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DAEKYO CO., LTD.

**NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
AND INDEPENDENT AUDITORS' REPORT**

Audit • Tax • Consulting • Financial Advisory.

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying non-consolidated balance sheet of Daekyo Co., Ltd. (the "Company") as of December 31, 2007 and the related non-consolidated statements of income, appropriations of retained earnings, changes in shareholders' equity and cash flows for the year ended December 31, 2007, all 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 audit. The financial statements of the Company as of December 31, 2006, which are presented for comparative purposes, were audited by Sam Il Accounting Corporation(PwC Korea), whose report dated March 5, 2007, expressed an unqualified opinion on those statements.

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

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and the results of its operations, the changes in its retained earnings and shareholders' equity, and its cash flows for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the Republic of Korea.

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



March 11, 2008

Notice to Readers

This report is effective as of March 11, 2008, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

DAEKYO CO., LTD.

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2007 AND 2006

	Korean Won	
	2007	2006
	(In thousands)	
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (Note 8)	₩ 67,670,719	₩ 45,330,613
Short-term financial instruments (Notes 3, 8 and 15)	58,418,960	56,562,938
Short-term investment securities (Note 4)	44,277,964	44,508,573
Trade accounts receivable, net	23,486,235	23,313,373
Other accounts receivable, net	3,324,674	1,502,371
Short-term loans	1,974,786	5,659,974
Accrued income	2,838,692	2,307,706
Advanced payments	2,130,913	509,297
Prepaid expenses	1,832,101	1,419,531
Deferred income tax assets (Note 14)	1,609,315	2,325,568
Inventories, net (Note 6)	15,277,876	21,703,214
Total current assets	222,842,235	205,143,158
NON-CURRENT ASSETS:		
Long-term financial instruments (Note 3)	2,500	2,500
Long-term loans	8,446,145	6,780,307
Long-term investment securities (Note 4)	292,525,126	268,677,364
Investment securities accounted for using the equity method (Notes 5 and 15)	35,068,133	36,912,161
Other investment assets	6,337,025	6,712,577
Property and equipment, net (Note 6)	200,041,766	198,494,531
Intangible assets, net (Note 7)	62,585,031	60,211,510
Non-current guarantee deposits	54,592,455	56,410,272
Total non-current assets	659,598,181	634,201,222
TOTAL ASSETS	₩882,440,416	₩839,344,380
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Trade accounts payable	₩ 6,713,274	₩ 13,833,331
Other accounts payable	16,422,277	15,487,689
Accrued expenses	38,028,836	39,596,946
Withholdings	7,627,021	6,573,664
Advances received	47,177,181	42,221,137
Income tax payable	12,528,465	4,465,361
Provision for returns	680,815	521,781
Total current liabilities	129,177,869	122,699,909

(Continued)

DAEKYO CO., LTD.

NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2007 AND 2006

	Korean Won	
	2007	2006
	(In thousands)	
LONG-TERM LIABILITIES:		
Long-term accrued expenses	₩ 5,031,472	₩ 5,835,035
Long-term accounts payable	3,000,000	3,000,000
Long-term deposits received	12,105,469	12,379,729
Provision for mileage	108,829	236,591
Accrued severance benefits, net of payment to National Pension Fund of ₩1,103,614 thousand in 2007 and ₩1,423,721 thousand in 2006, and severance insurance deposits for employees of ₩43,987,751 thousand in 2007 and ₩42,363,530 thousand in 2006 (Note 2)	22,396,567	29,501,849
Deferred income tax liabilities (Note 14)	62,425,179	55,875,050
Total long-term liabilities	105,067,516	106,828,254
TOTAL LIABILITIES	234,245,385	229,528,163
SHAREHOLDERS' EQUITY:		
Capital stock (Note 9)	52,064,920	52,064,920
Capital surplus (Note 10)	72,265,629	71,723,241
Treasury stock (Note 12)	(12,293,466)	(2,472,637)
Gain on valuation of available-for-sale securities (Note 4)	168,589,429	148,816,807
Loss on valuation of available-for-sale securities (Note 4)	(502,869)	(206,189)
Changes in equity using the equity method (Note 5)	666,681	724,935
Negative changes in equity using the equity method (Note 5)	(1,421,538)	(318,832)
Retained earnings	368,826,245	339,483,972
TOTAL SHAREHOLDERS' EQUITY	648,195,031	609,816,217
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	 ₩882,440,416	 ₩839,344,380

See accompanying notes to non-consolidated financial statements.

DAEKYO CO., LTD.

NON-CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean Won	
	2007	2006
	(In thousands, except for net income per share)	
Sales (Note 17)	₩846,630,204	₩829,697,058
Cost of sales (Note 17)	655,755,294	651,174,905
Gross profit	190,874,910	178,522,153
Selling and administrative expenses (Note 22)	112,357,370	114,590,340
Operating income	78,517,540	63,931,813
Non-operating income:		
Interest income	7,275,742	7,513,542
Dividend income	4,999,115	4,734,921
Reversal of allowance for doubtful accounts	22,220	-
Foreign exchange gains	1,131	2,756
Gain on disposal of property and equipment	1,125,909	668,868
Gain on foreign currency translation	117,902	1,872
Gain on valuation of investment securities accounted for using the equity method (Note 5)	235,050	380,810
Gain on disposal of short-term investment securities	9,782,559	466,032
Gain on disposal of long-term investment securities	1,371,637	7,946,397
Reversal of loss on impairment of long-term investment securities	-	104,720
Gain on disposal of investment assets	-	133,685
Gain on disposal of investment securities accounted for using the equity method (Note 5)	70,185	128,068
Others	1,043,214	1,220,899
	26,044,664	23,302,570
Non-operating expenses:		
Foreign exchange losses	20,707	36,254
Loss on foreign currency translation	125,433	67,814
Donations	20,907,044	1,796,521
Other bad debt expenses	199,381	-
Loss on valuation of inventories	1,660,935	1,477,902
Loss on valuation of investment securities accounted for using the equity method (Note 5)	8,106,336	1,317,237
Loss on disposal of short-term investment securities	-	984,055
Loss on disposal of long-term investment securities	-	161,088
Loss on disposal of property and equipment	292	6,488
Loss on removal of property and equipment	7,069,332	927
Loss on impairment of intangible assets (Note 7)	304,928	2,461,524

(Continued)

DAEKYO CO., LTD.

NON-CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean Won	
	2007	2006
	(In thousands, except for net income per share)	
Loss on disposal of investment assets	₩ -	₩ 5,150
Loss on impairment of other non-current assets	-	500,000
Retirement bonus	-	1,765,101
Loss on disposal of investment securities accounted for using the equity method	149,810	65,917
Others	1,504,382	1,984,635
	<u>40,048,580</u>	<u>12,630,613</u>
Income before income tax -continuing operations	64,513,624	74,603,770
Income tax expense - continuing operations (Note 14)	14,117,295	21,471,714
Net income - continuing operations	50,396,329	53,132,056
Loss on discontinued operations (Note 19)	2,285,631	1,681,104
Net income	<u>₩ 48,110,698</u>	<u>₩ 51,450,952</u>
Net income per common share - continuing operations (Note 16)	<u>₩ 4,933</u>	<u>₩ 5,092</u>
Net income per common share (Note 16)	<u>₩ 4,671</u>	<u>₩ 4,930</u>

See accompanying notes to non-consolidated financial statements.

