years, Daekyo’s business grew steadily. It founded a publishing company and published tutorial materials for several subjects, including English and Korean languages under the Noonnoppi brand. In 1993, its enrollment surpassed 1 million plateau. It also started to take interest in social contribution activities and founded Daekyo Cultural Foundation. It completed the construction of its headquarters in 1995.

From 1996, the company focused on efficiency in management and incorporation of the latest IT technology in its operations. While it continued to expand domestic business operations by introducing tutorial materials for new subjects like computer and the Korean language (for junior high school students) under the Noonnoppi brand, it had also begun to set up franchises in foreign countries, where a large number of immigrant Koreans lived. Among the key events were settings up of local subsidiaries in Hong Kong and Canada, opening of a dedicated logistic center and winning of several awards, including Korea Brand Power No. 1 for its Noonnoppi brand in 1999. By June of that year, Daekyo achieved enrollments of 2 million.

While the core business of home-visit tutoring program continued, Daekyo started to take note of the new exiting developments taking place in IT technology and the increasing use of internet by Korean students. In 2000, Daekyo set up a dedicated internet business division with a mandate to develop internet-based education program. In July 2000, Daekyo opened the first internet-based educational portal site called “edupia.com.” While establishing franchises in New Zealand and Singapore, Daekyo focused on strengthening its domestic business by introducing a customer management service to manage not only over two million students enrolled in its program but also to effectively deliver quality education programs through its visiting tutors or through its educational portal site. It had also focused on vertical expansion of its business by offering new services based on its accumulated knowhow. It launched several new tutorial materials targeted at students who are at various age levels, including the founding of a business division for infants and pre-school children and learning-center based program called G-Camp for teenage students.

Manpower

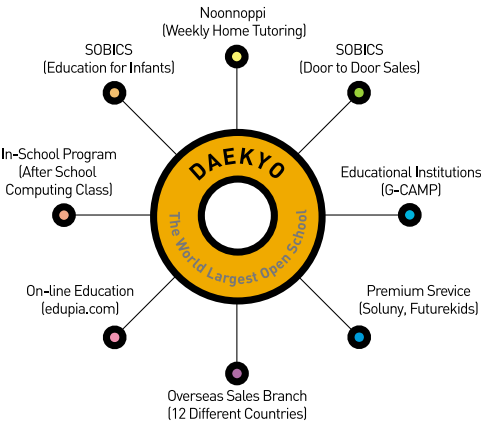
Full-time employees

- Total : 3,453
- Management : 376
- Marketing & Sales : 2,728
- Logistics : 197
- R&D : 110

Tutors & Sales Agents

- Total : 18,851
- Noonnoppi : 13,710
- SOBICS : Education - 635
- Marketing - 3,112
- G-Camp : 648
- Cai Hong : 392
- Future Kids : 41
- Others : 313

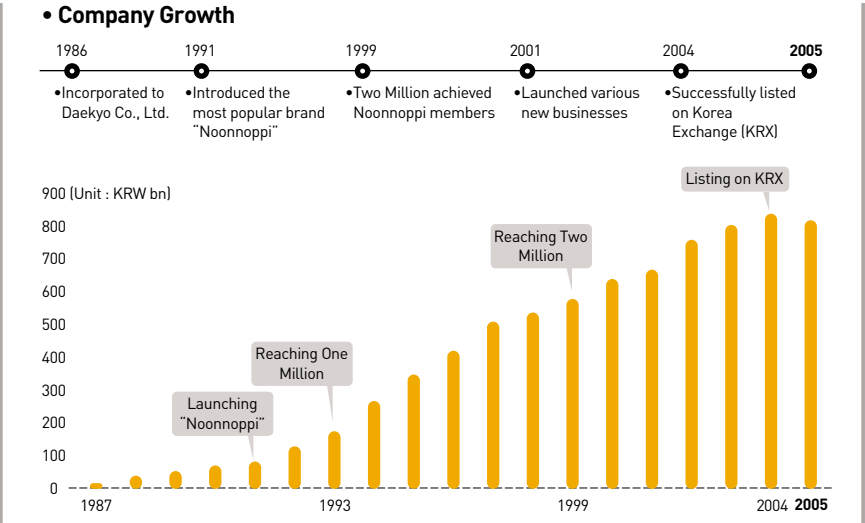
Business Portfolio



In 2002, Daekyo decided to expand overseas business by signing additional franchises and setting up local subsidiaries in China and Japan. It achieved 1 million registered users in its “edupia.com” portal site, introduced video-based English-teaching program, and signed a mutual cooperation agreement with a German music school to train Korean music tutors. In that year, Daekyo remained the brand leader in education service and its edupia.com portal site won awards. Daekyo continued its expansion overseas in 2003 and 2004 by setting up of subsidiaries each in Kuala Lumpur in Malaysia, Shanghai in China and New Jersey in the US. It launched Soluny business in 2004. Chairman and Founder Kang Young Joong was elected President of Korea Badminton Association and Chairman of the Confederation of Asian Badminton Associations.

In Daekyo’s history, 2004 would remain a milestone year. Daekyo was listed on the Korea Exchange in February 2004. The awards kept coming, including the one as Korea’s No. 1 Brand Power for Noonnoppi brand and also for customer trust. It strengthened its Sobics business by expanding it into a full business division. While it continued to introduce study materials on several new subjects, it focused on vertical expansion by leveraging on its assets of customer base and educational services know how. It launched mobile education service, using personal digital assistants and relaunched its edupia.com portal site. It won more recognitions and awards, including the Best Management Award given by the Korea Management Association Consulting.

The year 2005 was more of a continuation of the previous year in terms business expansion and winning of awards. The most notable new addition in Daekyo’s portfolio was the formation of a joint venture with Bertelsmann of Germany. Chairman and Founder Kang Young Joong was unanimously elected as President of the International Badminton Federation. The “edupia.com” portal site continued to be a strong player in the Korean online education market, with two million registered users. Based on its home-visit education program, the company introduced Chinese language study program with a professional Chinese language teacher visiting homes for one-on-one or small group teaching.



The Major Events in Daekyo’s History

- 1976 _ July**
Founded Korea Kongmoon Math Research Institute (KKMRI)
- 1986 _ December**
Founded Daekyo incorporating KKMRI
- 1987 _ September**
Achieved 100,000 enrollments in Noonnoppi program
- 1989 _ September**
Achieved 200,000 enrollments in Noonnoppi program
- 1993 _ June**
Achieved 1 million enrollments in Noonnoppi program
- 1999 _ March**
Awarded Korea Brand Power No.1 for Noonnoppi Brand
- _ June**
Achieved 2 million enrollments in Noonnoppi program
- 2000 _ July**
Launched edupia.com educational portal site
- 2001 _ August**
Launched a division for infants and pre-school education
- _ October**
Launched G-Camp institutes for teenage students
- 2002 _ February**
Edupia.com surpasses 1 million registered users.
- _ September**
Set up a subsidiary in China, Launched Sobics Brand
- 2003 _ April**
Launched E.nopi brand for overseas mainstream market
- _ May**
Launched Soluny business
- _ December**
Awarded Korea Grand Management Award
- 2004 _ February**
Daekyo was listed on the KRX in Korea
- 2005 _ April**
Daekyo-Bertelsmann was launched
- _ May**
Founder and Chairman Kang Young Joong elected President of International Badminton Federation
- _ September**
Launched Cai Hong home-visit Chinese Language Study program

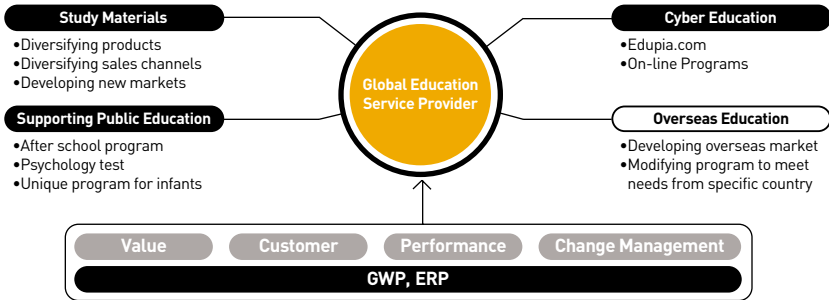
Building Global Leader in Education Service

Daekyo is a unique company in Korea. It is the largest education service company providing non-formal supplementary education to over 2.5 million children in Korea. Its entire revenues come from children aged from 0 to 19. With a decline in birth rate from 1.59% in 1990 to 1.16% in 2004, Korea is expected to have fewer school-age children going forward in the next few years.

On a positive note, however, the market size is increasing in value terms. In 1990, a Korean family spent about 60,000 won in private tutoring/education. In 2004, the amount rose nearly four fold to about 230,000 won. Spending on such private education is rising, from 8.4% of total consumer spending in 1990 to 11.7% in 2004. With the number of single-child family numbers increasing, spending on private education is expected to rise further. Furthermore, an improvement in disposable income resulting from a rise in per capita GDP is expected to encourage parents to search for educational programs that are excellent in quality and contents.

Thus, for Daekyo, the evolving market offers both a challenge and opportunity. The challenge is to revise its business model to meet the new market environment and spend more resources on research and development to produce excellent-quality contents and educational programs. The opportunity lies in the expected rise in spending on education. Korea spends 7.1% of its GDP on education (4.3% in public education and a substantial 2.8% on private education), which is substantially higher than an OECD average of 5.5%. In the private education sector, the size of supplementary educational materials (the primary business space for Daekyo) account for 19%, while private educational institute business accounts for 40% of an estimated 21.5 trillion won. Considering the accumulated experience, technology and management expertise, Daekyo should remain a leader in this business.

Mid ~ long term Vision



Strategies

Daekyo intends to pursue four key strategies to achieve its long-term goals, which include attaining 3 trillion won in sales by 2010. The goal also includes transformation of the company into a global company with operations in several countries, including China, Japan, Malaysia, Singapore and the United States.

Strategy 1: Strengthening Core Business

Daekyo will strengthen its core business-Noonnoppi-by introducing value-driven management. The Noonnoppi system has proven to be an excellent business model considering the unfettered growth achieved during the past 30 years. The recent stagnation in sales resulted from an overall market contraction rather than faults in the business model.

In 2005, the lower than the previous year's sales figures was a result of a slippage in Noonnoppi performance. The main reason for this appears to be the competitiveness of the Noonnoppi teachers who are both in the closest contact and best placed to interact with clients. This was a result that transpired despite the fact that supplementary education market is growing steadily. To improve customer service, Daekyo has been focusing on raising the standards bar of Noonnoppi teachers by increasing the participation rate in the company's teacher's training programs. The immediate result has been the top placement in the supplementary education market in a customer satisfaction survey (KSCI) taken in the second half of 2005.

To strengthen Daekyo's core business and maintain its lead over the competition, Daekyo will introduce necessary changes in management and organization of the company and further improve its research and development capabilities.

Strategy 2: Nurture Strategic Businesses

During the past several years, Daekyo had experimented with several new business models that are loosely linked with its core Noonnoppi business. These new business models, which have yet to show a significant position in the company's overall performance, have nonetheless shown great promise. With further investment, these businesses are expected to be Daekyo's new and significant sources of revenues in the near future. Furthermore, Daekyo has also introduced business incubation within the company, encouraging new business ideas to flourish within the company.

Strategy 3: Expand Core Capabilities

Daekyo's core capabilities are its ability to develop educational products for children/students of all age groups. As had seen with the start of the Sobics and E-nopi businesses, the company can leverage its in-house talents and capability to develop new businesses and generate growth. The company, with its substantial internal cash reserve, will pursue acquisition of other businesses that could be complementary to its existing core business or can be developed further by expanding its core capabilities.

Strategy 4: Development of Potential New Business

Although an organic growth through vertical expansion is ideal, the company is not ruling out horizontal expansion if steady growth, profitability and value creation can be ensured. It does not exclude acquisition of companies or businesses that would fit in its long-term growth model.

Continuous Improvement in Value Creation

Value creation for all stake holders is the principal motto of the company. Through excellence in management, product development and operations, the company intends to improve values for customers, which then help create value for other stakeholders. The core aspect of all value creation models is the nurturing of a pool of excellent talents. Talents can also be developed through training and education of employees and the company intends to invest significantly in such talent development. Since teachers are in the heart of the company's business, hiring or retraining its teachers will be continued so that the value of such teachers could be enhanced.

Long-term Goals

By 2010, Daekyo intends to triple its sales volume to about 3 trillion won. That is part of its vision statement. Implementations of the four strategies explained about would help generate business growth. By brining about efficiency in management and operations, Daekyo will post a respective operating profit to sales ratio of 15%. Revenues from new businesses will exceed the revenues generated by its core Noonnoppi business.





