

**Daekyo Co., Ltd.**  
**Financial Statements**  
**December 31, 2004 and 2003**

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## Report of Independent Auditors

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

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

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

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

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

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

**Daekyo Co., Ltd.**  
**Notes to Financial Statements**  
**December 31, 2004 and 2003**

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

Seoul, Korea  
February 18, 2005

This report is effective as of February 18, 2005, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**Daekyo Co., Ltd.**  
**Balance Sheets**  
**December 31, 2004 and 2003**

(in thousands of Korean Won)

	2004	2003
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 3)	₩ 66,642,461	₩ 73,118,849
Short-term financial instruments (Note 4)	90,534,600	16,163,100
Available-for-sale securities (Note 7)	12,642,484	1,280,301
Trade accounts receivable, net (Notes 5 and 23)	23,453,603	17,978,519
Other accounts receivable, net (Notes 5 and 23)	4,421,052	8,676,666
Inventories (Note 6)	16,657,783	18,534,071
Advance payments	2,913,419	306,702
Other current assets	11,233,061	2,087,287
Total current assets	228,498,463	138,145,495
Property and equipment, net (Note 9)	165,046,182	139,498,635
Long-term financial instruments (Note 4)	680,014	1,514,747
Available-for-sale securities (Note 7)	117,973,780	132,053,257
Equity method investments (Note 8)	4,847,926	3,300,591
Non-current guarantee deposits	47,475,251	49,143,823
Deferred income tax assets (Note 19)	8,838,444	10,465,915
Other investment assets	17,756,050	4,276,270
Intangible assets (Note 10)	46,712,581	38,468,931
Total assets	₩ 637,828,691	₩ 516,867,664

**Daekyo Co., Ltd.**  
**Balance Sheets**  
**December 31, 2004 and 2003**

(in thousands of Korean Won)

	2004	2003
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Trade accounts payable	₩ 7,595,138	₩ 7,834,166
Other accounts payable	18,815,511	19,245,896
Accrued expenses	36,187,637	41,573,497
Withholdings	5,771,297	4,241,212
Advances received	46,846,443	58,924,749
Income tax payable	28,028,324	11,061,585
Current maturities of long-term borrowings (Note 11)	-	559,500
Other current liabilities	759,728	1,224,429
Total current liabilities	144,004,078	144,665,034
Long-term borrowings, net of current maturities (Note 11)	-	1,958,250
Long-term accrued expenses	32,531,807	32,056,497
Long-term deposits received	14,775,473	13,358,131
Liability for loss contingencies	-	500,000
Accrued severance benefits, net (Note 12)	24,740,012	22,765,452
Total liabilities	216,051,370	215,303,364
Commitments and contingencies (Note 13)		
Shareholders' equity		
Capital stock, ₩5,000 par value per share; authorized 150,000,000 shares (Note 14)		
Common stock		
issued and outstanding-8,470,285 shares	42,351,425	35,798,665
Preferred stock		
issued and outstanding-1,942,699 shares	9,713,495	9,713,495
Capital surplus (Note 15)	71,723,241	8,613,285
Retained earnings (Note 16)	261,093,264	213,468,992
Capital adjustments (Note 17)	36,895,896	33,969,863
Total shareholders' equity	421,777,321	301,564,300
Total liabilities and shareholders' equity	₩ 637,828,691	₩ 516,867,664

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

**Daekyo Co., Ltd.**  
**Statements of Income**  
**Years Ended December 31, 2004 and 2003**

(in thousands of Korean Won)

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

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

**Daekyo Co., Ltd.**  
**Statements of Appropriations of Retained Earnings**  
**Years Ended December 31, 2004 and 2003**  
**(Date of Appropriations: March 18, 2005 and March 12, 2004**  
**for the years ended December 31, 2004 and 2003, respectively)**

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

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

**Daekyo Co., Ltd.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2004 and 2003**

(in thousands of Korean Won)