DAEKYO CO., LTD.

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean Won	
	2007	2006
	(In thousands)	
UNAPPROPRIATED RETAINED EARNINGS :		
Unappropriated retained earnings carried over from prior year	₩ 4,093,397	₩ 6,517,084
Interim dividends (Note 11)	(7,182,874)	(7,289,089)
Net income	48,110,698	51,450,952
	45,021,221	50,678,947
APPROPRIATIONS:		
Reserve for financial structure improvement	-	10,000,000
Voluntary reserve	25,000,000	25,000,000
Cash dividends (Note 11)	14,490,098	11,585,550
	39,490,098	46,585,550
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	₩ 5,531,123	₩ 4,093,397

See accompanying notes to non-consolidated financial statements.

DAEKYO CO., LTD.

NON-CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2007

	Korean Won					Total
	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	
	(In thousands)					
Balance at January 1, 2007	₩52,064,920	₩71,723,241	₩ (2,472,637)	₩149,016,721	₩339,483,972	₩609,816,217
Dividends	-	-	-	-	(11,585,550)	(11,585,550)
Balance after appropriations	52,064,920	71,723,241	(2,472,637)	149,016,721	327,898,421	598,230,666
Interim dividends	-	-	-	-	(7,182,874)	(7,182,874)
Net income	-	-	-	-	48,110,698	48,110,698
Acquisition of treasury stock	-	-	(9,820,829)	-	-	(9,820,829)
Gain on disposal of treasury stock	-	542,388	-	-	-	542,388
Gain on valuation of available-for-sale securities	-	-	-	19,772,622	-	19,772,622
Loss on valuation of available-for-sale securities	-	-	-	(296,680)	-	(296,680)
Changes in equity using the equity method	-	-	-	(58,254)	-	(58,254)
Negative changes in equity using the equity method	-	-	-	(1,102,706)	-	(1,102,706)
Balance at December 31, 2007	<u>₩52,064,920</u>	<u>₩72,265,629</u>	<u>₩ (12,293,466)</u>	<u>₩167,331,703</u>	<u>₩368,826,245</u>	<u>₩648,195,031</u>

See accompanying notes to non-consolidated financial statements.

DAEKYO CO., LTD.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean Won	
	2007	2006
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	₩ 48,110,698	₩ 51,450,952
Additions of expenses not involving cash outflows:		
Depreciation	11,219,455	10,933,479
Amortization of intangible assets	30,717,293	27,613,770
Provision for severance benefits	12,255,611	16,974,057
Loss on valuation of investment securities accounted for using the equity method	8,106,336	1,317,237
Loss on disposal of property and equipment	292	6,488
Loss on removal of property and equipment	6,402,732	927
Loss on impairment of intangible assets	304,928	2,461,524
Loss on disposal of investment assets	-	5,150
Loss on impairment of other non-current assets	-	500,000
Loss on valuation of inventories	1,660,935	1,477,902
Bad debt expenses	-	461,462
Other bad debt expenses	199,381	-
Commissions	-	43,868
Loss on foreign currency translation	5,717	6,240
Loss on disposal of short-term investment securities	-	984,055
Loss on disposal of long-term investment securities	-	161,088
Loss on disposal of investment securities accounted for using the equity method	149,810	65,917
Miscellaneous losses	11,234	-
Loss on discontinued operations	521,854	-
	71,555,579	63,013,164
Deduction of items not involving cash inflows:		
Interest income	-	481,894
Gain on valuation of investment securities accounted for using the equity method	235,050	380,810
Gain on foreign currency translation	4,573	-
Gain on disposal of property and equipment	1,125,909	668,868
Gain on disposal of short-term investment securities	9,782,559	466,032
Gain on disposal of long-term investment securities	1,371,637	7,946,397
Gain on disposal of investment securities accounted for using the equity method	70,185	128,068
Gain on disposal of investment assets	-	133,685
Reversal of allowance for doubtful accounts	22,220	-
Reversal of loss on impairment of long-term investment securities	-	104,720
Miscellaneous losses	-	290,770
	12,612,133	10,601,244

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DAEKYO CO., LTD.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean Won	
	2007	2006
	(In thousands)	
Changes in operating assets and liabilities related to operating activities:		
Increase in trade accounts receivable	₩ (150,641)	₩ (2,557,016)
Increase in accrued income	(530,986)	(315,685)
Decrease (increase) in other accounts receivable	(2,171,684)	422,511
Decrease (increase) in advanced payments	(1,237,147)	52,236
Decrease (increase) in prepaid expenses	(412,569)	269,068
Decrease (increase) in inventories	4,764,403	(6,675,136)
Decrease (increase) in deferred income tax assets	(648,037)	5,683,012
Increase (decrease) in trade accounts payable	(7,120,057)	6,488,242
Increase in other accounts payable	934,588	840,490
Increase (decrease) in accrued expenses	(1,804,700)	879,652
Increase in withholdings	1,053,357	2,354,009
Increase in advances received	4,956,044	3,186,611
Increase (decrease) in income tax payable	8,063,104	(3,248,665)
Increase (decrease) in provision for returns	159,034	(485,743)
Payment of severance benefits	(18,056,779)	(14,123,801)
Decrease (Increase) in severance insurance deposits	(1,624,221)	449,200
Decrease in contributions to the National Pension Fund	320,107	315,629
Decrease in long-term deposits received	(274,260)	(788,227)
Decrease in long-term accrued expenses	(803,563)	(22,111,815)
Decrease in deferred income tax liabilities	(2,273,533)	-
Increase in provision for mileage	108,829	-
	(16,748,711)	(29,365,428)
Net cash provided by operating activities	90,305,433	74,497,444
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities:		
Proceeds from disposal of short-term financial instruments	53,057,783	5,001,000
Proceeds from disposal of trading securities	61,687,638	4,031,532
Proceeds from disposal of available-for-sale securities	6,513,298	99,213,732
Proceeds from investment securities accounted for using the equity method	-	123,384
Collection of short-term loans	5,093,276	4,591,389
Collection of long-term loans	1,720	-
Proceeds from non-current guarantee deposits	20,580,813	10,089,957
Proceeds from other investment assets	3,120	90,000
Proceeds from disposal of property and equipment	3,904,833	2,048,130
Proceeds from disposal of intangibles	234,876	-
	151,077,357	125,189,124

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DAEKYO CO., LTD.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean Won	
	2007	2006
	(In thousands)	
Cash outflows from investing activities:		
Acquisition of short-term financial instruments	₩ 54,914,950	₩ 19,049,178
Acquisition of trading securities	51,000,000	-
Acquisition of available-for-sale securities	-	54,442,875
Acquisition of investment securities accounted for using the equity method	7,279,079	27,071,411
Extension of short-term loans	107,144	580,000
Extension of long-term loans	2,818,503	400,000
Payments for non-current guarantee deposits	18,762,995	21,049,635
Acquisition of other investment assets	6,000	1,218,626
Acquisition of property and equipment	22,185,157	43,554,841
Acquisition of intangible assets	33,921,990	34,794,835
	190,995,818	202,161,401
Net cash used in investing activities	(39,918,461)	(76,972,277)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities:		
Disposal of treasury stock	5,829,762	-
Cash outflows from financial activities:		
Cash dividends	18,768,424	17,896,342
Acquisition of treasury stock	15,108,204	2,472,637
	(33,876,628)	(20,368,979)
Net cash used in financing activities	(28,046,866)	(20,368,979)
Net increase (decrease) in cash and cash equivalents	22,340,106	(22,843,812)
Cash and cash equivalents - beginning of the year	45,330,613	68,174,425
Cash and cash equivalents - -end of the year	₩ 67,670,719	₩ 45,330,613

See accompanying notes to non-consolidated financial statements.