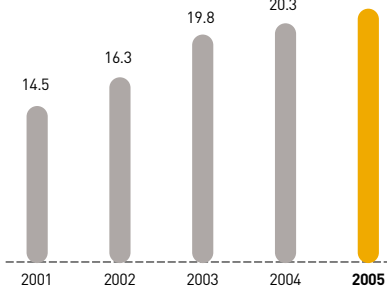
Leader in the Educational Service Market

Daekyo’s core business comprises of several educational related services. The company operates several programs in which about 2.5 million children and young adults are enrolled as students. These students were guided by over 18,000 teachers. The following are the main business lines within the education service business:

Private Education in Korea

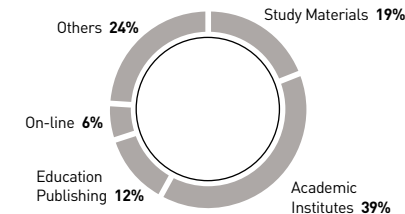
Korea spends 7.1% of GDP in education – 4.3% in public education and 2.8% in private education.

• Total Market Size
(Unit : In Trillion Won)



Source : Korea Education Development Institute, Daekyo

• Distribution of Market by Service Types in 2005 (Unit : %)



Source : Daekyo

Daekyo's Business at a Glance

Business Area	Target Group	Main Products	Position in Company
Sobics (Infant)	0-7 years old	Sobics Bebe Sobics Infant Korean Sobics Infant Math Sobics School Sobics Orff-Schule Sobics Green Beaker Noonnoppi Nori Math Noonnoppi Hangul Jump All	Relatively small but growing fast
Sobics (Marketing)	0-12 years old	Educational toys, biographical and other children's books	Relatively small but growing fast
Noonnoppi	7-adults	Hundreds of materials in English, Korean Math, Science, Japanese and Chinese character	Core business accounting for about 90% in sales
G-Camp	4 th to 6 th Graders, Middle School Students	Franchised Institutes	Relatively small but growing fast
Soluny	7-12 years old	English forum Essay forum Reading forum Math forum	Premium service
Cai hong	4-adult	Chinese	Premium service
Future Kids			New Business
After-school class	7-12 years old	Computing, English	New Business
E-nopi	0-15 years old in foreign countries	E-nopi MATH E-nopi KOREAN	New Business

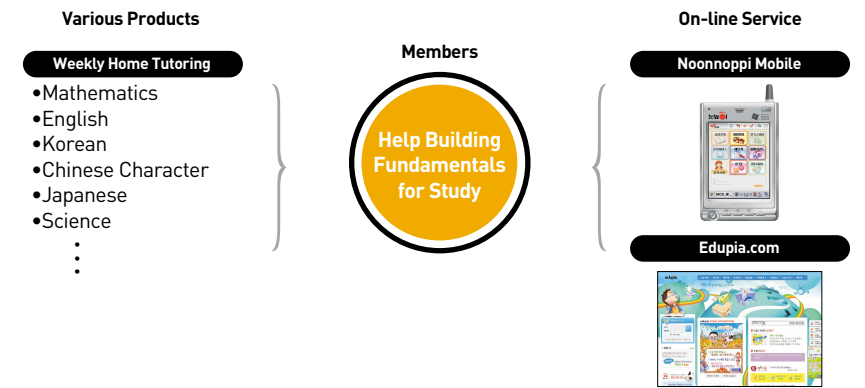
Noonnoppi

Leader in Supplementary Education for Students of All Ages

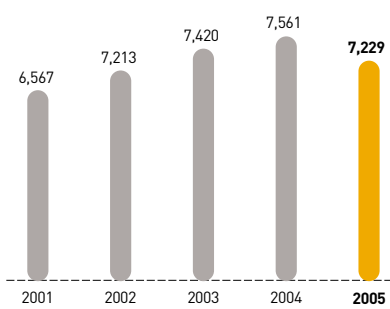
As Daekyo’s core business division, Noonnoppi accounts for nearly 90% of total sales. Noonnoppi was a business model developed in 1976 and it catapulted the



• Consolidation of On & Offline Education



• Sale Trend : Noonnoppi
(Unit : Billion of Korean Won)



company as the leader in the educational service market. At the time, the supplementary educational materials market was nearly non-existent and there was no organized program for private tutoring. In the past 30 years, Daekyo had seen many competitors come and go, but Daekyo's top position in education service market never wavered. In 2005, it maintained its position as the largest company in the market.

Although Daekyo's early business model called for providing supplementary education for young school children, the scope of business operations has now expanded to include anyone from age seven to adults. It has continuously maintained its reputation in development of contents. Its core products are in areas of math, Korean and English languages. In recent years, it had released new materials for learning Japanese and Social Studies.

A recent consumer brand survey in Korea "K-BPI" shows that the Noonnoppi has continuously been for eight consecutive years at the top brand recognition in the education services market. As of December 2005, enrollments rose to around 2.2 million, the highest for any company providing similar services in Korea. At the same time, Daekyo had 15,000 tutors actively involved in the program. Daekyo accounts for a whopping 39.0% of the domestic market, compared to 28.1% currently held by its nearest competitor. Even more encouraging is the fact that the number of subjects each student is enrolled at is increasing. Daekyo expects the average number of subjects to rise from 1.86 subjects to 2.5 subjects per student in the near future. With Korea's economic recovery and an increase in disposable income of parents, the company expects the average selling price of about 30,500 won per subject to be increased.

Daekyo had deployed a new ERP system to efficiently manage all students. Tutors are supplied with a personal digital assistant called "Noonnoppi mobile" to manage a student and his educational program. With the centralized management of the program, the company knows where the market is and what changes must be introduced to make the educational program more effective and deliver satisfaction to customers. It also supplies educational contents through its educational portal site called "edupia.com" and also through mobile devices.

In fiscal 2005, the Noonnoppi division posted 724.6 billion won in sales revenues, accounting for 89% of total sales. Due to the economic slowdown and lower birth rates, the growth in Noonnoppi division's sales has been stagnant.

Sobics

Providing Quality Education For Infants and Young Children

Sobics (Infants division) is a unique program for pre-school children, including infants. For Daekyo's Noonnoppi business, Sobics forms as a seed bed. Children who go through Sobics program are expected to join the Noonnoppi program later as the two programs are closely related. Noonnoppi can be considered as an extension of Sobics and the parents who are familiar with Sobics are expected to continue with Noonnoppi program as the child matures.

The Sobics program consists products relating to three subjects-Hangul (early Korean language), Norisuhak (early math concepts) and Super Talk Talk English (simple words and vocabularies). The business model consists of a membership program in which parents enroll their children as members. The Sobics program also includes educational toys and books, which are popular with the



children. The company also operates Sobics School, a program under which teachers trained in the Sobics system go to kindergarten and other pre-school learning centers and teach young children language and arithmetic. As many as 700 young teachers trained in the Sobics system are teaching young children either at home or at kindergarten schools.

The Sobics program also includes teaching music to kindergarten children. Daekyo hires young music students graduating from colleges and trains them the nuances of children's music in Germany. Dozens of music teachers have gone through the program and they are seconded to hundreds of kindergartens where they give instruction one or two hours per week.

Sobics (Marketing) division targets children of up to 12 years old. The division publishes a monthly all-subject worksheet called "Jump All." It also publishes various semi-educational materials like biographies of famous people and other subjects that are not included formal education. As of December 2005, it had published 30 children's titles, as well as several kinds of educational materials. It employs about 3,000 for door-to-door sales people.

The Sobics (infant) program was kicked off in 2001. In 2002, it posted total sales of 9.6 billion won. In 2005, Sobics sales rose to a respectable 26 billion won, accounting for 3% of total sales of Daekyo. The marketing division of Sobics posted 30.5 billion on in sales in 2005, accounting for 4% of total sales of the company.

Going forward, both divisions of the Sobics will continue to be an important part of Daekyo's business. Higher income of parents and their willingness to spend money on children will result in increased demand for professionally developed early childhood education programs, including educational toys and books. Thanks to the reputation of Sobics' teachers, increasing number of kindergarten schools are using the Sobics program as part of their curriculums.

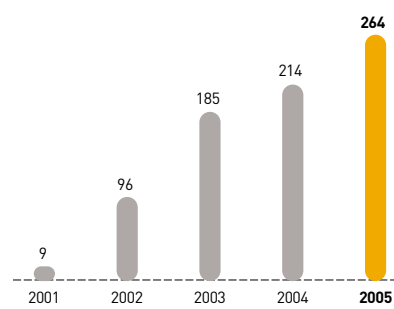
G-Camp

Tailored Educational Guidance

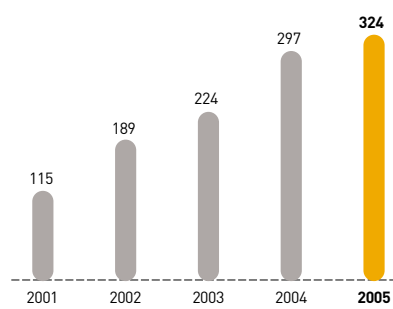
Daekyo launched G-Camp in July 2001 to take advantage of a growing after-school market primarily concentrated in institutes where students learn regular school as well as other subjects. The target customers are school students of 11 to 15 years who are at higher grades. Although the setting is a learning institute, Daekyo tried to bring its successful one-on-one teaching/guiding model to G-Camp.



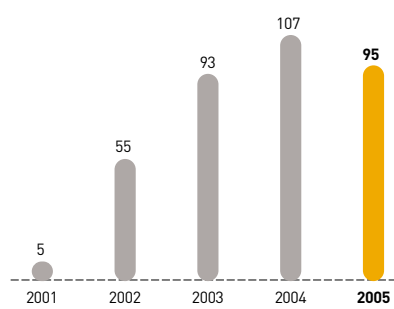
• Sale Trend : Sobics (Infant)
(Unit : Billion of Korean Won)



• Sale Trend : Sobics (Marketing)
(Unit : Billion of Korean Won)



• Sale Trend : G-Camp
(Unit : Billion of Korean Won)



A G-Camp Class is modeled after Daekyo's one-on-one individual clinic. Students, who enroll in this program, are first thoroughly assessed of their areas in need of concentration in English and math. After the assessment, a tailor-made program is developed to meet the requirement of each individual student. The program is geared to help students, who wish to catch up in school. Qualified and professional teachers are brought in to guide students.

The G-Camp program is still in a development stage. Currently, the company manages model institutes directly as benchmark for others who are willing to open franchise institutes. At the end of 2005, 162 institutes were in operation, including four managed directly by the company.

In 2005, G-Camp generated about 0.9 billion in sales, which included revenues from franchise fees. Going forward, the company expects to open dozens of new franchises throughout the country in the next few years.

After-school class

Providing Fund and Learning

With both parents working and families becoming increasingly nucleus, young students often return from school to empty home. In such an environment, students tend to spend time less productively. The government is encouraging primary schools to start after-school programs. Daekyo had signed contract with nearly 315 elementary schools to provide after-school learning programs. Daekyo had developed programs for effective teaching special skills to the students and 360 professional teachers had been hired to run the program. Daekyo is offering programs in computer education and English and it intends to expand the scope of the program by judging the needs of schools and students.

The program is new to generate significant revenues.

Premium services

Soluny : Building Logical and Creating Thinking

Soluny is a new line of business that kicked off in 2004 to take advantage of a new market created by a change in the Korean SAT, which is used for college admissions. The objective of the program is to prepare students at ages of 7 to 12 for critical thinking and essay writing. Soluny is an innovative learning system that is operated like a small workshop or forum in three core areas of study: reading, essay writing and English.

The core business model is unique. Children visit a "school" two times a week. They would choose a forum of their choice. Several groups are formed and each group there will be four to six children. A forum director will guide the discussions. Children learn how to read a book or text effectively and guided to accumulate knowledge through logical thinking. Students also learn essay writing and taking part in discussions, encouraged to ask questions. Each forum lasts for about 50 minutes.

In Soluny English forum, students are encouraged to speak English and all teachings and guidance are provided by a native English teacher. The Reading Forum is intended to encourage students to read English books and be ready to express in English. The programs are designed to help students to read, speak and write in English. Similarly, the Soluny Essay Forum is designed to help students to think logically and to write essays.

In 2005, the Soluny division posted sales of 8.4 billion won. The sales volume is relatively small but long-term business prospects seemed to be good since the Korean regular education system does not provide emphasis on areas focused by Soluny.

Cai Hong Chinese Program

Making Chinese the Second Foreign Language

With rapid expansion of business relations and cooperation between Korea and China, the demand for Chinese language education is increasingly rapidly. Schools are keen to teach Chinese as second foreign language. In 2005, 726 schools were teaching Chinese as the second language, up from 631 in 2004. And even the general public and businessmen have shown increasing interest in learning Chinese.

Daekyo acquired the Cai Hong program from Cai Hong Edu in August 2005 and is expanding marketing activities. The programs are designed for all-inclusive age group, from seven years old to adult. A Cai Hong teacher visits a customer at his or her place for a 40-minute lesson. Lesson fees range from 75,000 won per head on a one-on-one tutorials to 45,000 won per person for groups of three.

Although Cai Hong is a new business, it posted sales of 1.5 billion won in 2005.