	2004	2003
<b>Cash flows from operating activities</b>		
Net income	₩ 65,103,212	₩ 60,980,212
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	9,671,457	8,655,555
Amortization of intangible assets	14,894,162	10,301,511
Provision for severance benefits	14,967,370	17,425,078
Loss on valuation of securities using the equity method of accounting	874,835	750,990
Loss (gain) on disposal of property and equipment, net	(84,514)	1,180,926
Loss on foreign currency translation, net	-	240,750
Provision for bad debt expense	1,876,937	1,123,626
Provision for other bad debt expenses	44,174	168,086
Provision for return reserve	-	-
Amortization of present value discount	(18,574)	-
Loss on valuation of inventories	-	376,104
Loss (gain) on valuation of options	(140,000)	40,075
Loss on impairment of available-for-sale securities	-	245,148
Loss on impairment of intangible assets	-	72,728
Provision for guarantee losses	5,161	500,000
Gain on disposal of available-for-sale securities, net	(20,791,499)	(504,531)
Others	256,464	1,364
	<u>21,555,973</u>	<u>40,577,410</u>
Changes in operating assets and liabilities		
Increase in trade accounts receivable	(7,352,021)	(3,806,058)
Decrease in other accounts receivable	4,230,014	166,555
(Increase ) decrease in advance payments	(2,606,717)	1,572,173
Increase in inventories	(5,460,175)	(4,789,779)
Decrease in deferred income tax assets	1,627,471	3,107,087
Increase in other current assets	(3,486,714)	(1,668,034)
Increase in trade accounts payable	(239,027)	(1,022,742)
(Decrease) increase in other accounts payable	(430,386)	8,595,955
(Decrease) increase in accrued expenses	(5,385,860)	9,946,046
Increase in withholdings	1,466,697	392,626
(Decrease) increase in advances received	(12,078,306)	18,161,663
Increase (decrease) in income tax payable	13,301,330	(7,659,542)
Payment of severance benefits	(21,460,487)	(28,913,912)
Decrease in severance insurance deposits	7,490,549	1,919,325
Decrease in contributions to the National Pension Fund	977,129	1,195,214
Increase in long-term deposits received	1,417,342	139,665
Increase (decrease) in long-term accrued expenses	475,311	(6,070,598)
Decrease in provision for guarantee losses	(505,161)	-
(Decrease) increase in other current liabilities	(326,648)	292,752
	<u>(28,345,659)</u>	<u>(8,441,604)</u>
Net cash provided by operating activities	<u>58,313,526</u>	<u>93,116,018</u>

**Daekyo Co., Ltd.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2004 and 2003**

(in thousands of Korean Won)

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

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

**Daekyo Co., Ltd.**  
**Notes to Financial Statements**  
**December 31, 2004 and 2003**

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**1. The Company**

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

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

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

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

**2. Summary of Significant Accounting Policies**

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

**Basis of Financial Statement Presentation**

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

**Accounting Estimates**

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

**Daekyo Co., Ltd.**  
**Notes to Financial Statements**  
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**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. 2 through 9 became applicable to the Company on January 1, 2003, the Company adopted these Standards in its financial statements covering periods beginning on or after this date. And as SKFAS Nos. 10, 12 and 13 became applicable to the Company on January 1, 2004, the Company adopted these Standards in its financial statements as of and for the year ended December 31, 2004.

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

**Revenue Recognition**

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

**Cash and Cash Equivalents**

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

**Allowance for Doubtful Accounts**

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

**Return reserve**

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

**Inventories**

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

**Investments in Affiliates and Other Investments**

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

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

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

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

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

Unrealized profit arising from sales by the Company to equity method investees is fully eliminated. The Company's proportionate unrealized profit arising from sales by the equity method investees to the Company or sales between equity method investees is also eliminated.

Foreign currency financial statements of equity method investees are translated into Korean Won using the basic exchange rates in effect as of the balance sheet date for assets and liabilities, and annual average exchange rates 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**

The cost of property and equipment includes purchase costs or manufacturing costs, incidental costs directly related to preparing the property and equipment for use, and the discounted estimated costs to remove, dismantle or restore property and equipment at the end of the estimated useful lives of the related assets when those costs meet the conditions for the recognition of liabilities.