DAEKYO CO., LTD.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

1. GENERAL:

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, 2007, the Company's shareholders for common stock are as follows:

<u>Name of shareholder</u>	<u>Number of shares owned</u>	<u>Percentage of ownership (%)</u>
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
	<u>8,470,285</u>	<u>100.00</u>

On February 3, 2004, the Company offered its shares for public ownership by listing its common shares on the Korean Stock Exchange, and the Company's capital is ₩52,064,920 thousand (common stock - ₩42,351,425 thousand and preferred stock - ₩9,713,495 thousand) through several paid-in capital increase and free issue of new shares.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies followed by the Company in the preparation of 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 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, results of operations, changes in shareholders' equity or cash flows, is not presented in the accompanying financial statements.

Implementation of the Statements of Korean Accounting Standards

The Company prepared its non-consolidated financial statements as of December 31, 2007 in accordance with the existing Korea Financial Accounting Standards and Statements of Korea Accounting Standards (“SKAS”). The Company’s accounting policies have not been changed since the preparation of the non-consolidated financial statements for the year ended December 31, 2006 except for changes due to the application of new SKAS No.11, No.21 through No.24 which are effective from January 1, 2007. Certain reclassifications and changes of presentation have been made in the prior year’s non-consolidated financial statements according to SKAS No. 21. Such reclassifications and changes of presentation have no effect on previously reported net assets and net income. Non-consolidated statement of changes in shareholders’ equity in the prior year is not prepared pursuant to specific transitional provision of SKAS No.21.

The financial statements in 2007 were approved by the board of directors on March 10, 2008.

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

Revenue Recognition

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

Allowance for Doubtful Accounts

The Company sets up allowance for doubtful accounts for account receivable and bonds based on past experience, taking into account current collection trends.

Reserve for Returns

Reserve for returns is estimated and provided. The related estimated cost of goods sold is deducted from sales and cost of goods sold, respectively.

Inventories

Inventories are stated at cost being determined by the moving-average method. The Company maintains perpetual inventory method, which is adjusted through physical count. If deterioration, obsolescence and damage occur, the inventories is impaired. If the net realizable value of inventories is less than its cost, inventories are adjusted to the net realizable value. Valuation loss incurred, which is the difference between the quantity on the inventory list and the quantity physically counted, is recorded as a contra inventory account and added to the cost of sale.

Valuation of Securities (Excluding Equity Securities Accounted for Using the Equity Method)

Securities are recognized initially at cost, which includes the market value of the consideration given to acquire them and incidental expenses. If the market value of the consideration given is not available, the acquisition cost is measured at the best estimates of its fair value. When the Company disposes of securities, the gross average method is used to calculate the realized profit or loss.

At acquisition, the Company classifies securities into one of the three categories: trading, held-to-maturity or available-for-sale. Trading securities are classified under current assets, whereas available-for-sale securities and held-to-maturity securities are classified under non-current assets, except for those whose maturity dates or whose likelihood of being disposed of are within one year from the balance sheet date, which are classified under current assets.

Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sales securities are also valued at fair value, with unrealized holding gains or losses recognized in cumulative other comprehensive income (loss), until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of cumulative other comprehensive income (loss) is reflected in current operations.

Investment Securities Accounted for Using the Equity Method

Equity securities held for investment in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. If the cost of the acquisition exceeded the acquirer's interest in the fair value of the identifiable assets and liabilities at the date of acquisition, the difference is amortized over the period during which future economic benefits are expected to flow to the enterprise. However, if the cost of the acquisition is less than the acquirer's interest in the fair value of the identifiable assets and liabilities, (1) the difference that relates to expectations of future losses and expenses that are identified in the acquirer's plan for the acquisition is recognized as income in the income statement when the future losses and expenses are recognized, (2) the difference not exceeding the fair values of acquired identifiable non-monetary assets is recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable or amortizable assets, and (3) the difference in excess of the fair values of acquired identifiable non-monetary assets is immediately recognized as income.

The Company's share in the net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to related capital accounts.

The Company's portion of profits and losses resulting from inter-company (not subsidiary company) transactions that are recognized in assets, such as inventories and fixed assets, are eliminated and charged to equity securities accounted for using the equity method. However, unrealized profits and losses resulting from sales of assets from the Company to investee are eliminated in full.

For overseas affiliates whose financial statements are prepared in foreign currencies, assets and liabilities are translated at the exchange rate at the balance sheet date, shareholder's equity is translated at the historical exchange rate and the items in the statement of income are translated at the weighted average exchange rate for the reporting period. Net translation adjustments are recorded as a component of shareholders' equity.

Property and Equipment and Related Depreciation

Property 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.

	<u>Useful lives (Years)</u>
Buildings	40 - 60 years
Structures	3 - 40 years
Machinery	4 years
Vehicles	2 - 5 years
Tools	2 - 6 years
Equipment	2 - 17 years

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

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

Intangibles Assets and Amortization Method

Intangible assets are recorded at the production cost or purchase cost, plus incidental expenses. Intangible assets are amortized using the straight-line method over the estimated useful lives as follows:

	<u>Useful lives (Years)</u>
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.

If the recoverable amount of intangible asset becomes less than its carrying amount as a result of obsolescence, sharp decline in market value or other causes of impairment, the carrying amount of an intangible asset is adjusted to its recoverable amount and the reduced amount is recognized as impairment loss. If the recoverable amount of a previously impaired intangible asset exceeds its carrying amount in subsequent periods, an amount equal to the excess is recorded as reversal of impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years.

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 (₩938.20 to US\$1.00, ₩833.33 to ¥100.00, ₩956.91 to Canadian \$1.00, ₩727.15 to NZ\$1.00, ₩120.26 to HK\$1.00, ₩822.85 to AUS\$1.00, ₩1,874.10 to GBP1.00, ₩1,381.26 to EUR1.00 and ₩648.94 to SG\$1.00 at December 31, 2007), and the resulting translation gains and losses are recognized in current operations.

Accrued Severance Benefits

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

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

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

Long-Term Accrued Expenses

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

Provisions

A provision is a liability of uncertain timing or amount and is recognized when all of the following conditions are met:

- (1) The Company has a present obligation (legal or constructive) as a result of a past event
- (2) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- (3) A reliable estimate can be made of the amount of the obligation.

Income Tax Expense and Deferred Income Tax Assets (liabilities)

Income tax expense is determined by adding or deducting the total income tax and surtaxes to be paid for the current period and the changes in deferred income tax assets or liabilities. In addition, current tax and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognized for all taxable temporary differences with some exceptions and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related assets or liabilities for financial reporting and according to the expected reversal date of the specific temporary difference if they are not related to an asset or liability for financial reporting, including deferred tax assets related to carry forwards. Deferred tax assets and liabilities in the same current or non-current classification are offset if these relate to income tax levied by the same tax jurisdictions.