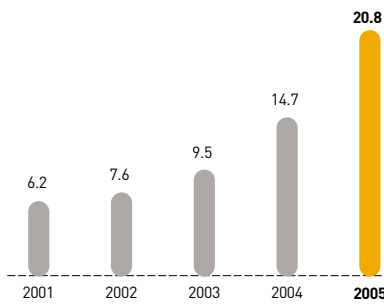
Future Kids

Teaching Problem Solving

Future Kids is a program used in over 65 countries. It is an integrated learning program that encourages students to be self-motivated in solving problems. Daekyo introduced the program in December 2004. This is a unique program integrating education and computer technology and it is intended to improve overall thinking ability of young children.

The program includes many theme projects in which students are given questions and are required to find answers. There are over 300 theme projects all of which are computerized. Students learn using computer and solving problems at the same time. The program encourages group-based activity and thus encourages children to develop communication and presentation skills.

• Sale Trend : After-school Programs
(Unit : Billion of Korean Won)





Globalization of Daekyo's Program with E.nopi Brand

For the past several years, Daekyo had been testing foreign markets using its Noonnoppi math program. Considering that the education system, parental emphasis on children's education and consumer spending on education vary drastically from the Korean market environment, the company wanted to understand the market fully before it committed itself to the local market.

In 2004, Daekyo has made a commitment to the US market after research findings from Daekyo's two subsidiaries in the US proved positive in both study materials and response. Since the US market in general, and parents' approach to their children's education was unique, Daekyo developed a new model that called for cooperation with after-school academic institutes or learning centers where children of all ages attend.

The US market has substantial upside potential, especially since there is a considerable interest in improving math education of primary and junior high school students. Daekyo commissioned New York State University to undertake a study of the suitability of the Daekyo's math study materials for US school students in 2004. Based on encouraging results from NYSU, Daekyo commissioned the Ohio State University to edit its entire math study materials so that they could meet US standards. Meanwhile Daekyo is expanding operations in Southeast Asia, China and Japan.

E.nopi Brand and Philosophy

Daekyo is expanding its global business under E.nopi brand. Like in Korea, where the foundation for Noonnoppi philosophy was laid, the E.nopi program is based on Daekyo's thirty years of experience in providing child-centered education. The core value of our E-nopi philosophy is that children do better and are inclined to learn new things if they are motivated to learn independently and proactively motivated. The E.nopi education system helps young children realize their full potential as the programs are tailored to meet the need of each child. The primary objective of the E-nopi system is to reinforce what students have learnt in a formal school environment. E.nopi-trained tutors help students solve problems when they face difficulties in doing their math. Guidance is provided by qualified teachers in a one-on-one basis.

The E.nopi education system creates an individually-tailored learning space defined by the needs of every student, which is a radical departure from the one-size-fits-all education system. Workbooks are subdivided into formulated steps that perfectly fit with a student's learning curve. As a result, students are motivated to learn independently and proactively.

Under the E.nopi education system, the main thrust of instruction is not centered on providing answers, but developing a child's proactive learning process. E.nopi-trained instructors are available to raise interest and solve problems when they face difficulties. The tutorials and workbooks are specially designed to motivate students to take a self-confident and independent approach to learning.

The E.nopi education philosophy is that an educational program is most effective when a tutor is able to customize the tutoring it to meet the individual needs and learning speed of each student.

Global Operations

United States

Daekyo has two subsidiaries—Daekyo USA and Daekyo America—that are based on New Jersey and Los Angeles, respectively. Daekyo America has been approved as a supplemental Educational Services (SES) provider by Californian Department of Education on Nov.15, 2005. Once a company becomes a SES provider, its name appears on the list of SES providers and it can provide English and Math programs to students in Title I schools under the No Child Left Behind (NCLB) law that provides basis for the funding for improvement of low-income students' academic achievement. Once the students are eligible for the program, they get instruction from a SES provider at the cost of the government of California. In other words, parents can get an opportunity for their children's education. Supplements as a SES provider should be research based and are required to have high quality programs. They also need to be designed to increase students' interests and participation. This is a significant step for Daekyo since its goal is to move to the mainstream market with its E.nopi MATH program. The approval from California State should help the company receive similar recognition from other states. (Details of its US operations are available at www.enopi.com)

Southeast Asia

Daekyo founded a subsidiary in Malaysia in July 2004. As of the end of 2005, Daekyo had opened 27 franchises throughout Malaysia. The program has been well received by Malaysian parents as they have seen substantial improvement in ability of their children. Similarly, Daekyo has two franchises in Singapore, one in Indonesia and one in Philippines. More learning centers will be opened in 2006.

China and Japan

A Hong Kong subsidiary was established in January 1997 to serve the significant expatriate Korean community. However, with the kick off of the new business model that targets the mainstream market beginning in 2005, 50% of all enrollments currently consist of permanent local residents. In mainland China, the establishment of new entities in Beijing and Shanghai coincided with a branch in Tianjin after a unit was created in Yeonbyun in 2002. In Japan, Daekyo is in the process of finalizing a strategic joint venture alliance with a recognized local education institution.

Long-term Goal

Although Daekyo's global E.nopi business is still at infancy and would require substantial efforts on the part of the company, basic foundations have been laid in principal English-language based markets. With increased publicity and marketing of the brand and products, sales are set to take off. Once E.nopi contents pass the respective state's (in the US) quality standard tests, such as it did in California, market expansion is very promising for Daekyo's products and services, and with its substantial upside potential. Daekyo is committed more than ever to expand its operations overseas.



Emphasis on Transparency and Ethical Management

Recognizing that corporate governance is a major determining factor in their company valuations 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 encouraged 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" in management and operations.

- [1] Code of conduct
- [2] Compliance checks
- [3] Consensus by ethics education

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 development of quality products, delivery of service to customers, and overall management and operations. The codes are 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 it business activities comply fully with the company’s own internal rules and public laws and regulations.

The code of conduct pledges to:

- Put the customer first and satisfy all customers.
- Win the confidence of shareholders through practice of sound management principles, putting 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 their 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 with the management voluntary towards achieving a single objective.
- Contribute to the community and national prosperity, cultivating talent and advancing the education industry through fair competition and the fulfillment of corporate citizenship.

Board of Directors

Young-Joong Kang, Chairman of BOD

- Chairman of Daekyo Group
- President of International Badminton Federation
- Director of the Federation of Korean Industries (FKI)
- President of Asia Badminton Confederation & Korea Badminton Association
- Graduated from Graduate School of Education, Yonsei University

Ja Song, Standing Director

- Chairman and CEO, Daekyo
- Served as President of Yonsei and Myongi Universities
- Served as the 41st Minister of Education of the Republic of Korea
- Earned a Doctorate in Business Administration from Washington University, St. Louis

Howe-Yong Song, Standing Director

- Representative Director and Head of Daekyo Noonnopi Business Division
- Graduated from Inha University

Young-Kwan Kim, Standing Director

- CEO of Daekyo Bertelsmann
- Head of Daekyo Sobics Business Division
- Graduated from Chungang University

Tae-Young Park, Standing Director

- Head of Global Business and New Business Division
- Served as the Managing Director for Strategic Planning Department
- Earned an Executive MBA from Helsinki School of Business and Economics

Se-Wha Chang, Non-Standing Director

- Served as the COO and the CFO of Daekyo
- Graduated from Yosei University majoring in Business Administration

Jong-Chun Yoon, Non-Standing Director

- Co-CEO of Daekyo Holdings
- Graduated from konkuk University

Yoon-Hee Chung, Non-Standing Director

- Co-CEO of Daekyo Holdings
- Graduated from Wharton School of University of Pennsylvania with an MBA

Jung-Woo Suh, Non-Standing Director

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

Jae-Ryun Shim, Non-Standing Director

- Attorney-at-law
- Served as a Senior Prosecutor of the Central Investigation Division at the Supreme Prosecutor General's Office
- Graduated from Seoul National University majoring in Law

Jung-Kyu Park, Non-Standing Director

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

Becoming Social Responsible Company

Daekyo values all its stakeholders, including the young students and their parents. As a result, Daekyo believes that it do more for the benefit of children. We have been undertaking social and related programs for the past several years. Our efforts are driven by our desire to contribute to the welfare of society and the company's stakeholders. We have thus adopted programs that associate our company to various social activities, and we also encourage our employees to spend time participating in volunteer programs.

The following are some of the programs in which Daekyo and its employees participate in.

Sports Activities

Badminton: In 1997, Daekyo founded a women's badminton team to promote it as a competitive sport. The Daekyo team had participated in several domestic and international tournaments. Members of the Daekyo team are also the core members of the Korean national badminton team. We have also supported several domestic and international badminton tournaments-Noonnoppi Korea Badminton International and Noonnoppi Korea Badminton Championship. Kang Young-Joong, Chairman of the Daekyo Group, had been elected unanimously as the president of the International Badminton Federation, thanks to his enormous personal contribution to promote the sport worldwide, as well as the active support that Daekyo had been providing to foster badminton as a competitive sport.

Women's Soccer: Daekyo also took interest in the development of women's soccer in Korea. Founded in 2001, Daekyo Kangaroos Women's Soccer Team participates in several domestic and international friendly matches. Although the women's team is at an early stage of development, we have not hesitated in promoting the sport, which is still to gain a wider public support.

Youth Soccer: Daekyo is also contributing to the development of youth soccer. We are supporting Elementary School Football League Competition organized by the Korea Football Association and the Elementary School Football League.

Public Service

Daekyo had subscribed to a charter adopted by the Federation of Korean Industries. In 2001, Daekyo joined the "FKI 1% Club," which calls for companies donate 1% of the net profit to society. The Club has about 120 companies as members, each of which agreed to voluntary contribute 1% or more of their corporate profits. The money thus collected is spent on social programs.

Daekyo also contributes to other programs of general public interest, including promotion of art and culture, creative and scholastic activities of women and children. Contributions to these activities in 2005 amounted to about 3 billion won.

Volunteerism

Daekyo encourages employees to actively take part in volunteer activities. Employees and teachers formed Noonnoppi Love Volunteers' Organization, which undertakes regular volunteer works and other social activities. The volunteer group established in 34 branches consists of 10,000 members. The members donate a small portion of their salary to the group. It raises 300 million won annually from contributions made by members.

Safe Kids Korea

Daekyo joined Citizen's Coalition for Safety to found a social organization called Safe Kids Korea. The organization undertakes campaigns to prevent accidents involving young children. It also bicycle driving tests and children safety information bank. We are also working on several safety measures to guard against fire and accidents at home.

Daekyo Cultural Foundation

In 1992, we founded Daekyo Cultural Foundation to provide families with positive cultural and educational environments. It undertakes several programs, including a national sculpture contest for college students, cultural scholarship programs, assistance in arts etc. It also awards Noonnoppi Tutors Awards, Noonnoppi Children's Literary Prize and organizes Children's Creative Poetry Competition etc.

- The Daekyo Cultural Foundation undertook the following:
- Selected 56 model teachers every year since its founding in 1992
 - Provided R&D support funds and training opportunities to 87 beneficiaries (including 22 organizations)
 - Cultural and arts education support for creative and specialized persons
 - Production support activity for art works that have passed preliminary judging
 - Search for talented Korean students and providing them with scholarships (269 beneficiaries so far)
 - Provided research expenses to select groups related to education and groups contributing to national development, as well as to those who use art and science for public interest (32 beneficiaries)
 - Search for competent, original children's literature from among literary works submitted by men or women who are 18-year or older (103 beneficiaries)
 - Prizes are also given to young children writing verses and poetry



Business and Financial Performance

Sales

Daekyo's overall business was stagnant in 2005. Sales amounted to 815.5 billion, a 2.8% decline from a year earlier. By sector, sales of worksheet with tutoring, which accounted for about 92% of total revenues, fell by 3.5% to 750.4 billion won. However, there was a positive development as sales of after-school classes rose 41% from a year earlier to 20.7 billion won. Sales of other business divisions, including G-Camp, fell from a year earlier. The G-Camp business division increased the number of franchises while it reduced the number of directly managed institutes to two.

Sales in 2005 by Major Product Group

<i>(in billion won)</i>	2005	2004	% Change
Worksheet with Tutoring (Weekly & Premium)	750	777	-3.6%
After School Class	21	15	40.0%
Door-to-door Sales	31	30	3.3%
Educational Institutes	9	11	-18.2%
Others	5	7	-28.6%

Profitability

On the operations side, gross profit fell 9.8% in 2005 from a year earlier to 183.7 billion won in 2005. This indicated that Daekyo's cost structure remained unchanged from a year earlier despite weakening of it's sales. Selling and general administrative expenses (SG&A) rose marginally to 114 billion won. Non-operating income fell to 27.7 billion won, down from 36.4 billion won in 2004, due to reduced gain from the disposal of available-for-sale securities. Significant was the fact that non-operating expenses fell sharply from 25.2 billion won in 2004 to 9.5 billion won in 2005. The dramatic reduction in non-operating expense resulted from non-payment of additional income tax, which amounted to 15 billion won in 2004. Net profit fell 6.8% from a year earlier to 60.6 billion won in 2005. Net profit to sales remained generally unchanged at 7.4% in 2005.