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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:

	<b>Estimated useful lives</b>
Buildings	40 - 60 years
Structures	3 - 40 years
Machinery	4 years
Vehicles	2 - 5 years
Tools	2 - 4 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:

	<b>Estimated useful lives</b>
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

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.

**Daekyo Co., Ltd.**  
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**Foreign Currency Translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the basic rates in effect at the balance sheet date (US\$1:₩1,043.8, ¥100:₩1,012.07, Canada\$1:₩866.87, NZ\$1:₩749.87, HK\$1:₩134.23, AU\$1: ₩812.96, GBP1: ₩2,009.00 as of December 31, 2004), and the resulting translation gains and losses are recognized in current operations.

**Accrued Severance Benefits**

Employees and directors with one year or more 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 this deposit.

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 free-lance instructors to manage its educational service members. In accordance with the contracts, the Company pays instructors a certain amount calculated 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**

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 ("NOL") carry-forwards 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 almost certain that such deferred income tax assets will be realized. The total income tax provision includes the current income tax expense under applicable tax regulations and the change in the balance of deferred income tax assets and liabilities during the period.

**Long-Term Accounts Receivable and Payable**

Long-term accounts receivable and payable arising from long-term contracts are recorded at the net present value of future cash flows, calculated using the effective interest rate method at the time of the contract execution. The difference between the nominal value and the present value of these accounts receivable or payable is amortized over the term of the contract using the effective interest rate method. The resulting amortization is recognized as an interest income or expense.

**Daekyo Co., Ltd.**  
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**3. Monetary Assets Denominated in Foreign Currencies**

Monetary assets denominated in foreign currencies as of December 31, 2004 and 2003 are as follows:

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

**4. Restricted Deposits**

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

**5. Accounts Receivable**

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

<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
	<u>₩33,238,594</u>	<u>₩ 5,363,939</u>	<u>₩ -</u>	<u>₩27,874,655</u>

  

<i>(in thousands of Korean Won)</i>	2003			
	Gross amount	Allowance for doubtful accounts	Discounts on present value	Carrying value
Trade accounts receivable	₩20,094,806	₩ 2,116,287	₩ -	₩17,978,519
Other accounts receivable	10,031,360	1,336,120	18,574	8,676,666
	<u>₩30,126,166</u>	<u>₩ 3,452,407</u>	<u>₩ 18,574</u>	<u>₩26,655,185</u>

**Daekyo Co., Ltd.**  
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**6. Inventories**

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

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

**7. Available-For-Sale Securities**

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

<i>(in thousands of Korean Won)</i>	<b>2004</b>	<b>2003</b>
Debt securities	₩ 13,632,989	₩ 4,106,979
Equity securities	116,983,275	129,226,579
	<u>₩ 130,616,264</u>	<u>₩ 133,333,558</u>

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

<i>(in thousands of Korean Won)</i>	<b>2004</b>	<b>2003</b>
Exchangeable bonds	₩ 1,717,956	₩ 1,707,974
Convertible bonds	1,533,349	1,315,992
Government and public bonds	10,381,684	1,083,013
	<u>₩ 13,632,989</u>	<u>₩ 4,106,979</u>

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

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

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

(in thousands of Korean Won)

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

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

(in thousands of Korean Won)