3. RESTRICTED FINANCIAL INSTRUMENTS:

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, 2007 and 2006, respectively. Short-term financial instruments amounting to ₩3,534,073 thousand (2006: ₩3,520,000 thousand) were provided as collateral in connection with guarantees on affiliated companies and others as of December 31, 2007.

4. INVESTMENT SECURITIES:

(1) The Company's short-term investment securities as of December 31, 2007 and 2006 consist of the following (Unit: Korean Won in thousands):

	<u>2007</u>	<u>2006</u>
Government and public bonds	2,146,594	1,011,398
Beneficiary certificates	42,131,370	43,497,175
	<u>44,277,964</u>	<u>44,508,573</u>

Among the government and public bonds above, securities with maturities of less than one year or securities which are almost certain to be disposed of are classified as current assets. The beneficiary certificates are classified as current assets because the certificates mature within one year or are almost certain to be disposed of within one year.

Beneficiary certificates were valued at fair value. Gain and loss on valuation of available-for-sale securities, net of deferred income tax as of December 31, 2007 was accounted for as accumulated other comprehensive income (loss).

(2) The Company's long-term investment securities as of December 31, 2007 and consist of the following (Unit: Korean Won in thousands):

<u>Available-for-sale securities</u>	<u>2007</u>	<u>2006</u>
Marketable equity securities	286,431,069	260,576,915
Government and public bonds	5,594,057	7,600,499
Convertible bonds	500,000	500,000
	<u>292,525,126</u>	<u>268,677,364</u>

Government bonds and convertible bonds are classified as held-to-maturity securities. The maturities of these securities as of December 31, 2007 and 2006 are within 5 years.

(3) The Company's marketable equity securities classified as available-for-sale as of December 31, 2007 consist of the following (Unit: Korean Won in thousands):

	2007				
	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Fair value	Carrying value
Marketable equity securities:					
Shinhan Financial Group Co., Ltd.	5,344,397	1.460	54,690,402	285,925,239	285,925,239
CJ Home Shopping Corp.	9,004	0.078	655,373	471,810	471,810
Inzi Controls Co., Ltd.	6,000	0.066	67,503	34,020	34,020
			<u>55,413,278</u>	<u>286,431,069</u>	<u>286,431,069</u>

The investments in marketable equity securities were valued at fair value. Gain on valuation of available-for-sale securities, net of deferred income tax as of December 31, 2007 was accounted for as accumulated other comprehensive income.

(4) The Company's marketable equity securities classified as available-for-sale as of December 31, 2006 consist of the following (Unit: Korean Won in thousands):

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

The investments in marketable equity securities were valued at fair value. Gain on valuation of available for sale securities, net of deferred income tax as of December 31, 2006 was accounted for as accumulated other comprehensive income.

(5) Among the above short-term and long-term investment securities, ₩345,302 thousand are recognized as interest income relating to debt securities including government bonds.

5. INVESTMENT SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

(1) Investment securities accounted for using the equity method as of December 31, 2007 consist of the following: (Unit: Korean Won in thousands):

	2007				
	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Market or net asset value	Carrying value
Daekyo Bertelsmann Korea Co., Ltd.	307,467	60.59	4,165,550	2,042,936	1,339,889
Daekyo America, Inc. (*1)	535	66.54	2,605,622	1,984,284	1,920,614
Daekyo Hong Kong Co., Ltd.	2,272,727	47.89	250,000	279,414	270,343
Beijing Daekyo Co., Ltd.	-	100.00	445,142	386,379	386,379
Daekyo Book Center Co., Ltd. (Former: Daekyo Educonsulting Co., Ltd.)	276,138	82.15	2,901,800	2,635,240	2,635,246
Interesting Creative Co., Ltd.	64,738	20.00	680,000	-	-
Daekyo EOL Co., Ltd.	12,210	56.53	842,490	173,504	173,504
Daekyo Malaysia Sdn. Bhd.	1,940,988	100.00	599,793	252,009	239,379
Sanghai Daekyo Co., Ltd.	-	100.00	274,843	283,414	269,321
Daekyo Bertelsmann Educational Service Limited	483,000	50.00	591,939	263,280	263,280
Fermatedu Co., Inc.	480,000	51.00	26,564,000	10,842,912	23,396,706
Child-Care Consortium (*2)	1,600	16.44	1,728,068	863,963	863,963
The First CS Academy Co., Ltd.	200,000	50.00	1,000,000	957,310	957,310
Daekyo Sobics Co., Ltd.	502,300	83.72	2,511,500	2,262,775	2,262,685
P.T Daekyo Indonesia	297,000	99.00	281,170	89,940	89,514
			<u>45,441,917</u>	<u>23,317,360</u>	<u>35,068,133</u>

(*1) Daekyo America, Inc. merged with Daekyo USA as of December 31, 2007.

(*2) Although its ownership percentage is less than 20%, the Company has applied the equity method since 2007 because it is able to exercise significant influence over the operating and financial policies of the investees

The Company used non-audited financial statements when applying the equity method of accounting. The Company performed additional procedures to obtain reliance on the financial statements not audited by an external auditor. Accordingly, it is possible that differences may arise in the value of equity securities accounted for using the equity method if audited financial statements were used. Management believes that the ultimate differences will not have a material adverse effect on the financial statement of the Company.

The Company calculated the loss on disposal of investment securities accounted for using the equity method amounting to ₩44,428 thousand due to nonreciprocal transfer of securities of Yanbian Daekyo Co., Ltd. Also, as Daekyo Book Center Co., Ltd. has issued new shares to be purchased during 2007, the Company calculated the loss on disposal of investment securities accounted for using the equity method amounting to ₩105,382 thousand due to difference between paid-in capital and increase in the investor's share of net assets of the investee. In addition, the Company calculated the increase on negative change in equity using the equity method amounting to ₩1,138,178 thousand due to difference between reduction of capital and decrease in the investor's share of net assets of the investee, as Daekyo Bertelsmann Korea Co., Ltd. has reduced its shares by 292,533 shares without any refund during 2007.

The Company acquired shares of The First CS Academy Co., Ltd., Daekyo Sobics Co., Ltd. and P.T Daekyo Indonesia in 2007.

Investment securities accounted for using the equity method as of December 31, 2006 consist of the following (Unit: Korean Won in thousands):

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

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

The Company used non-audited financial statements when applying the equity method of accounting. The Company performed additional procedures to obtain reliance on the financial statements not audited by an external auditor.