Summary of Income Statements

<i>(in billion won)</i>	2005	2004	% Change
Sales	816	839	-2.7%
Gross Profit	184	203	-9.8%
Operating Income	69	90	-23.3%
Income before Income Tax	87	101	-13.9%
Net Income	61	65	-6.2%
Ordinary Income Per Share			
Common Stock (Won)	5,806	6,369	-8.8%
Preferred Stock (Won)	5,906	6,333	-6.7%
Earnings Per Share			
Common Stock (Won)	5,806	6,369	-8.8%
Preferred Stock (Won)	5,906	6,333	-6.7%

Cost Statement

In 2005, Daekyo's total cost of sales amounted to 746.6 billion won. Commissions paid to contract teachers amounted to 381.6 billion won, or 47% of the total sales, and a rise of a marginal 1% from a year earlier. Salaries and wages, including mandatory social security taxes, paid to about 3,400 regular employees, amounted to 138.3 billion won, or 17% of total sales, a rise of only 1% compared to a year earlier. Expenses incurred on advertising in mass media fell by about 1% from a year earlier to 18.3 billion won. In 2005, total sales fell by 2.8% compared to a year earlier, while costs declined by only 0.4% resulting in operating profit of 68.9 billion won, or 8.4% of total sales.

Cost Analysis

<i>(in billion won, % of Sales)</i>	2005	2004	% Change
Sales	815.5	839.8	-3%
Total Costs	746.6	749.2	-0.4%
Sales Commission	381.6	388.2	-2%
Salaries (Incl. Social Security Tax)	138.3	137.2	1%
Advertising	18.3	23.7	-29%
Promotion Costs	23.3	18.7	20%
Depreciation	10.6	9.6	10%
Amortization	20.2	14.4	28%
Others	154.3	157.5	-2%

Financial Position

The quality of Daekyo's financial structure continued to remain sound with a sharp increase in net assets while liabilities rose only marginally in 2005 compared to a year earlier. Total liabilities accounted for about a 28% of total assets, which show that the company's net asset position is very strong. Operating cash flow is strong with a very low current ratio of 48%. Asset structure was strong, with a substantial portion of its assets being held either in cash or cash equivalents, available-for-sale securities and property and equipment. On the liabilities side, the bulk of the current liabilities came from advanced payment received from customers and accrued expenses, which indicate that the company's operational cash position was strong. Significant was also the fact that its current account payables accounted for a relatively small percentage of total liabilities. The company's internal cash reserve was excellent with a net worth of 555 billion won, of which reserved surpluses amounted to 378 billion won, of total net worth 67%.

Financial Structure

<i>(in billion won)</i>	2005	2004	% Change
Assets			
Current Assets	240	228	5%
Cash and Cash Equivalents	68	67	2.2%
Short-term Financial Instruments	43	90	-49.7%
Trading Securities	4	-	-
Available-for-sale Securities	71	13	467.4%
Land and Buildings	133	134	1.2%
Available-for-sale Securities (Investment)	246	118	108.5%
Intangible Assets	56	47	19.1%
TOTAL ASSETS	780	638	22.3%
Liabilities			
Current Liabilities	116	144	-19.2%
Trade Accounts Payable	7	7	-2.7%
Other Accounts Payable	18	19	-6.4%
Advances Received	39	47	-17.0%
Long-term Accrued Expenses	28	33	-15.2%
Accrued Severance Benefits	26	25	4.0%
Deferred Income Tax Liabilities	41	-	-
TOTAL LIABILITIES	225	216	4.2%
Shareholder's Equity			
Common Stocks	42	42	-
Capital Surplus	72	72	-
Retained Earnings	306	261	17.2%
Capital Adjustments	126	37	240.5%
TOTAL SHAREHOLDERS' EQUITY	555	422	31.5%



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

We have audited the accompanying non-consolidated balance sheets of Daekyo Co., Ltd. (the “Company”) as of December 31, 2005 and 2004, and the related non-consolidated 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, 2005 and 2004, 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.

As discussed in Note 1 to the accompanying financial statements, the Company offered its shares for public ownership on February 3, 2004, by listing its common stock at the Korean Stock Exchange.

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

Seoul, Korea
February 17, 2006

Samil PricewaterhouseCoopers

Notice of Readers : This report is effective as of February 17, 2006, 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 non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

(in thousands of Korean won)		2005	2004
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents (Note 3)	₩	68,174,425	₩ 66,642,461
Short-term financial instruments (Note 4)		42,521,000	90,534,600
Trading securities(Note 7)		4,549,555	-
Available-for-sale securities (Note 7)		71,484,319	12,642,484
Trade accounts receivable, net (Notes 5 and 23)		21,217,819	23,453,603
Other accounts receivable, net (Notes 5 and 23)		1,924,882	4,421,052
Inventories (Note 6)		18,220,474	16,657,783
Advance payments		885,668	2,913,419
Deferred income tax assets (Note 18)		2,223,711	-
Other current assets		8,831,738	11,233,061
Total Current Assets		240,033,591	228,498,463
Property and equipment, net (Note 9)		166,562,593	165,046,182
Long-term financial instruments (Note 4)		2,500	680,014
Available-for-sale securities (Note 7)		245,799,462	117,973,780
Equity method investments (Note 8)		10,756,770	4,847,926
Long-term receivable (Note 23)		10,900,553	13,479,779
Non-current guarantee deposits		45,450,594	47,475,251
Deferred income tax assets (Note 18)		-	8,838,444
Other investment assets		4,776,270	4,276,271
Intangible assets, net (Note 10)		55,507,290	46,712,581
TOTAL ASSETS	₩	779,789,623	₩ 637,828,691
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade accounts payable (Note 23)	₩	7,345,089	₩ 7,595,138
Other accounts payable (Note 23)		17,647,199	18,815,511
Accrued expenses		38,953,885	36,187,637
Withholdings		4,219,655	5,771,297
Advances received		39,325,296	46,846,443
Income tax payable		7,714,026	28,028,324
Other current liabilities		1,141,210	759,728
Total Current Liabilities		116,346,360	144,004,078
Long-term accrued expenses		27,946,850	32,531,807
Long-term deposits received (Note 23)		13,167,955	14,775,473
Accrued severance benefits, net (Note 11)		25,886,763	24,740,012
Deferred income tax liabilities (Note 18)		41,207,381	-
Total Liabilities		224,555,309	216,051,370
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)		305,929,363	261,093,264
Capital adjustments (Note 16)		125,516,790	36,895,896
TOTAL SHAREHOLDERS' EQUITY		555,234,314	421,777,321
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩	779,789,623	₩ 637,828,691

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

Statements of Income

Years Ended December 31, 2005 and 2004

(in thousands of Korean won)	2005	2004
SALES (Note 19)	₩ 815,481,822	₩ 839,290,676
COST OF SALES (Note 19)	631,787,612	635,830,886
Gross profit	183,694,210	203,459,790
SELLING AND ADMINISTRATIVE EXPENSES (Note 20)	114,828,987	113,431,301
Operating income	68,865,223	90,028,489
NON-OPERATING INCOME		
Interest income	7,005,695	8,714,934
Dividend income	4,212,504	2,355,923
Refunded income taxes	10,179	1,793,734
Gain on disposal of available-for-sale securities (Note 7)	11,116,860	21,178,747
Gain on foreign currency translation	14,967	85,224
Foreign exchange gains	6,266	129,857
Gain on disposal of property and equipment	87,949	98,013
Rental income	-	952,957
Gain on valuation of investments using the equity method of accounting (Note 8)	1,657,340	-
Gain on valuation of trading securities	37,243	-
Gain on disposal of trading securities	2,596,066	-
Reversal of allowance for doubtful accounts	559,385	-
Gain on disposal of equity method investment	112,661	-
Others	338,853	1,138,620
	27,755,968	36,448,009
NON-OPERATING EXPENSES		
Interest expense	-	62,020
Foreign exchange losses	16,905	1,505
Loss on foreign currency translation	75,259	44,165
Loss on disposal of property and equipment	1,400	13,499
Loss on valuation of investments using the equity method of accounting	595,363	874,835
Loss on valuation of options	86,498	-
Loss on impairment of available-for-sale securities (Note 8)	104,720	-
Loss on impairment of intangible assets (Note 10)	1,381,316	-
Provision for guarantee losses	-	5,161
Retirement bonus (Note 11)	1,822,467	5,855,965
Additional income taxes	-	14,904,169
Donations	3,037,863	2,695,359
Loss on disposal of available-for-sale securities (Note 7)	66,456	387,248
Loss on disposal of trading securities	1,218,033	-
Loss on valuation of trading securities	13,500	-
Others	1,032,998	337,989
	9,452,778	25,181,915
Income before income taxes	87,168,413	101,294,583
Income tax expense (Note 18)	26,518,568	36,191,370
NET INCOME	₩ 60,649,845	₩ 65,103,212
Ordinary income per share (Note 21)		
Common stock	₩ 5,806	₩ 6,369
Preferred stock	₩ 5,906	₩ 6,333
Earnings per share		
Common stock	₩ 5,806	₩ 6,369
Preferred stock	₩ 5,906	₩ 6,333

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

Statements of Appropriations of Retained Earnings

Years Ended December 31, 2005 and 2004

(Date of Appropriations: March 17, 2006 and march 18, 2005 for the years ended December 31, 2005 and 2004, respectively)

(in thousands of Korean won)	2005	2004
RETAINED EARNINGS BEFORE APPROPRIATIONS		
Unappropriated retained earnings carried over from prior year	₩ 3,242,933	₩ 3,953,467
Interim dividends (Note 22)	(6,768,440)	(6,768,440)
Net income	60,649,845	65,103,212
	57,124,338	62,288,239
APPROPRIATIONS OF RETAINED EARNINGS		
Reserve for financial structure improvement	10,000,000	10,000,000
Voluntary reserve	30,000,000	40,000,000
Cash dividends (Note 22)	10,607,254	9,045,306
	50,607,254	59,045,306
UNAPPROPRIATED RETAINED EARNINGS		
CARRIED FORWARD TO SUBSEQUENT YEAR	₩ 6,517,084	₩ 3,242,933

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

Statements of Cash Flows

Years Ended December 31, 2005 and 2004

(in thousands of Korean won)		2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	₩	60,649,845	₩ 65,103,212
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation		11,485,711	9,671,457
Amortization of intangible assets		20,172,056	14,894,162
Insurance Premium		677,514	-
Provision for severance benefits		16,035,259	14,967,370
Gain on valuation of investments using the equity method of accounting, net		(1,061,976)	874,835
Gain on disposal of property and equipment, net		(86,549)	(84,514)
Provision for bad debt expense		-	1,876,937
Provision for other bad debt expenses		3,633	44,174
Gain on valuation of trading securities, net		(23,743)	-
Gain on disposal of trading securities, net		(1,378,033)	-
Amortization of present value discount		-	(18,574)
Loss on valuation of inventories		135,780	-
Loss (gain) on valuation of options		86,498	(140,000)
Loss on impairment of available-for-sale securities		104,720	-
Loss on impairment of intangible assets		1,381,316	-
Provision for guarantee losses		-	5,161
Gain on disposal of available-for-sale securities, net		(11,050,404)	(20,791,499)
Gain on disposal of equity method investment		(112,661)	-
Reversal of allowance for doubtful accounts		(559,385)	-
Others		138,805	256,464
		35,948,541	21,555,973
Changes in operating assets and liabilities			
(Increase) decrease in trade accounts receivable		2,795,169	(7,352,021)
Decrease in other accounts receivable		2,492,537	4,230,014
(Increase) decrease in advance payments		668,040	(2,606,717)
Increase in inventories		(1,606,483)	(5,460,175)
Decrease in deferred income tax assets		335,369	1,627,471
(Increase) decrease in other current assets		1,794,964	(3,486,714)
Decrease in trade accounts payable		(250,049)	(239,027)
Decrease in other accounts payable		(1,479,448)	(430,386)
Increase (Decrease) in accrued expenses		2,597,678	(5,385,860)
Increase (Decrease) in withholdings		(1,601,523)	1,466,697
Decrease in advances received		(7,621,078)	(12,078,306)
Increase (decrease) in income tax payable		(20,314,298)	13,301,330
Payment of severance benefits		(17,304,236)	(21,460,487)
Decrease in severance insurance deposits		1,984,715	7,490,549
Decrease in contributions to the National Pension Fund		431,014	977,129
Increase (Decrease) in long-term deposits received		(1,607,518)	1,417,342
Increase (decrease) in long-term accrued expenses		(4,584,957)	475,311
Decrease in provision for guarantee losses		-	(505,161)
Increase (Decrease) in other current liabilities		247,796	(326,648)
		(43,022,308)	(28,345,659)
Net cash provided by operating activities		53,576,078	58,313,526