	2004				
	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Market or net asset value	Carrying value
<b>Current assets</b>					
Beneficiary certificates <sup>1</sup>			₩ 9,095,511	₩ 9,052,219	₩ 9,052,219
<b>Non-current assets</b>					
<u>Non-marketable equity securities</u>					
Shinhan Life Insurance Co., Ltd. <sup>2</sup>	7,776,936	19.44	38,885,480	38,885,480	38,885,480
<u>Marketable equity securities</u>					
Shinhan Financial Group Co., Ltd.	2,436,544	0.79	19,885,625	57,015,130	57,015,130
LG Telecom Ltd.	1,035,652	0.37	5,395,747	4,142,608	4,142,608
KT Corporation	132,000	0.05	5,732,030	5,478,000	5,478,000
Samsung Electronics Co., Ltd.	2,400	0.001	777,417	1,081,200	1,081,200
Woori Finance Holdings Co., Ltd.	87,443	0.01	564,945	745,889	745,889
Hyundai Motor Company	10,500	0.004	402,851	582,750	582,750
			<u>32,758,615</u>	<u>69,045,577</u>	<u>69,045,577</u>
			<u>₩ 80,739,606</u>	<u>₩ 116,983,276</u>	<u>₩ 116,983,276</u>
<b>2003</b>					
	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Market or net asset value	Carrying value
<b>Current assets</b>					
Beneficiary certificates <sup>1</sup>	-	-	₩ 1,095,511	₩ 1,065,555	₩ 1,065,555
<b>Non-current assets</b>					
<u>Non-marketable equity securities</u>					
Shinhan Life Insurance Co., Ltd. <sup>2</sup>	7,776,936	19.44	38,885,480	38,885,480	38,885,480
Shanghai Daekyo Co., Ltd. <sup>3</sup>	-	100	301,693	301,693	301,693
Daekyo USA, Inc. <sup>3</sup>	-	66	397,894	397,894	397,894
Child-Care Consortium <sup>3</sup>	1,600	22.85	1,600,000	1,600,000	1,600,000
			<u>41,185,067</u>	<u>41,185,067</u>	<u>41,185,067</u>

**Daekyo Co., Ltd.**  
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<i>(in thousands of Korean Won)</i>	<b>2003</b>				
	<b>Number of shares owned</b>	<b>Percentage of ownership (%)</b>	<b>Acquisition cost</b>	<b>Market or net asset value</b>	<b>Carrying value</b>
<b>Marketable equity securities</b>					
Shinhan Financial Group Co., Ltd.	3,686,544	1.26	30,089,398	70,228,663	70,228,663
LG Telecom Ltd.	1,035,652	0.37	5,395,747	3,764,595	3,764,595
KT Corporation	13,985	0.005	755,190	623,731	623,731
Samsung Electronics Co., Ltd.	2,400	0.001	777,417	1,082,400	1,082,400
Good Morning Shinhan Securities Co., Ltd.	192,024	0.09	1,167,030	1,056,132	1,056,132
KorAm Bank	203,000	0.09	1,064,333	2,842,000	2,842,000
Woori Finance Holdings Co., Ltd.	87,443	0.01	564,945	596,361	596,361
Hyundai Motor Company Beneficiary certificates <sup>4</sup>	-	-	4,311,995	6,251,825	6,251,825
			<u>44,528,906</u>	<u>86,975,957</u>	<u>86,975,957</u>
			<u>₩ 86,809,484</u>	<u>₩129,226,579</u>	<u>₩129,226,579</u>

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

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

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

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

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

	<b>2004</b>			
	<b>Beginning balance</b>	<b>Increase (decrease)</b>	<b>Disposal (realization)</b>	<b>Ending balance</b>
<i>(In thousands of Korean Won)</i>				
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
	<b>₩ 42,408,909</b>	<b>₩ (4,193,335)</b>	<b>₩ (1,454,813)</b>	<b>₩ 36,760,761</b>
	<b>2003</b>			
	<b>Beginning balance</b>	<b>Increase (decrease)</b>	<b>Disposal (realization)</b>	<b>Ending balance</b>
<i>(In thousands of Korean Won)</i>				
KT Corporation exchangeable bonds	₩ -	₩ (19,882)	₩ -	₩ (19,882)
Shinhan Financial Group Co., Ltd. investment bonds	(4,246)	-	4,246	-
Samsung Card Co., Ltd. convertible bond	-	(16,027)	-	(16,027)
Shinhan Financial Group Co., Ltd.	16,168,546	24,481,366	(510,647)	40,139,265
LG Telecom Ltd.	(890,660)	(740,492)	-	(1,631,152)
KT Corporation	-	(85,309)	-	(85,309)
Samsung Electronics Co., Ltd.	-	337,554	-	337,554
Good Morning Shinhan Securities Co., Ltd.	-	102,413	-	102,413
KorAm Bank	-	1,352,400	-	1,352,400
Woori Finance Holdings Co., Ltd.	-	35,632	-	35,632
Hyundai Motor Company	-	238,875	-	238,875
Beneficiary certificates	-	1,955,140	-	1,955,140
	<b>₩ 15,273,640</b>	<b>₩ 27,641,670</b>	<b>₩ (506,401)</b>	<b>₩ 42,408,909</b>