(3) The details of investment securities accounted for using the equity method as of December 31, 2007 consist of the following (Unit: Korean Won in thousands):

	2007					
	Acquisition cost	Retained earnings	Gain (loss) on valuation	Capital adjustment	Gain(loss) on sale	Carrying value
Daekyo Bertelsmann Korea Co., Ltd.	4,165,550	1,580,622	(3,253,375)	(1,152,908)	-	1,339,889
Daekyo America, Inc.	2,605,622	(376,680)	(308,186)	(142)	-	1,920,614
Daekyo Hong Kong Co., Ltd.	250,000	(7,638)	26,302	1,679	-	270,343
Beijing Daekyo Co., Ltd.	445,142	(90,401)	17,094	14,544	-	386,379
Yanbian Daekyo Co., Ltd.	166,390	(110,727)	-	(11,235)	(44,428)	-
Daekyo Book Center Co., Ltd. (Former:Daekyo Educonsulting Co., Ltd.)	2,901,800	1,110,466	(1,205,426)	(66,212)	(105,382)	2,635,246
Interesting Creative Co., Ltd.	680,000	(680,000)	-	-	-	-
Daekyo EOL Co., Ltd.	842,490	(771,879)	102,893	-	-	173,504
Daekyo Malaysia Sdn. Bhd.	599,793	(393,699)	16,481	16,804	-	239,379
Sanghai Daekyo Co., Ltd. ¹	274,843	(31,412)	5,437	20,453	-	269,321
Daekyo Bertelsmann Educational Service Limited	591,939	(328,660)	-	-	-	263,280
Fermatedu Co., Inc.	26,564,000	(507,710)	(2,659,585)	-	-	23,396,706
Child-Care Consortium	1,728,068	(798,114)	(136,176)	-	70,185	863,963
The First CS Academy Co., Ltd.	1,000,000	-	(42,690)	-	-	957,310
Daekyo Sobics Co., Ltd.	2,511,500	-	(248,815)	-	-	2,262,685
P.T Daekyo Indonesia	281,170	-	(185,240)	(6,416)	-	89,514
	<u>45,608,307</u>	<u>(1,405,832)</u>	<u>(7,871,286)</u>	<u>(1,183,433)</u>	<u>(79,625)</u>	<u>35,068,133</u>

(4) The details of investment securities accounted for using the equity method as of December 31, 2006 consist of the following (Unit: Korean Won in thousands):

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

(5) 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, 2007 and 2006 are as follows (Unit: Korean Won in thousands):

	2007			Ending balance
	Beginning balance	Increase (decrease)	Amortization (reversal)	
Fermatedu Co., Inc.	(1,693,691)	-	(990,644)	(703,047)
Daekyo America, Inc.	-	13,505	-	13,505
Daekyo Bertelsmann Korea Co., Ltd.	16,057,178	-	3,503,384	12,553,794
	<u>14,363,487</u>	<u>13,505</u>	<u>2,512,740</u>	<u>11,864,252</u>

	2006			Ending balance
	Beginning balance	Increase (decrease)	Amortization (reversal)	
Fermatedu Co., Inc.	(4,348,364)	-	(2,654,673)	(1,693,691)
Daekyo Bertelsmann Korea Co., Ltd.	-	17,516,922	1,459,744	16,057,178
	<u>(4,348,364)</u>	<u>17,516,922</u>	<u>(1,194,929)</u>	<u>14,363,487</u>

(6) The elimination of unrealized gains or losses relating to the valuation of equity method investments as of December 31, 2007 and 2006 are as follows (Unit: Korean Won in thousands):

	2007	2006
Daekyo America, Inc.	77,174	27,727
Sanghai Daekyo Co., Ltd.	14,093	1,597
Daekyo Malaysia Sdn. Bhd.	12,630	13,628
Daekyo U.S.A Inc.	-	1,626
Daekyo Hong Kong Co., Ltd.	9,070	5,557
	<u>112,967</u>	<u>50,135</u>

(7) Condensed financial information of the affiliates as of and for the year ended December 31, 2007 is as follows (Unit: Korean Won in thousands):

	Assets	Liabilities	Net assets	Sales	Net income(loss)
Daekyo Bertelsmann Korea Co., Ltd.	17,493,654	14,121,836	3,371,818	17,319,053	(6,533,367)
Daekyo America, Inc.	4,484,976	1,505,031	2,979,946	2,039,201	(341,152)
Daekyo Hong Kong Co., Ltd.	1,262,161	678,712	583,449	639,926	62,274
Beijing Daekyo Co., Ltd. ¹	425,154	38,775	386,379	488,063	3,205
Daekyo Book Center Co., Ltd. (Former:Daekyo Educonsulting Co., Ltd.)	9,309,905	6,102,066	3,207,839	4,097,550	(1,338,216)
Daekyo EOL Co., Ltd.	625,705	318,783	306,923	2,284,858	184,165
Daekyo Malaysia Sdn. Bhd.	287,687	35,678	252,009	298,801	20,739
Sanghai Daekyo Co., Ltd. ¹	318,673	35,260	283,414	766,676	17,934
Daekyo Bertelsmann Educational Service Limited	677,173	150,614	526,559	18,865	(509,937)
Fermatedu Co., Inc.	29,380,071	8,119,460	21,260,611	44,406,990	1,756,437
Child-Care Consortium	5,813,123	557,871	5,255,251	3,577,596	(828,315)
The First CD Academy Co., Ltd.	2,195,723	281,103	1,914,619	1,483,470	(85,381)
Daekyo Sobics Co., Ltd.	3,262,362	559,573	2,702,789	3,171,493	(297,211)
P.T Daekyo Indonesia.	119,511	28,664	90,848	88,853	(186,682)

6. PROPERTY AND EQUIPMENT:

(1) Changes in property and equipment for the year ended December 31, 2007 are as follows (Unit: Korean Won in thousands):

	Land	Buildings	Structures	Machinery	Vehicles
Beginning balance	57,525,506	95,454,775	2,544,182	-	292,366
Acquisition/ Capitalized costs	3,250,797	2,120,615	515,911	-	91,304
Disposal	(609,895)	(6,727,283)	(213,665)	-	(4,124)
Depreciation	-	(3,766,406)	(74,308)	-	(205,465)
Others (transfer)	5,603,677	36,155,059	-	-	-
Ending balance	65,770,085	123,236,760	2,772,120	-	174,081
Accumulated depreciation	-	24,668,563	403,825	468,200	857,254
Accumulated impairment	-	-	-	-	-

	Tools	Equipment	Other	Construction-in-progress	Total
Beginning balance	9	11,560,118	213,081	30,904,494	198,494,531
Acquisition/ Capitalized costs	-	4,768,648	-	11,437,882	22,185,157
Disposal	-	(1,556,981)	(70,000)	-	(9,181,948)
Depreciation	(9)	(7,173,267)	-	-	(11,219,455)
Others (transfer)	-	219,121	128,000	(42,342,376)	(236,519)
Ending balance	-	7,817,639	271,081	-	200,041,766
Accumulated depreciation	28,256	71,144,737	-	-	97,570,835
Accumulated impairment	-	5,975	-	-	5,975

(2) Changes in property and equipment for the year ended December 31, 2006 are as follows (Unit: Korean Won in thousands):

	Land	Buildings	Structures	Machinery	Vehicles
Beginning balance	39,643,396	93,481,917	2,618,386	-	76,836
Acquisition/ Capitalized costs	18,344,210	5,568,820	-	-	334,754
Disposal	(462,100)	(835,059)	-	-	-
Depreciation	-	(2,760,903)	(74,204)	-	(119,224)
Others (transfer)	-	-	-	-	-
Ending balance	57,525,506	95,454,775	2,544,182	-	292,366
Accumulated depreciation	-	22,756,539	349,816	468,200	874,040
Accumulated impairment	-	-	-	-	-

	Tools	Equipment	Other	Construction-in-progress	Total
Beginning balance	18	10,456,742	70,000	20,215,298	166,562,593
Acquisition/ Capitalized costs	-	8,474,781	143,081	10,689,196	43,554,842
Disposal	-	(89,520)	-	-	(1,386,679)
Depreciation	(9)	(7,979,138)	-	-	(10,933,478)
Others (transfer)	-	697,253	-	-	697,253
Ending balance	9	11,560,118	213,081	30,904,494	198,494,531
Accumulated depreciation	28,248	67,863,131	-	-	92,339,974
Accumulated impairment	-	5,975	-	-	5,975

(3) As of December 31, 2007, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, approximates ₩ 107,700,503 thousand (2006: ₩ 96,491,514 thousand).