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

(in thousands of Korean won)		2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of available-for-sale securities		86,087,157	45,090,930
Proceeds from disposal of trading securities		4,705,005	-
Proceeds from disposal of short-term financial instruments		107,956,950	26,224,198
Proceeds from disposal of long-term financial instruments		-	1,628,887
Proceeds from disposal of property and equipment		115,696	259,408
Proceeds from other current assets		60,261,843	158,702
Proceeds from disposal of other investment assets		10,993,575	1,837,620
Proceeds from other current liabilities		47,187	140,000
Proceeds from non-current guarantee deposits		18,590,979	21,329,909
Proceeds from equity method investments		-	72,735
Acquisition of equity method investments		(4,544,879)	(599,793)
Acquisition of other investment assets		(9,511,926)	(19,802,662)
Payments for non-current guarantee deposits		(16,445,922)	(19,661,338)
Acquisition of other current assets		(58,557,906)	(1,332,500)
Acquisition of long-term financial instruments		-	(794,153)
Acquisition of available-for-sale securities		(109,716,507)	(29,667,928)
Acquisition of trading securities		(7,852,785)	-
Acquisition of short-term financial instruments		(75,947,223)	(100,595,698)
Acquisition of property and equipment		(12,811,295)	(28,313,898)
Acquisition of intangible assets		(26,450,317)	(23,137,812)
Acquisition of a business (Note 29)		(3,150,000)	-
Net cash used in investing activities		(36,230,368)	(127,163,393)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock		-	53,349,965
Proceeds from treasury stock		-	28,956,816
Cash dividends		(15,813,746)	(17,415,552)
Repayment of current maturities of long-term borrowings		-	(2,517,750)
Net cash provided by (used in) financing activities		(15,813,746)	62,373,479
Net increase(decrease) in cash and cash equivalents		1,531,964	(6,476,388)
Cash and cash equivalents			
Beginning of the year		66,642,461	73,118,849
End of the year	₩	68,174,425	₩ 66,642,461

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

Financial Statements

December 31, 2005 and 2004

Note 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, 2005, 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.

Note 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. 15 through 17 became effective for the Company on January 1, 2005, the Company adopted these Standards in its financial statements as of and for the year ended December 31, 2005.

<div>Revenue Recognition</div> <p>Sales of products are recognized when delivered, and revenues from construction contracts are recognized using percentage-of-completion method.</p> <div>Cash and Cash Equivalents</div> <p>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.</p> <div>Allowance for Doubtful Accounts</div> <p>The Company provides an allowance for doubtful receivables based on the aggregate estimated collectibility of the receivables.</p> <div>Return reserve</div> <p>Estimated returns and related estimated cost of goods sold are deducted from sales and cost of goods sold, respectively.</p> <div>Inventories</div> <p>Inventories are stated at the lower of cost or market with cost being determined using the weighted-average method. If the net realizable value of inventory is less than its cost, the carrying amount is reduced to the net realizable value. Effective January 1, 2004, the Company changed its method for inventory valuation from annual average to moving average method due to launching new ERP system.</p> <div>Investments in Securities</div> <p>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.</p> <div>Securities</div> <p>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.</p> <div>Unrealized valuation gains or losses</div> <p>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.</p> <div>Equity-Method Investments</div> <p>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.</p>

Financial Statements

December 31, 2005 and 2004

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, 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 would be 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
Right to use donated assets	1 - 4 years
Software	4 years

Development costs, directly relating to a new technology or new products of which the 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 would be 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 : ₩1,013.00, ¥100 : ₩859.9, Canada\$1 : ₩870.16, NZ\$1 : ₩690.66, HK\$1 : ₩130.65, AU\$1 : ₩741.97, GBP1 : ₩1,746.77, EUR1 : ₩1,199.34, SGD\$1 : 608.48, as of December 31, 2005), 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.

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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 an 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

The Company discloses loss contingencies resulting from past events but may be uncertain as to possible loss, in the notes when information available prior to the issuance of the financial statements does not indicate that it is probable that a liability has been incurred at the date of the financial statements or the amount of the loss cannot be reasonably estimated.

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.

Note 3

Monetary Assets Denominated in Foreign Currencies

Monetary assets denominated in foreign currencies as of December 31, 2005 and 2004, are as follows:

<i>(in thousands)</i>	2005		2004	
	Korean Won equivalent	Foreign currency	Korean Won equivalent	Foreign currency
Cash and cash equivalents	₩ 315,694	US\$ 312	₩ 153,409	US\$ 147
	76,801	Canada\$ 88	67,226	Canada\$ 78
	47,320	HK\$ 362	14,487	HK\$ 108
	179,925	NZ\$ 261	150,505	NZ\$ 201
	53,865	JP ¥ 6,264	55,189	JP ¥ 5,453
	38,481	AUD\$ 52	23,407	AUD\$ 29
	20,848	GBP 12	3,233	GBP 2
	40,804	EUR 34	-	EUR -
	33,335	SGD 55	-	SGD -

Note 4

Restricted Deposits

As of December 31, 2005 and 2004, 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, 2005, short-term financial instruments amounting to ₩8,521,000 thousand (2004: ₩8,914,000 thousand), were provided as collateral in connection with guarantees on affiliated companies and others.

Note 5

Receivables

Receivables, including trade and other accounts receivable, as of December 31, 2005 and 2004, consist of the following:

<i>(in thousands of Korean won)</i>	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

<i>(in thousands of Korean won)</i>	2004			
	Gross amount	Allowance for doubtful accounts	Discounts on present value	Carrying value
Trade accounts receivable	₩ 27,439,974	₩ 3,986,371	₩ -	₩ 23,453,603
Other accounts receivable	5,798,620	1,377,568	-	4,421,052
	₩ 33,238,594	₩ 5,363,939	₩ -	₩ 27,874,655

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Note 6

Inventories

Inventories as of December 31, 2005 and 2004, consist of the following:

(in thousands of Korean won)

	2005	2004
Merchandise	₩ 377,942	₩ 679,100
Finished products	13,667,943	12,695,341
Supplies	2,932,880	2,457,058
Raw materials	1,241,709	826,284
	₩ 18,220,474	₩ 16,657,783

Note 7

Marketable Securities

Trading securities as of December 31, 2005 and 2004, consist of the following:

(in thousands of Korean won)

	2005	2004
Equity securities	₩ 4,549,555	₩ -

Available-for-sale securities as of December 31, 2005 and 2004, consist of the following:

(in thousands of Korean won)

	2005	2004
Debt securities	₩ 11,918,920	₩ 13,632,989
Equity securities	305,364,860	116,983,275
	₩ 317,283,780	₩ 130,616,264

Debt securities included in available-for-sale securities as of December 31, 2005 and 2004, consist of the following:

(in thousands of Korean won)

	2005	2004
Exchangeable bonds	₩ -	₩ 1,717,956
Convertible bonds	1,071,304	1,533,349
Government and public bonds	10,847,616	10,381,684
	₩ 11,918,920	₩ 13,632,989

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, 2005, total interest income from available-for-sale securities amounted to ₩523,396 thousand.

The carrying value and the fair value of available-for sale securities by annual maturity, in aggregate, as of December 31, 2005 and 2004, are as follows:

	2005		2004	
(in thousands of Korean won)	Carrying value	Fair value	Carrying value	Fair value
One year or less	₩ 3,645,324	₩ 3,645,324	₩ 3,590,265	₩ 3,590,265
More than one year to five years	8,248,816	8,248,816	10,017,944	10,017,944
More than five years to ten years	24,780	24,780	24,780	24,780
	₩ 11,918,920	₩ 11,918,920	₩ 13,632,989	₩ 13,632,989

Equity securities included in available-for-sale securities as of December 31, 2005 and 2004, consist of the following:					
		2005			
		Number of shares owned	Percentage of ownership[%]	Acquisition cost	Market or net asset value
(in thousands of Korean won)					Carrying value
Current assets					
Beneficiary certificates ⁽¹⁾			₩	63,050,245	₩ 67,838,994
Non-current assets					
Marketable equity securities					
Shinhan Financial Group Co., Ltd.		5,344,397	1.588	54,690,402	219,387,497
LG Telecom Ltd. ⁽²⁾		1,035,652	0.370	5,395,747	6,876,729
KT Corporation		132,000	0.046	5,685,879	5,392,200
LG Electronics Inc.		13,000	0.009	907,399	1,160,900
Binggrae Co.,Ltd		10,000	0.100	333,694	398,500
Hyundai Mobis Co.,Ltd		5,000	0.012	362,567	462,000
Cheil Communications Inc.		1,700	0.037	282,051	374,850
CJ Home Shopping Corp.		6,300	0.070	465,669	783,720
Hana Tour Service Inc.		15,000	0.140	323,942	720,000
Donga Pharmaceutical Co,Ltd		10,000	0.100	362,132	870,000
GS Home Shopping Inc.		5,030	0.070	415,520	648,870
S1 Corporation		2,000	0.005	80,301	87,600
Insun Environmental New Technology Co.		11,000	0.090	233,168	148,500
Inzi Controls Co.,Ltd		6,000	0.039	67,503	63,000
Duzon Digital Ware Co.,Ltd.		10,000	0.116	261,637	151,500
				69,867,611	237,525,866
				₩ 132,917,856	₩ 305,364,860
					₩ 305,364,860
		2004			
		Number of shares owned	Percentage of ownership[%]	Acquisition cost	Market or net asset value
(in thousands of Korean won)					Carrying value
Current assets					
Beneficiary certificates ⁽¹⁾			₩	9,095,511	₩ 9,052,219
Non-current assets					
Non-marketable equity securities					
Shinhan Life Insurance Co., Ltd. ⁽²⁾		7,776,936	19.44	38,885,480	38,885,480
Marketable equity securities					
Shinhan Financial Group Co., Ltd.		2,436,544	0.79	19,885,625	57,015,130
LG Telecom Ltd.		1,035,652	0.37	5,395,747	4,142,608
KT Corporation		132,000	0.05	5,732,030	5,478,000
Samsung Electronics Co., Ltd.		2,400	0.001	777,417	1,081,200
Woori Finance Holdings Co., Ltd.		87,443	0.01	564,945	745,889
Hyundai Motor Company		10,500	0.004	402,851	582,750
				32,758,615	69,045,577
				₩ 80,739,606	₩116,983,276
					₩ 116,983,276
(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.					

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^(a) 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 meeting of stockholders 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.

^(a) The 350,000 shares of this investment are currently lent under a certain contract with regard to derivative transactions.

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, 2005 and 2004, is as follows:

	2005				
<i>(in thousands of Korean won)</i>	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

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

In 2005, the Company sold equity securities of Shinhan Financial Group Co., Ltd. of ₩4,080,708 thousand with a realized gain of ₩9,364,499 thousand, and other equity securities of ₩14,092,320 thousand with realized gain of ₩1,752,361 thousands and loss of ₩66,456 thousand.

Note 8

Equity Method Investments

Equity method investments as of December 31, 2005 and 2004, consist of the following:

	2005				
<i>(in thousands of Korean won)</i>	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. ^(a)	-	100.00	445,142	325,080	325,080
Yanbian Daekyo Co., Ltd. ^(a)	-	84.62	166,390	44,428	44,428
Daekyo Corein Co., Ltd.	23,200	72.50	195,200	803,904	803,904
Daekyo Eduvision Co., Ltd.	37,980	67.01	306,600	662,190	662,190
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
Shanghai Daekyo Co., Ltd. ^(a)	-	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	₩ 15,137,546	₩ 10,756,769

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

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

The details of the equity method valuation as of December 31, 2005 and 2004, are as follows:

<i>(in thousands of Korean won)</i>	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
Shanghai Daekyo Co., Ltd. ⁽¹⁾	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

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

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, 2005 and 2004, are as follows:

<i>(in thousands of Korean won)</i>	2005			
	Beginning balance	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)

<i>(in thousands of Korean won)</i>	2004			
	Beginning balance	Increase (decrease)	Amortization	Ending balance
MyfriendNet Co., Ltd.	₩ 42,436	₩ -	₩ 21,218	₩ 21,218

⁽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, 2005 and 2004, are as follows:

<i>(in thousands of Korean won)</i>	2005	2004
Daekyo America, Inc.	₩ 28,134	₩ 38,450
Daekyo Japan Co., Ltd.	2,465	3,952
Shanghai Daekyo Co., Ltd.	1,814	7,141
	₩ 32,413	₩ 49,543

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

	Closing date	Financial statements used	2005			
			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	
Shanghai 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	

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

ⁱⁱⁱ Only the most recent 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. whose audited financial statements were available.

As of December 31, 2005 and 2004, the Company suspended the application of the equity method of accounting on the investment in Interesting Creative Co. Ltd. and Daekyo EOL Co., Ltd., as the Company's share in the accumulated losses of these companies exceeded the costs of the investments. The operations 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.