The Company sold equity securities of Shinhan Financial Group Co., Ltd. of ₩10,201,758 thousands with realized gain of ₩16,955,803 thousands, and other equity securities of ₩10,757,220 thousands with realized gain of ₩4,222,944 thousands and loss of ₩387,248 thousands.

**Daekyo Co., Ltd.**  
**Notes to Financial Statements**  
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**8. Equity Method Investments**

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

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

  

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

<sup>1</sup> No shares are issued according to the local laws or regulation.

**Daekyo Co., Ltd.**  
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The details of the equity method valuation as of December 31, 2004 and 2003 are as follows:

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

  

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

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

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

  

	2003			
	Beginning balance	Increase (decrease)	Amortization	Ending balance
<i>(in thousands of Korean Won)</i>				
MyfriendNet Co., Ltd.	₩ 63,654	₩ -	₩ 21,218	₩ 42,436
Daekyo EOL Co., Ltd.	326,199	-	326,199	-
	<b>₩ 389,853</b>	<b>₩ -</b>	<b>₩ 347,417</b>	<b>₩ 42,436</b>

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

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

<i>(in thousands of Korean Won)</i>	<b>2004</b>		<b>2003</b>	
Daekyo America, Inc.	₩	38,450	₩	-
Daekyo Canada, Inc.		-		11,277
Daekyo Japan Co., Ltd.		3,952		4,466
Beijing Daekyo Co., Ltd.		-		6,372
Sanghai Daekyo Co., Ltd.		7,141		-
	₩	<u>49,543</u>	₩	<u>22,115</u>

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

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

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

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

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

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

**9. Property and Equipment**

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

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

  

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

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

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<i>(in thousands of Korean Won)</i>	<b>2003</b>				
	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery</b>	<b>Vehicles</b>
Balance as of January 1, 2003	₩ 40,277,648	₩ 83,090,715	₩ 2,552,504	₩ 2	₩ 183,995
Acquisition during the year	353,707	367,163	118,690	-	104,749
Disposal	(1,069,120)	(1,670,733)	-	-	(10)
Depreciation	-	(2,384,158)	(70,399)	-	(119,756)
Transfer	(1,880,880)	10,966,661	-	-	-
Balance as of December 31, 2003	<u>₩ 37,681,355</u>	<u>₩ 90,369,648</u>	<u>₩ 2,600,795</u>	<u>₩ 2</u>	<u>₩ 168,978</u>
Accumulated depreciation	<u>₩ -</u>	<u>₩ 14,717,118</u>	<u>₩ 147,453</u>	<u>₩ 468,198</u>	<u>₩ 999,305</u>

  

	<b>Tools</b>	<b>Equipment</b>	<b>Other</b>	<b>Construction in-progress</b>	<b>Total</b>
Balance as of January 1, 2003	₩ 89	₩ 8,626,278	₩ 87,486	₩ 2,607,185	₩ 137,425,902
Acquisition during the year	89	6,009,729	-	8,474,976	15,429,103
Disposal	-	(62,584)	(17,486)	-	(2,819,933)
Depreciation	(50)	(6,081,194)	-	-	(8,655,557)
Transfer	-	-	-	(10,966,661)	(1,880,880)
Balance as of December 31, 2003	<u>₩ 128</u>	<u>₩ 8,492,229</u>	<u>₩ 70,000</u>	<u>₩ 115,500</u>	<u>₩ 139,498,635</u>
Accumulated depreciation	<u>₩ 30,929</u>	<u>₩ 57,584,798</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 73,947,801</u>