(4) As of December 31, 2007, the Company's inventories and property, plant and equipment are insured as follows (Unit: Korean Won in thousands):

Account	2007	Reason of impairment
Buildings and equipment	129,469,937	Insurance against fire and other casualty losses
Inventories	10,552,219	
	140,022,156	

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.

7. INTANGIBLE ASSETS:

(1) The Company's intangible assets as of December 31, 2007 consist of the following (Unit: Korean Won in thousands):

	Goodwill	Industrial property rights	Right to use donated assets	Development costs	Intellectual property rights	Software	Franchise	Total
Beginning balance	4,568,368	155,854	20,733,930	31,439,721	289,171	2,887,676	136,790	60,211,510
Acquisition	19,000	41,777	19,988,368	14,077,850	-	168,243	-	34,295,238
Transfer	-	-	-	(1,422,158)	-	1,274,208	-	(147,950)
Disposal	-	-	-	(17,791)	-	(217,085)	-	(234,876)
Amortization	(1,233,640)	(76,295)	(15,208,581)	(11,879,890)	(183,072)	(2,064,446)	(71,369)	(30,717,293)
Impairment	(102,003)	-	-	(202,924)	-	-	-	(304,927)
Others (*1)	-	-	-	(516,671)	-	-	-	(516,671)
Ending balance	3,251,725	121,336	25,513,717	31,478,137	106,099	2,048,596	65,421	62,585,031
Accumulated amortization	3,474,978	571,748	32,006,492	47,016,638	3,109,263	5,155,118	291,423	91,625,660
Accumulated impairment loss	153,667	-	-	3,677,924	142,523	298,043	-	4,272,157

(*1) Others amounting to ₩ 516,671 thousand are development costs relating to the discontinued product, and are included in the loss on discontinued operations.

(2) The Company's intangible assets as of December 31, 2006 consist of the following (Unit: Korean Won in thousands):

	Goodwill	Industrial property rights	Right to use Donated assets	Development costs	Intellectual property rights	Software	Franchise	Total
Beginning balance	4,259,766	150,057	13,691,445	32,573,096	740,577	3,884,190	208,159	55,507,290
Acquisition	1,573,479	80,656	18,121,353	14,726,764	-	248,715	-	34,750,967
Transfer	-	-	401,663	(2,277,642)	-	1,904,525	-	28,546
Disposal	-	-	-	-	-	-	-	-
Amortization	(1,264,877)	(74,859)	(11,480,531)	(11,419,017)	(451,406)	(2,851,711)	(71,369)	27,613,770
Impairment	-	-	-	(2,163,480)	-	(298,043)	-	(2,461,523)
Ending balance	4,568,368	155,854	20,733,930	31,439,721	289,171	2,887,676	136,790	60,211,510
Accumulated amortization	2,323,213	495,453	16,797,910	36,244,590	2,926,191	3,167,062	220,054	62,174,473
Accumulated impairment loss	51,663	-	-	3,475,000	142,523	298,043	-	3,967,230

8 MONETARY ASSETS DENOMINATED IN FOREIGN CURRENCIES:

Monetary assets denominated in foreign currencies as of December 31, 2007 and 2006 are as follows
(Unit: Korean Won in thousands):

	2007		2006	
	Korean Won equivalent	Foreign currencies	Korean Won equivalent	Foreign currencies
Cash and cash equivalents	208,330	USD 222,053	748	USD 805
	-	CAD -	71	CAD 89
	1	HKD 2	113	HKD 943
	1	NZD 2	180	NZD 274
	-	JPY -	155	JPY 19,825
	7	AUD 8	57	AUD 78
	1,489	GBP 795	27	GBP 15
	-	EUR -	101	EUR 83
	7,606	SGD 12,326	77	SGD 128
Short-term financial instruments	13,810	USD 15,000	-	USD -
Total	<u>231,244</u>		<u>1,529</u>	

9. CAPITAL STOCK

(1) Capital stock

The details of capital stock as of December 31, 2007 are summarized below.

The number of authorized shares of common stock	Par value	Type of stock	The number of issued share of common stock	Amount of capital stock (In thousand won)
150,000,000 shares	5,000 won	Common stock	8,470,285 shares	42,351,425
1,942,699 shares	5,000 won	Preferred stock (*1)	1,942,699 shares	9,713,495

(*1) If the dividend ratio of common stock exceed that of preferred stock, that is, 9% determined by a board of directors, the preferred stock is eligible to equally share on the additional dividend of surplus.

10. CAPITAL SURPLUS

(1) Other capital surplus arose from the disposal of treasury stock which is acquired for the purpose of M&A. This capital surplus is not available for the payment of cash dividends, but may be used to offset losses on disposal of treasury stock, may be transferred to capital stock or may be used to reduce any accumulated deficit.

Additionally, the gain on disposal of treasury stock (61,600 shares of common stock) amounting to ₩ 542,388 thousand, which is the net of effect of deferred income tax directly added or subtracted to shareholders' equity, was recognized as other capital surplus

(2) In accordance with the regulations regarding securities issuance and disclosure, the Company is required to appropriate, as a reserve for improvement of financial structure besides the legal reserve. Such reserve is not available for the payment of cash dividends, but may be transferred to capital stock or may be used to reduce any accumulated deficit.

11. DIVIDENDS

Details of cash dividends and dividend payout ratio for the years ended December 31, 2007 and 2006 are as follows:

(1) Interim dividends

	2007		2006	
	Common stock	Preferred stock	Common stock	Preferred stock
Par value per share	5,000	5,000	5,000	5,000
Dividend ratio	14%	14%	14%	14%
Dividend per share	700	700	700	700
Number of shares				
outstanding	8,389,550	1,871,699	8,470,285	1,942,699
Amount of dividends	5,872,685	1,310,189	5,292,200	1,359,889

(2) Year-end dividends

	2007		2006	
	Common stock	Preferred stock	Common stock	Preferred stock
Par value per share	5,000	5,000	5,000	5,000
Dividend ratio	28%	30%	22%	24%
Dividend per share	1,400	1,500	1,100	1,200
Number of shares				
outstanding	8,381,035	1,837,766	8,463,738	1,896,199
Amount of dividends	11,733,449	2,756,649	9,310,112	2,275,439

(3) Dividend payout ratio

	2007	2006
Total dividends	21,672,972	18,874,639
Net income	48,110,698	51,450,952
Dividend payout ratio	45.05%	36.68%

(4) Dividend yield ratio

	2007		2006	
	Common stock	Preferred stock	Common stock	Preferred stock
Dividend per share (*1)	90,850	53,225	87,050	43,513
Market price as of				
balance sheet date	2,100	2,200	1,800	1,900
Dividend yield ratio	2.31%	4.47%	2.07%	4.47%

(*1) The closing price before dividend is determined by an arithmetical average of the closing price in an open market from the basic day to the last week.

12. TREASURY STOCK:

As of December 31, 2007, the Company holds treasury stock consisting of 89,250 shares of common stock and 104,933 shares of preferred stock.