The summarized financial information on the equity-method investee as of December 31, 2005, follows:

<i>(in thousands of Korean won)</i>	2005					
	Assets	Liabilities	Net Assets	Sales	Net income(loss)	
Daekyo Bertelsmann Korea Co., Ltd.	₩ 19,095,242	₩ 5,901,584	₩ 13,193,658	₩ 23,599,232	₩ 365,874	
Daekyo America, Inc.	1,243,034	128,227	1,114,807	705,985	(28,461)	
Daekyo Hongkong Co., Ltd.	632,232	1,960	630,272	275,436	(143,222)	
Daekyo Japan Co., Ltd.	159,958	16,078	143,880	143,235	(17,473)	
Beijing Daekyo Co., Ltd.	340,833	15,753	325,080	335,699	9,516	
Yanbian Daekyo Co., Ltd.	56,431	3,928	52,503	32,762	(4,208)	
Daekyo Corein Co., Ltd.	1,362,206	253,373	1,108,833	3,587,595	59,105	
Daekyo Eduvision Co., Ltd.	1,785,164	796,935	988,229	3,683,580	(245,831)	
MyfriendNet Co., Ltd.	169,527	8,553	160,974	170,258	(55,886)	
Daekyo EOL Co., Ltd.	306,427	491,674	(185,247)	1,270,432	(149,708)	
Daekyo Malaysia Sdn. Bhd.	295,969	61,133	234,836	91,864	(170,756)	
Shanghai Daekyo Co., Ltd. ⁱⁱⁱ	275,931	30,289	245,642	435,853	40,865	
Daekyo U.S.A Inc.	871,584	128,606	742,978	738,177	34,727	
Daekyo Bertelsmann Educational Service Limited	169,058	-	169,058	-	-	
		₩ 26,763,596	₩ 7,838,093	₩ 18,925,503	₩ 35,070,108	₩ (305,458)

The most recent summarized financial information on the equity-method investees, for which financial information as of December 31, 2005 were not available, follows:

<i>(in thousands of Korean won)</i>	Assets	Liabilities	Net Assets	Sales	Net income(loss)	
Child-Care Consortium	₩ 5,970,085	₩ 806,551	₩ 5,163,534	₩ 1,034,812	₩ (1,224,330)	
Interesting Creative Co., Ltd.	405,409	1,196,727	(791,318)	234,000	(1,246,696)	
		₩ 6,375,494	₩ 2,003,278	₩ 4,372,216	₩ 1,268,812	₩ (2,471,026)

Note 9

Property and Equipment

Changes in property and equipment for the years ended December 31, 2005 and 2004, are as follows:

<i>(in thousands of Korean won)</i>	2005					
	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	₩ -	₩ 76,836	
Accumulated depreciation	₩ -	₩ 20,035,748	₩ 275,612	₩ 468,200	₩ 802,073	
Accumulated impairment	₩ -	₩ -	₩ -	₩ -	₩ -	

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	2005							
	Tools		Equipment		Other	Construction- in-progress	Total	
(in thousands of Korean won)								
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

	2004				
	Land	Buildings	Structures	Machinery	Vehicles
(in thousands of Korean won)					
Balance as of January 1, 2004	₩ 37,681,355	₩ 90,369,649	₩ 2,600,795	₩ 2	₩ 168,978
Acquisition during the year	462,100	973,068	168,915	-	145,067
Disposal	-	-	(6,524)	-	(4)
Depreciation	-	(2,568,474)	(70,597)	(2)	(173,256)
Transfer ⁽¹⁾	1,247,257	5,972,319	-	-	-
Balance as of December 31, 2004	₩ 39,390,712	₩ 94,746,562	₩ 2,692,589	₩ -	₩ 140,785
Accumulated depreciation	₩ -	₩ 17,285,591	₩ 201,408	₩ 468,200	₩ 948,020

	2004				
	Tools	Equipment	Other	Construction- in-progress	Total
(in thousands of Korean won)					
Balance as of January 1, 2004	₩ 128	₩ 8,492,229	₩ 70,000	₩ 115,500	₩ 139,498,636
Acquisition during the year	-	10,589,205	-	15,975,545	28,313,900
Disposal	-	(307,942)	-	-	(314,470)
Depreciation	(89)	(6,859,042)	-	-	(9,671,460)
Transfer ⁽¹⁾	-	-	-	-	7,219,576
Balance as of December 31, 2004	₩ 39	₩ 11,914,450	₩ 70,000	₩ 16,091,045	₩ 165,046,182
Accumulated depreciation	₩ 31,018	₩ 53,058,551	₩ -	₩ -	₩ 71,992,788

⁽¹⁾ A portion of inventories, consisting of construction for sale, was reclassified to land and building for rent in 2004.

As of December 31, 2005, the value of the Company’s land, as determined by the local government in Korea for property tax assessment purposes, approximates ₩69,701,686 thousand (2004 : ₩69,216,550 thousand).

As of December 31, 2005, buildings and equipment are insured against fire and other casualty losses up to ₩110,500,070 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.

Note 10

Intangible Assets

Changes in intangible assets for the years ended December 31, 2005 and 2004, are as follows:

2005

	Goodwill	Industrial Property rights	Right to use Donated assets	Development costs	Intellectual property rights	Software	Franchise	Total
(in thousands of Korean won)								
Beginning balance	₩ 386,499	₩ 194,725	₩10,545,158	₩ 33,648,939	₩ 1,657,733	₩ -	₩ 279,527	₩ 46,712,581
Increase	1,045,311	23,442	10,734,873	11,694,736	-	2,601,955	-	26,100,317
Acquisition of a business	3,356,052	-	-	247,794	-	6,907	-	3,610,753
Transfer	-	-	(125,289)	(954,699)	-	1,716,999	-	637,011
Amortization	528,096	68,110	7,463,297	10,824,882	774,632	441,671	71,368	20,172,056
Impairment	-	-	-	1,238,792	142,524	-	-	1,381,316
Ending balance	₩4,259,766	₩ 150,057	₩13,691,445	₩ 32,573,096	₩ 740,577	₩3,884,190	₩ 208,159	₩ 55,507,290
Accumulated amortization	₩1,058,336	₩ 420,594	₩25,909,047	₩ 25,693,967	₩ 2,474,785	₩ 441,671	₩ 148,685	₩ 56,147,085
Accumulated impairment	₩ 51,663	₩ -	₩ -	₩ 1,311,520	₩ 142,524	₩ -	₩ -	₩ 1,505,707

2004

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

Amortization of intangible assets incurred for the years ended December 31, 2005 and 2004, follows:

(in thousands of Korean won)	2005	2004
Selling and administrative expenses	₩ 4,652,236	₩ 3,457,860
Cost of goods sold	15,519,820	11,436,302
	₩ 20,172,056	₩ 14,894,162

Research and development costs incurred for the years ended December 31, 2005 and 2004, are as follows:

(in thousands of Korean won)	2005	2004
Expensed	₩ 1,515,336	₩ 1,469,158
Deferred	11,942,530	14,122,903
	₩ 13,457,866	₩ 15,592,061

The significant expenses, which are expected to have probable future economic benefits but expensed in the year incurred, for the years ended December 31, 2005 and 2004, are as follows:

(in thousands of Korean won)	2005	2004
Training expenses	₩ 9,220,585	₩ 8,841,959
Advertising expenses	41,769,241	42,341,322
	₩ 50,989,826	₩ 51,183,281

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Note 11 **Accrued Severance Benefits**

Changes in accrued severance benefits for the years ended December 31, 2005 and 2004, are as follows:

<i>(in thousands of Korean won)</i>	2005		2004	
Balance at the beginning of the year	₩	71,707,821	₩	78,200,938
Actual severance payments		17,304,237		21,460,487
Provision for severance benefits		16,035,259		14,967,370
		70,438,843		71,707,821
Severance insurance deposits		(42,812,730)		(44,797,445)
Cumulative deposits to the National Pension Fund		(1,739,350)		(2,170,364)
Balance at the end of the year	₩	25,886,763	₩	24,740,012

The severance benefits are funded at approximately 60.8% as of December 31, 2005 (2004: 62.5%) through a severance insurance deposits, which are deducted from the accrued severance benefit liability. The Company paid ₩1,822 million (2004: ₩5,856 million) as severance benefits to voluntarily terminated employees, recorded as non-operating expenses.

Note 12 **Commitments and Contingencies**

As of December 31, 2005, 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, 2005, the Company provides guarantees amounting to ₩3,521 million for certain lessees in relation to the lessees’s guarantee deposits. For affiliates, in relation to security arising from in damage claims, the Company provides guarantees amounting to ₩5,000 million, providing ₩5,000 million in short-term financial instruments as security. Seoul Guarantee Insurance provides the Company with a guarantee for performance and others up to ₩584 million as of December 31, 2005.

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 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 ₩565 million and ₩1,626 million to Daekyo Holdings and 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 ₩360,496 million (2004: ₩337,495 million) for the year ended December 31, 2005. The Company is required to adjust the instructors’s 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 W4 billion, its shareholdings in the investee may be reduced to 50%. And if the said cumulative losses exceed W4 billion, the Company must exercise its preemptive rights to purchase the investee’s new shares for up to W3 billion, an additional capital infusion. Should the investee be eventually liquidated, the Company will shoulder all liquidation costs.

As of December 31, 2005, the Company has the following derivative contracts.

<i>(in thousands of Korean won)</i>	Unsettled contract amount	Valuation gain	Valuation loss	After valuation amount	Objective
Securities Call Option(Sell)	₩ 2,324,000	₩ -	₩ 86,498	₩ (133,685)	Transaction

The changes in reserve for returned goods for the years ended December 31, 2005, are as follows:

<i>(in thousands of Korean won)</i>	Beginning Balance	Increase	Decrease	Ending Balance
Reserve for returned goods	₩ 759,728	₩ 515,269	₩ 267,473	₩ 1,007,524

Note 13 **Capital Stock**

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

Issuances and other movements in common stock in the years ended December 31, 2005 and 2004, are as follows:

<i>(in thousands of Korean won)</i>	Date of Issuance	Type	Par Value	Additional Paid-in Capital
	Balance, January 1, 2004		₩ 35,798,665	₩ -
	February 3, 2004	Issuance of common stock	6,552,760	46,797,205
	Balance, December 31, 2004		42,351,425	46,797,205
	Balance,December 31, 2005		₩ 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, 2005, there are 8,470,285 common shares and 1,942,699 shares issued and outstanding.

Note 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.

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Note 15

Retained Earnings

Retained earnings as of December 31, 2005 and 2004, are as follows:

(in thousands of Korean won)

		2005		2004
Legal reserve	₩	32,300,000	₩	32,300,000
Reserve for business rationalization		1,233,353		1,233,353
Reserve for financial structure improvement		10,000,000		-
Reserve for business development		110,000,000		110,000,000
Voluntary reserve		95,271,672		55,271,672
Retained earnings before appropriations		57,124,338		62,288,239
	₩	305,929,363	₩	261,093,264

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, 2005, equity of the Company is more than 30% of total assets.

Note 16

Capital Adjustments

Capital adjustments as of December 31, 2005 and 2004, are as follows:

(in thousands of Korean won)

		2005		2004
Gain on valuation of available-for-sale securities	₩	126,637,003	₩	38,249,032
Loss on valuation of available-for-sale securities		(1,444,676)		(1,488,271)
Gain on valuation of equity method investments		581,844		135,135
Loss on valuation of equity method investments		(257,381)		-
	₩	125,516,790	₩	36,895,896

Note 17

Treasury Stock

As of December 31, 2003, the Company holds 689,448 shares as treasury stock, among which 120,000 shares, with a book value of ₩2,335 million, were acquired in relation to the merger of Daekyo Broadcasting Co., Ltd.; and 569,448 shares with a book value of ₩6,644 million in relation to

the merger of Daekyo Computer Co., Ltd., M&C Co., Ltd. and Daekyo Distribution Co., Ltd. All treasury stock were sold at a public offering upon the listing of the Company's shares at the Korean Stock Exchange in February 2004. Gain on disposal of treasury stock amounting to ₩16,313 million, net of income tax expense of ₩3,665 million, was recorded as capital surplus.

Note 18

Income Taxes

Income tax expense for the years ended December 31, 2005 and 2004, consists of:

(in thousands of Korean won)

	2005		2004	
Current income taxes	₩	26,183,198	₩	38,229,308
Deferred income taxes		47,822,114		1,627,471
Amount to be credited to shareholders' equity ^(a)		-		(3,665,409)
Amount to be credited to capital adjustment		(47,486,745)		-
Income tax expense	₩	26,518,567	₩	36,191,370

^(a) The Company reduced capital surplus of ₩3,665,409 thousand relating to corporate tax effect of the treasury stock disposal in 2004.