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

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

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**Notes to Financial Statements**  
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**10. Intangible Assets**

Changes in intangible assets for the years ended December 31, 2004 and 2003 are as follows:

<i>(in thousands of Korean Won)</i>	2004						
	Goodwill	Industrial property rights	Development costs	Intellectual property rights	Right to use donated assets	Franchise	Total
Beginning balance	₩ 556,931	₩ 221,330	₩27,708,619	₩ 2,431,210	₩ 7,199,944	₩ 350,897	₩ 38,468,931
Increase	-	40,044	14,122,903	1,155	8,973,710	-	23,137,812
Amortization	(170,432)	(66,649)	(8,182,583)	(774,632)	(5,628,496)	(71,370)	(14,894,162)
Impairment							
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

  

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

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

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

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

<i>(in thousands of Korean Won)</i>	2004	2003
Expensed	₩ 1,469,158	₩ 2,457,837
Deferred	14,122,903	9,185,245
	₩ 15,592,061	₩ 11,643,082

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

<i>(in thousands of Korean Won)</i>	2004	2003
Training expenses	₩ 8,841,959	₩ 8,407,177
Advertising expenses	42,341,322	37,616,701
	₩ 51,183,281	₩ 46,023,878

**Daekyo Co., Ltd.**  
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**11. Long-Term Borrowings**

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

<i>(in thousands of Korean Won, in thousand of Japanese Yen)</i>	Annual interest rates (%) as of December 31,		2004	2003
	2004	2004		
<u>Foreign currency borrowings:</u>				
Woori Bank	-	₩	-	₩ 2,517,750
Foreign currency equivalent	-		-	( ¥ 225)
Less: Current maturities	-		-	(559,500)
		₩	-	₩ 1,958,250

**12. Accrued Severance Benefits**

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

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

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

**13. Commitments and Contingencies**

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

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

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

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

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

**14. Capital Stock**

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

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

*(in thousands of Korean Won)*

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

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

**15. Capital Surplus**

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

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**16. Retained Earnings**

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

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

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

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

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

**17. Capital Adjustments**

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

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

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**18. Treasury Stock**

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

**19. Income Taxes**

Income tax expense for the years ended December 31, 2004 and 2003 are as follows:

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

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

The income tax effect of temporary differences, comprising the deferred income tax assets and liabilities as of December 31, 2004 and 2003, are as follows:

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

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

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

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

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

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

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**20. Sales and Cost of Sales**

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

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

**21. Earnings Per Share**

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

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

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

<sup>1</sup> Net income allocated to preferred stock is calculated as follows:

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2004

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

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

<i>(in Korean Won)</i>	<b>Calculation</b>	<b>Amount</b>
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)
		<u>₩ 49,289,466,121</u>

2003

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

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

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

<sup>2</sup> Net income allocated to common stock is calculated as follows:

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

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

2004

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

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

2003

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

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

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

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

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**22. Dividends**

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

Details of cash dividends

1. Interim Dividends

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

2. Year-end dividends

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

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

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

Dividend payout ratio

<i>(in Korean Won)</i>	<b>2004</b>	<b>2003</b>
Total dividends (1)	₩ 15,813,745,900	₩ 10,710,499,900
Net income (2)	65,103,212,021	60,980,212,456
Dividend payout ratio ((1)/(2))	<u>24.29%</u>	<u>17.56%</u>

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Dividend yield ratio

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

(in Korean won)

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

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

**23. Transactions with Related Parties**

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

(in thousands of Korean Won)

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

<sup>1</sup> Includes guarantee deposits and others.

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

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**24. Value Added Information**

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

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

**25. Supplemental Cash Flow Information**

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

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

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

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

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

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

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

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