13. COMPREHENSIVE INCOME STATEMENT:

The details of comprehensive income for the years ended December 31, 2007 and 2006 are as follows
(Unit: Korean Won in thousands):

	<u>2007</u>	<u>2006</u>
Net income	48,110,698	51,450,952
Accumulated other comprehensive income (loss):		
Gain on valuation of available-for-sale securities (tax effect: ₩7,499,960 thousand in 2007 and ₩8,413,029 thousand in 2006)	19,772,622	22,179,804
Loss on valuation of available-for-sale securities (tax effect: ₩112,534 thousand in 2007 ₩469,771 thousand in 2006)	(296,680)	1,238,487
Changes in equity arising on application of the equity method (*1)	(58,254)	143,090
Negative changes in equity arising on application of the equity method (*1)	(1,102,706)	(61,451)
Comprehensive income	<u>66,425,680</u>	<u>74,950,882</u>

(*1) Regarding the changes in equity using the equity method and negative changes in equity using the equity method, the Company did not recognize deferred income tax assets (liabilities) since the probability of its realization is uncertain.

14. INCOME TAX

(1) Income tax expense for the years ended December 31, 2007 and 2006 is computed as follows
(Unit: Korean Won in thousands):

	<u>2007</u>	<u>2006</u>
Current income tax	19,614,858	15,151,127
Changes in deferred tax assets (liabilities) of temporary differences	7,266,384	62,052,472
Deferred tax deducted to shareholders' equity	(7,387,426)	(56,369,545)
Tax credit	(205,733)	-
Income tax refund (*1)	(6,043,206)	-
Additional tax payment	5,454	-
Total income tax expense	<u>13,250,331</u>	<u>20,834,054</u>
Income tax expense of continuing operations	14,117,295	21,471,714
Income tax benefits of discontinuing operations	(866,964)	(637,660)
Net income of continuing operations before income tax	<u>64,513,624</u>	<u>74,603,770</u>
Effective tax rate (Income tax expense of continuing operations / Net income of continuing operations before income tax)	<u>21.88%</u>	<u>27.93%</u>

(*1) As the Company won the lawsuit related to tax in 2007, the Company received tax refund amounting to ₩ 5,665,486 thousand. This tax refund is added to non-trade receivables and deducted from income tax expense. In addition, the difference of actual payment in 2007 from non-trade payables in 2006 is deducted from income tax expense.

(2) The differences between income before tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows (Unit: Korean Won in thousands):

	2007		2006	
	Temporary differences	Permanent differences	Temporary differences	Permanent differences
Addition	46,430,237	5,237,439	41,344,961	4,927,228
Deduction	40,155,578	1,498,372	61,250,495	2,709,095
Net reconciliation	6,274,659	3,739,067	(19,905,534)	2,218,133

(3) Changes in temporary differences for the years ended December 31, 2007 and 2006 are as follows (Unit: Korean Won in thousands):

<2007>

	January 1, 2007	Difference	Increase (Decrease)	December 31, 2007
Long-term accrued service fee payable	5,835,035	-	(803,563)	5,031,472
Accrued income	(2,307,706)	-	(530,986)	(2,838,692)
Interest income (MMF)	(51,328)	-	(28,531)	(79,859)
Valuation of marketable securities	(5,070,666)	-	-	(5,070,666)
Accrued severance benefits	42,549,739	-	213,802	42,763,541
Severance insurance expenses	(42,363,530)	-	(400,012)	(42,763,542)
Allowance for doubtful accounts	4,950,098	-	141,440	5,091,538
Bad debt expense	290,408	-	(290,408)	-
Depreciation	313,148	(174,107)	246,426	385,467
Equity method investments	1,799,770	72,461	7,906,484	9,778,715
Accrued expenses (remuneration)	2,490,000	-	815,606	3,305,606
Reserve for returned goods	521,781	-	159,034	680,815
Accrued expenses (mileage)	236,591	-	(127,762)	108,829
Impairment of intangible assets	2,687,602	-	(1,026,872)	1,660,730
Inventories	19,061	-	-	19,061
Deferred income taxes deducted from shareholders' equity	(204,980,163)	-	(26,863,368)	(231,843,531)
Gain on valuation of equity-method investments	-	-	754,857	754,857
Others	2,400,635	-	-	2,400,635
Accumulated temporary difference	(190,679,525)	(101,646)	(19,833,853)	(210,615,024)

<2006>

	January 1, 2006	Difference	Increase (Decrease)	December 31, 2006
Long-term accrued service fee payable	27,946,850	-	(22,111,815)	5,835,035
Accrued income	(1,992,020)	-	(315,686)	(2,307,706)
Interest income (MMF)	-	-	(51,328)	(51,328)
Valuation of marketable securities	(5,120,160)	-	49,494	(5,070,666)
Accrued severance benefits	40,523,956	-	2,025,783	42,549,739
Severance insurance expenses	(40,523,956)	-	(1,839,574)	(42,363,530)
Allowance for doubtful accounts	4,509,735	-	440,362	4,950,098
Bad debt expense	290,408	-	-	290,408
Depreciation	118,001	-	195,147	313,148
Equity method investments	1,338,591	(72,735)	533,914	1,799,770
Accrued expenses (remuneration)	3,150,508	-	(660,508)	2,490,000
Reserve for returned goods	1,007,524	-	(485,743)	521,781
Accrued expenses (mileage)	13,076	-	223,515	236,591
Impairment of intangible assets	1,315,340	-	1,372,262	2,687,602
Inventories	23,603	-	(4,542)	19,061
Impairment of available-for-sale securities	103,906	814	(104,720)	-
option with short position	133,685	-	(133,685)	-
Gain on evaluation of trading securities	(37,243)	-	37,243	-
Goodwill	30,573	-	(30,573)	-
Loss on evaluation of trading securities	-	13,500	(13,500)	-
Deferred income taxes deducted from shareholders' equity	(172,679,072)	-	(32,301,091)	(204,980,163)
Others	1,432,216	-	968,419	2,400,635
Accumulated temporary difference	(138,414,479)	(58,421)	(52,206,626)	(190,679,525)

(4) Changes in deferred tax assets and liabilities for the years ended December 31, 2007 and 2006 are as follows
(Unit: Korean Won in thousands):

<2007>

	January 1 2007	Increase	December 31, 2007	Current	Non-current
Long-term accrued service fee payable	1,604,635	(220,980)	1,383,655	-	1,383,655
Accrued income	(634,619)	(146,021)	(780,640)	(780,640)	-
Interest income (MMF)	(14,115)	(7,846)	(21,961)	(21,961)	-
Valuation of marketable securities	(1,394,433)	-	(1,394,433)	-	(1,394,433)
Accrued severance benefits	11,701,178	58,796	11,759,974	-	11,759,974
Severance insurance expenses	(11,649,971)	(110,003)	(11,759,974)	-	(11,759,974)
Allowance for doubtful accounts	1,361,277	38,896	1,400,173	1,400,173	-
Bad debt expense	79,862	(79,862)	-	-	-
Depreciation	86,116	19,888	106,004	-	106,004
Equity method investments	494,937	2,194,210	2,689,147	-	2,689,147
Accrued expenses (remuneration)	684,750	224,292	909,042	909,042	-
Reserve for returned goods	143,490	43,733	187,223	187,223	-
Accrued expenses(mileage)	65,063	(35,135)	29,928	-	29,928
Impairment of intangible assets	739,090	(282,391)	456,699	-	456,699
Inventories	5,242	-	5,242	5,242	-
Deferred income taxes deducted from shareholders' equity	(56,369,545)	(7,387,426)	(63,756,971)	(89,764)	(63,667,207)
Gain on valuation of equity-method investments	-	207,586	207,586	-	207,586