The income tax effects of temporary and non-temporary differences for the year ended December 31, 2005 and 2004, are as follows:

(in thousands of Korean won)

	2005		2004	
	Temporary	Non-temporary	Temporary	Non-temporary
Long-term accrued expenses	₩ 27,946,850	₩ -	₩ 32,531,807	₩ -
Accrued income	3,595,389	-	293,860	-
Accrued severance benefits	10,147,948	-	14,667,120	-
Severance insurance expenses	9,817,576	-	17,550,828	-
Allowance for doubtful accounts	4,509,735	-	4,999,557	-
Bad debt expense	7,254	-	9,579	-
Depreciation	23,830	-	52,156	-
Valuation of marketable securities	1,136,264	-	3,778,969	-
Amortization of development costs	320,247	-	1,370,741	-
Impairment of intangible assets	1,315,340	-	-	-
Treasury stock	-	-	-	12,341,444
Entertainment expenses	-	3,256,085	-	2,530,891
Additional pay of income taxes	-	-	-	14,904,169
Others	4,395,622	621,276	4,324,297	8,162,119
Long-term accrued service fee payable	(32,531,807)	-	(32,056,496)	-
Accrued income payable	(1,992,020)	-	(3,595,389)	-
Accrued severance benefits	(9,817,576)	-	(17,550,828)	-
Severance insurance expenses	(10,147,948)	-	(14,667,120)	-
Bad debt expense	(4,999,557)	-	(2,997,883)	-
Depreciation	(10,798)	-	(10,947)	-
Dividend income	-	(1,261,450)	-	(704,222)
Others	(4,637,458)	(10,179)	(11,590,929)	(5,685,487)
Total	₩ (921,109)	₩ 2,605,732	₩ (2,890,678)	₩ 31,548,914

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Changes in temporary differences and deferred tax assets and liabilities for the year ended December 31, 2005, 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	₩	32,531,807	₩	-	₩	(4,584,957)	₩ 27,946,850
Accrued income		(3,595,389)		-		1,603,369	(1,992,020)
Accrued severance benefits		11,517,089		29,337,240		(330,373)	40,523,956
Severance insurance expenses		(11,517,089)		(29,337,240)		330,373	(40,523,956)
Allowance for doubtful accounts		5,012,912		(13,355)		(489,822)	4,509,735
Bad debt expense		286,145		-		4,263	290,408
Depreciation		104,969		-		13,032	118,001
Development costs		(320,247)		-		320,247	-
Buildings		(1,240,849)		-		-	(1,240,849)
Impairment of intangible assets		-		-		1,315,340	1,315,340
Others		2,623,538		(203,830)		897,420	3,317,128
Accumulated temporary difference	₩	35,402,886	₩	(217,185)	₩	(921,108)	₩ 34,264,593
Deferred income taxes deducted from shareholders' equity	₩	-	₩	-	₩	(172,679,073)	₩ (172,679,073)
Valuation allowance ⁽ⁱⁱⁱ⁾	₩	(3,263,087)	₩	-	₩	(81,233)	₩ (3,344,320)

	Deferred tax assets(liabilities)				
(in thousands of Korean won)	Beginning	Increase(Decrease)	Ending	Current	Non-current
Long-term accrued service fee payable	₩ 8,946,247	₩ (1,260,863)	₩ 7,685,384	₩ -	₩ 7,685,384
Accrued income	(988,732)	440,926	(547,806)	-	(547,806)
Accrued severance benefits	3,167,199	7,976,888	11,144,087	-	11,144,087
Severance insurance expenses	(3,167,199)	(7,976,888)	(11,144,087)	-	(11,144,087)
Allowance for doubtful accounts	1,378,551	(138,373)	1,240,178	1,240,178	-
Bad debt expense	78,690	1,172	79,862	79,862	-
Depreciation	28,866	3,584	32,450	-	32,450
Development costs	(88,068)	88,068	-	-	-
Buildings	(341,233)	-	(341,233)	-	(341,233)
Impairment of intangible assets	-	361,719	361,719	-	361,719
Others	721,473	190,737	912,210	903,671	8,539
Accumulated temporary difference	₩ 9,735,794	₩ (313,030)	₩ 9,422,764	₩ 2,223,711	₩ 7,199,053
Deferred income taxes deducted from shareholders' equity	₩ -	₩(47,486,745)	₩(47,486,745)	₩ -	₩(47,486,745)
Valuation allowance ⁽ⁱⁱⁱ⁾	₩ (897,349)	₩ (22,339)	₩ (919,688)	₩ -	₩ (919,688)
Deferred tax assets			₩ 21,455,890	₩ 2,223,711	₩ 19,232,179
Deferred tax liabilities			(60,439,559)	-	(60,439,559)
Total			₩(38,983,669)	₩ 2,223,711	₩(41,207,380)

⁽ⁱⁱⁱ⁾ Added bad debt expense for related parties and the temporary difference uncertain to be realized of equity method investment are not included in deferred tax asset.

The statutory income tax rate, including resident tax surcharges, applicable to the Company was approximately 27.5% in 2005. After the tax adjustment and deferred income tax expenses, effective tax rate for the year ended December 31, 2005, is 30.4% (2004: 35.7%).

Note 19 Sales and Cost of Sales

Details of sales and cost of sales for the years ended December 31, 2005 and 2004, are as follows:

(in thousands of Korean won)		2005	2004
Sales	Worksheet with tutoring (weekly & premium)	₩ 750,379,467	₩ 777,483,018
	After school class	20,761,800	14,711,287
	Door-to-door-sales	30,489,104	29,716,462
	Educational institute	9,093,100	10,749,548
	Others	4,758,351	6,630,361
		₩ 815,481,822	₩ 839,290,676
Cost of Sales	Worksheet with tutoring (weekly & premium)	₩ 583,340,703	₩ 587,184,154
	After school class	18,071,859	12,289,729
	Door-to-door-sales	16,566,750	19,130,479
	Educational institute	8,975,880	11,899,096
	Others	4,832,420	5,327,428
		₩ 631,787,612	₩ 635,830,886

Note 20 Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended December 31, 2005 and 2004, are as follows:

(in thousands of Korean won)	2005	2004
Selling and Administrative Expenses		
Salaries & wages	₩ 17,642,685	₩ 18,712,996
Severance benefits	3,136,506	1,879,883
Employee benefits	3,899,689	4,464,869
Travel expenses	443,451	605,003
Communication expenses	496,596	421,311
Utility expenses	670,538	665,763
Taxes and dues	1,081,105	1,085,984
Rental expenses	283,458	189,535
Depreciation expenses	6,598,604	5,878,694
Repairs expenses	374,178	189,754
Insurance premium	1,040,078	290,578
Entertainment expenses	518,567	773,998
Advertising expenses	41,633,519	42,341,322
Packaging expenses	-	834
Freight expenses	2,069,806	2,140,372
Commissions	26,744,154	24,915,629
Research & development expenses	725,830	745,651
Bad Debt expenses	-	1,876,937
Supplies expenses	432,818	458,223
Publication expenses	769,442	804,269
Training expenses	1,069,024	938,989
Vehicles maintenance expenses	118,796	126,114
Broadcasting within the firm expenses	426,963	465,231
Amortization expenses on intangible assets	4,652,236	3,457,860
Miscellaneous	944	1,502
	₩ 114,828,987	₩ 113,431,301

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Note 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, 2005 and 2004, are calculated as follows:

<i>(in thousands of Korean won)</i>	2005	2004
Net income allocated to common stock ⁽¹⁾	₩ 49,176,676,883	₩ 52,799,201,345
Weighted-average number of common shares outstanding ⁽³⁾	8,470,285	8,289,957
Earnings per share ⁽⁵⁾	₩ 5,806	₩ 6,369

<i>(in thousands of Korean won)</i>	2005	2004
Net income allocated to preferred stock ⁽²⁾	₩ 11,473,167,954	₩ 12,304,010,676
Weighted-average number of preferred shares Outstanding ⁽⁴⁾	1,942,699	1,942,699
Earnings per share ⁽⁵⁾	₩ 5,906	₩ 6,333

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

<i>(in thousands of Korean won)</i>	2005	2004
Net income as reported on the statements of income	₩ 60,649,844,837	₩ 65,103,212,021
Less: Net income allocated to preferred stock	(11,473,167,954)	(12,304,010,676)
Net income allocated to common stock	₩ 49,176,676,883	₩ 52,799,201,345

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

<i>(December 31, 2005)</i>	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 (a) * 1,942,699 shares / (1,942,699 shares + 8,470,285 shares)	8,073,444,704
		₩ 11,473,167,954

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

<i>(December 31, 2005)</i>	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

<i>(December 31, 2004)</i>	Calculation	Amount
Preferred stock (dividend ratio: 32%)	₩ 5,000×1,942,699 shares×32%	₩ 3,108,318,400
Net income additionally allocated to preferred stock	₩ 49,289,466,121 (b)×1,942,699 shares / (1,942,699 shares + 8,470,285 shares)	9,195,692,276
		₩ 12,304,010,676

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

<i>(December 31, 2004)</i>	Calculation	Amount
Net income		₩ 65,103,212,021
Less: Common stock dividend	₩ 5,000×8,470,285 shares×30%	(12,705,427,500)
Less: Preferred stock dividend	₩ 5,000×1,942,699 shares×32%	(3,108,318,400)
		₩ 49,289,466,121

⁽³⁾ The weighted average number of common shares for the years ended December 31, 2005 and 2004, is calculated as follows:

<i>(December 31, 2005)</i>	Number of shares	Number of days outstanding	Weighted number
Beginning balance of common stock outstanding	8,470,285	365	3,091,654,025
Issuance of common stock for cash	-	-	-
Treasury stock	-	-	-
			3,091,654,025

Weighted-average number of common shares: 3,091,654,025÷365=8,470,285

<i>(December 31, 2004)</i>	Number of shares	Number of days outstanding	Weighted number
Beginning balance of common stock outstanding	7,159,733	366	2,620,462,278
Issuance of common stock for cash	1,310,552	333	436,413,816
Treasury stock	(689,448)	33	(22,751,784)
			3,034,124,310

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

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

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

Note 22

Dividends

Details of cash dividends and dividend payout ratio for the years ended December 31, 2005 and 2004, are as follows:

Details of cash dividends

1.Interim dividends

	2005		2004	
<i>(in thousands of Korean won)</i>	Common stock	Preferred stock	Common stock	Preferred stock
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Dividend ratio [%]	13%	13%	13%	13%
Dividend per share	₩ 650	₩ 650	₩ 650	₩ 650
Number of shares outstanding	8,470,285	1,942,699	8,470,285	1,942,699
Amount of dividends	₩ 5,505,685,250	₩ 1,262,754,350	₩ 5,505,685,250	₩ 1,262,754,350

Financial Statements

December 31, 2005 and 2004

2. Year-end dividends

(in thousands of Korean won)	2005 ⁽¹⁾		2004	
	Common stock	Preferred stock	Common stock	Preferred stock
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Dividend ratio (%)	20%	22%	17%	19%
Dividend per share	₩ 1,000	₩ 1,100	₩ 850	₩ 950
Number of shares outstanding	8,470,285	1,942,699	8,470,285	1,942,699
Amount of dividends	₩ 8,470,285,000	₩ 2,136,968,900	₩ 7,199,742,250	₩ 1,845,564,050

⁽¹⁾ The Company's cash dividends are scheduled to be approved by the shareholders on March 17, 2006.

Dividend payout ratio

(in thousands of Korean won)	2005	2004
Total dividends [1]	₩ 17,375,693,500	₩ 15,813,745,900
Net income [2]	60,649,844,837	65,103,212,021
Dividend payout ratio ([1]/[2])	28.65%	24.29%

Dividend yield ratio

The Company's dividend yield ratios for the year ended December 31, 2004, were:

(in thousands of Korean won)	2005		2004	
	Common Shares	Preferred Shares	Common Shares	Preferred Shares
Dividend per share [1]	₩ 1,650	₩ 1,750	₩ 1,500	₩ 1,600
Market price as of balance sheet date [2]	₩ 78,800	₩45,000	₩ 69,800	₩35,320
Dividend yield ratio [1/2]	2.09%	3.89%	2.15%	4.53%

Note 23

Related Party Transactions

Significant transactions with related parties for the years ended December 31, 2005 and 2004, and the related account balances outstanding as of December 31, 2005 and 2004, are summarized as follows:

(in thousands of Korean won)	Sales	Purchases	Receivables ⁽¹⁾	Payables ⁽¹⁾
Daekyo Holdings Co.,Ltd	₩ 156,196	₩ 9,127,314	₩ 10	₩ 155,250
Daekyo D&S Co., Ltd.	1,238,196	10,153,536	4,102,996	920,119
Daekyo Publishing Co., Ltd.	35,973	5,587,054	108	1,679,992
Daekyo Global Associates Co., Ltd.	-	1,958,811	-	178,930
Daekyo Corein Co., Ltd.	61,473	4,144,442	582	581,323
Daekyo Eduvision Co., Ltd.	27,308	3,985,312	2,045	443,942
Daekyo CNS Co., Ltd.	973,169	8,755,321	-	2,448,779
Daekyo Bertelsmann Korea. Co., Ltd.	781,114	5,973,104	169,521	405,990
Tara Distribution Co., Ltd.	-	18,782,381	-	2,928,047
Tara T.P.S Co., Ltd.	6,732	21,088,363	-	3,732,408
Others	700,700	1,955,578	457,153	65,789
2005 Total	₩ 3,980,861	₩ 91,511,216	₩ 4,732,415	₩ 13,540,569
2004 Total	₩ 360,201	₩ 99,413,961	₩ 4,243,231	₩ 11,121,162

⁽¹⁾ Includes guarantee deposits and others.

As of December 31, 2005, the Company has outstanding loans receivables from employees of ₩3,805,467 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.

Note 24 Value Added Information

Value added information for the years ended December 31, 2005 and 2004, is as follows:

<i>(in thousands of Korean won)</i>	2005	2004
Salaries	₩ 117,549,840	₩ 114,884,066
Employee benefits	24,720,616	24,395,694
Provision for severance benefits	16,035,259	14,967,370
Rental charges	15,220,628	15,553,733
Depreciation	11,485,711	9,671,457
Taxes and dues	1,247,451	1,278,838
	₩ 186,259,505	₩ 180,751,158

Note 25 Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended December 31, 2005 and 2004, are as follows:

<i>(in thousands of Korean won)</i>	2005	2004
Current maturities of other current assets	₩ 1,097,577	₩ 4,485,263
Current maturities of available-for-sale securities	4,075,801	3,596,762
Valuation gain on available-for-sale securities	88,431,567	5,648,148
Valuation gain on equity method investments	189,327	404,474
Gain on sale of treasury stock	-	19,978,160
The effect of gain on disposal of treasury stock to income taxes payable	-	3,665,409
Reclassification of the inventories to land	-	1,247,257
Reclassification of the inventories to buildings	-	5,972,319
Reclassification of the advanced payment to other investment	500,000	-

Note 26 Operating Results for the Final Interim Period

Significant operation results for the three-month periods ended December 31, 2005 and 2004, are as follows:

<i>(in thousands of Korean won, expect per share amounts)</i>	2005	2004
Sales	₩ 207,502,755	₩ 203,194,151
Cost of Sales	170,811,824	161,285,189
Operating income	5,344,748	8,656,366
Net income	4,481,104	1,621,886
Earnings per share	₩ 430	₩ 156

Note 27 Approval of Financial Statements

The Company's December 31, 2005 financial statements will be approved by the Board of Directors on March 6, 2006.

Financial Statements

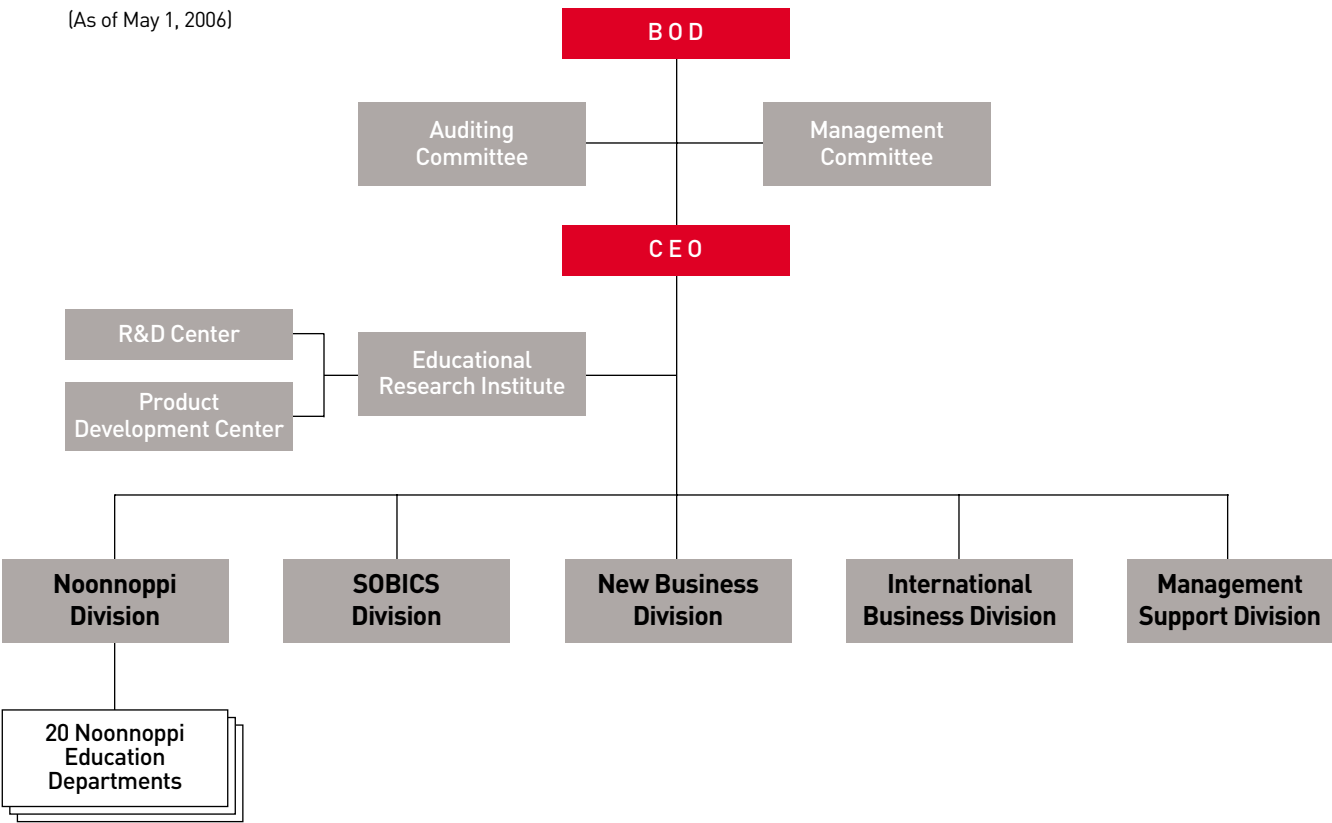
December 31, 2005 and 2004

Note 28	Reclassification of Prior Year Financial Statement Presentation
	Certain amounts in the financial statements as of and for the year ended December 31, 2004, have been reclassified to conform to the December 31, 2005 financial statement presentation. These reclassifications had no effect on previously reported net income or shareholder’s equity.
Note 29	Acquisition of a business
	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 are as follows :
<i>(in thousands of Korean won)</i>	
Total acquisition cost ⁽¹⁾	₩ 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
	⁽¹⁾ ₩3,150,000 thousand has been paid, with the balance of ₩350,000 thousand recorded.

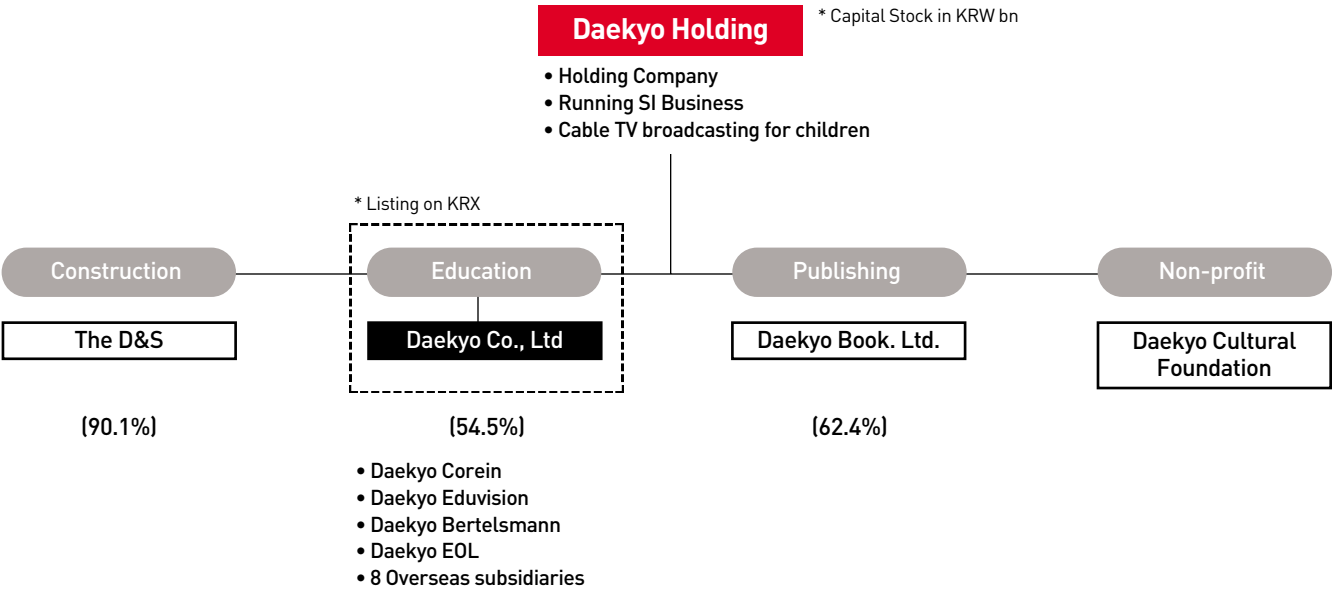
Report on the Review of Internal Accounting Control System

To the President of Daekyo Co., Ltd.
We have reviewed the management’s report on the operations of the internal accounting control system (“IACS”) of Daekyo Co., Ltd. (the “Company”) as of December 31, 2005. In accordance with Article 2-2 of the Act on External Audit for Stock Companies (the “External Audit Law”) of the Republic of Korea, the Company’s management is responsible for reporting on the design and operations of its IACS (“IACS report”). Our responsibility is to review the management’s IACS report and issue a report based on our review.
We conducted our review in accordance with Article 2-3 of the External Audit Law. Our review included inquiries of management and employees, inspection of related documents and checking of the operations of the Company’s IACS. We did not perform an audit of the Company’s IACS and accordingly, we do not express an audit opinion.
Based on our review, no material weakness in the design or operations of the Company’s IACS under Article 2-2 of the External Audit Law as of December 31, 2005, has come to our attention.
This report applies to the Company’s IACS in existence as of December 31, 2005. We did not review the Company’s IACS after December 31, 2005. This report has been prepared for Korean regulatory purposes pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.
As this report is based on Interim Guidelines on Auditors’ Review and Report on Management’s IACS Report issued by the Korean Audit Standards Committee on March 29, 2005, they apply only from that date until the date the Final Standards for Management’s IACS Report, and the Final Standards for Auditors’ Review and Report on Management’s IACS Report become effective. A review based on the final standards may have different results and accordingly, the content of any updated report may be different.
Samil PricewaterhouseCoopers February 17, 2006
Notice of Readers : This report is annexed in relation to the audit of the financial statements as of and for the year ended December 31, 2005, and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

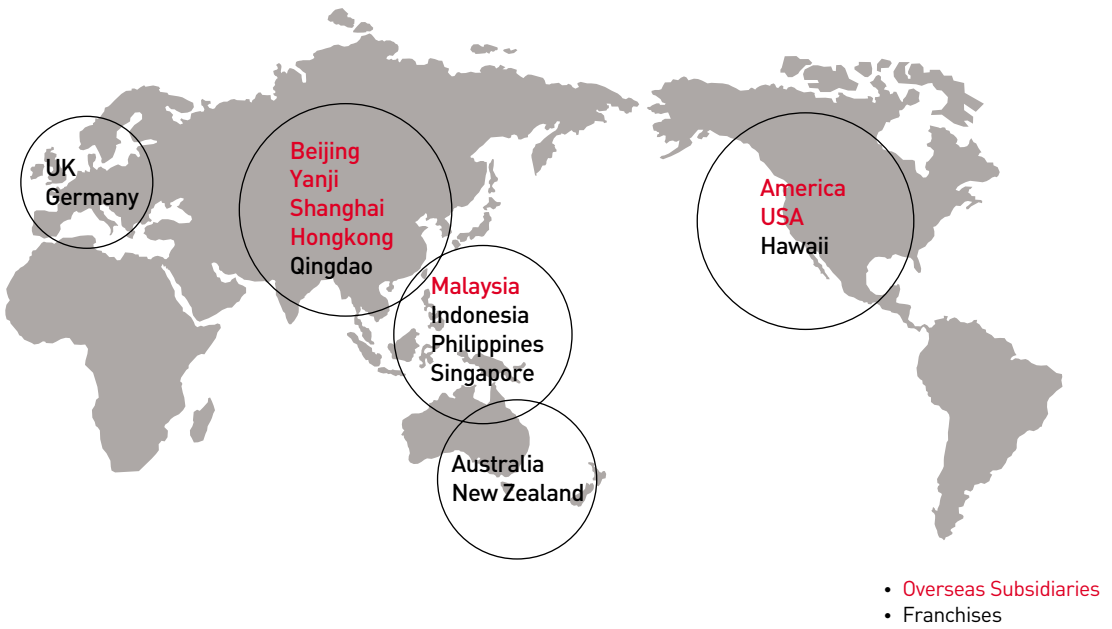
Organization Chart



Daekyo Group Structure



Subsidiary Companies



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