	January 1 2007	Increase	December 31, 2007	Current	Non-current
Others	660,175	-	660,175	-	660,175
Accumulated temporary difference	(52,436,868)	(5,482,263)	(57,919,131)	1,609,315	(59,528,446)
Equity method investments (*1)	1,112,613		2,896,733	-	2,896,733
Deferred income tax assets (liabilities) (*2)	(53,549,480)		(60,815,864)	1,609,315	(62,425,179)
 <2006>					
	January 1, 2006	Increase	December 31, 2006	Current	Non-current
Long-term accrued service fee payable	7,685,384	(6,080,749)	1,604,635	-	1,604,635
Accrued income	(547,806)	(86,813)	(634,619)	-	(634,619)
Interest income (MMF)	-	(14,115)	(14,115)	(14,115)	-
Valuation of marketable securities	(1,408,044)	13,611	(1,394,433)	-	(1,394,433)
Accrued severance benefits	11,144,088	557,090	11,701,17	-	11,701,178
Severance insurance expenses	(11,144,088)	(505,883)	(11,649,971)	-	(11,649,971)
Allowance for doubtful accounts	1,240,177	121,100	1,361,277	1,361,277	-
Bad debt expense	79,862	-	79,862	79,86	-
Depreciation	32,450	53,666	86,116	-	86,116
Equity method investments	368,113	126,824	494,937	-	494,937
Accrued expenses (remuneration)	866,390	(181,640)	684,750	684,750	-
Reserve for returned goods	277,069	(133,579)	143,490	143,490	-
Accrued expenses(mileage)	3,596	61,467	65,063	65,063	-
Impairment of intangible assets	361,719	377,372	739,090	-	739,091
Inventories	6,491	(1,249)	5,242	5,242	-
Impairment of available-for-sale securities	28,574	(28,574)	-	-	-
option with short position	36,763	(36,763)	-	-	-
Gain on evaluation of trading securities	(10,242)	10,242	-	-	-
Goodwill	8,408	(8,408)	-	-	-
Loss on evaluation of trading securities	-	-	-	-	-
Deferred income taxes deducted from shareholders' equity	(47,486,745)	(8,882,800)	(56,369,545)	-	(56,369,545)
Others	393,859	266,316	660,175	-	660,175
Accumulated temporary difference	(38,063,982)	(14,372,885)	(52,436,868)	2,325,568	(54,762,436)
Equity method investments	(919,688)		(1,112,613)	-	(1,112,613)
Deferred income tax assets (liabilities)	(37,144,294)		(53,549,480)	2,325,568	(55,875,050)

(*1) The realization of the temporary differences on equity method investments is uncertain excepted.

(*2) The tax effect of accumulation temporary differences when corresponding temporary differences are expected to be reversed or realized.

15. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2007, the Company has credit agreements with Woori Bank amounting to ₩25,000 million for the corporate purchase card.

(2) As of December 31, 2007, the Company provides guarantees amounting to ₩3,520 million for certain lessees in relation to the lessees' guarantee deposits and also guarantees amounting to ₩15,000 million for YTC (Chinese Test for Young Learners) in relation to business guarantee deposits. Seoul Guarantee Insurance has provided the Company with a guarantee for performance and others up to ₩1,128 million as of December 31, 2007.

(3) The Company shall pay a certain percentage of sales as royalties to Two Hands Media Co., Ltd. (formerly Daekyo Global Associate) relating to the use of intellectual property rights over 'Noon-no-pi Math'. Based on this contract, the Company paid ₩2,193 million and ₩2,143 million to Two Hands Media Co., Ltd. in 2007 and 2006, respectively.

(4) 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 ₩356,847 million (2006: ₩360,050 million) for the year ended December 31, 2007. The Company is required to adjust the instructors' monthly fees of educational service depending on 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.

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

(6) 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.

(7) Daekyo Bertelsmann Korea Co., Ltd. did an unequal curtailment of capital (₩2,900 million, 292,533 shares) without compensation for the reduction of accumulated deficit, and the ratio of shareholding of the Company became 60.59%.

16. EARNING PER SHARE

(1) The weighted-average number of common stocks outstanding in 2007 is calculated as follows (Unit: Korean Won in thousands except per share amount):

	Number of shares issued	Number of days outstanding	Weighted number of shares
January 1, 2007	8,470,285	365	3,091,654,025
Treasury stock	(82,203)	365	(20,274,509)
December 31, 2007	<u>8,381,035</u>		<u>3,071,379,516</u>
			<u>365 days</u>
The weighted average number of shares			<u><u>8,414,738</u></u>

(2) The weighted-average number of preferred stocks outstanding in 2007 is calculated as follows (Unit: Korean Won in thousands except per share amount):

	Number of shares issued	Number of days outstanding	Weighted number of shares
January 1, 2007	1,942,699	365	709,085,135
Treasury stock	(56,903)	365	(27,374,163)
December 31, 2007	<u>1,837,766</u>		<u>681,710,972</u>
			<u>365 days</u>
The weighted average number of shares			<u><u>1,867,701</u></u>

(3) The net income for common stocks and preferred stocks for the years ended December 31, 2007 and 2006 is as follows (Unit: Korean Won in thousands):

	<u>2007</u>	<u>2006</u>
Net income	48,110,698	51,450,952
Net income for preferred stocks	<u>(8,803,033)</u>	<u>(9,694,175)</u>
Net income for common stocks	<u><u>39,307,665</u></u>	<u><u>41,756,777</u></u>

The net income for preferred stocks for the years ended December 31, 2007 is calculated as follows (Unit: Korean Won in thousands):

Net income		48,110,698
Dividends	Common stocks	11,733,449
	Preferred stocks	2,756,649
	Total	<u>14,490,098</u>
Surplus after dividends		<u>33,620,600</u>
Surplus of the preferred stocks after dividends of the preferred stocks	₩33,620,600thousand *1,837,766/(1,837,766+8,381,035)	<u>6,046,384</u>
Net income of the preferred stocks	Dividend for preferred stocks plus surplus of the preferred stocks after dividends	<u><u>8,803,033</u></u>

(4) The earning per common share for the years ended December 31, 2007 and 2006 is as follows (In thousands won except per share amount)

	<u>2007</u>	<u>2006</u>
Net income for common shares	39,307,665	41,756,777
The weighted average number	8,414,738	8,469,444
Earning per common share	4,671	4,930

(5) The earnings per share for preferred stocks for the years ended December 31, 2007 and 2006 is as follows (Unit: Korean Won in thousands except per share amount):

	<u>2007</u>	<u>2006</u>
Net income for preferred stocks	8,803,033	9,694,175
The weighted average number	1,867,701	1,935,142
Earning per preferred share	4,713	5,010

(6) The earning per common share for the years ended December 31, 2007 and 2006 relating to continuing operations is ₩4,933 and ₩5,092, respectively.

17. RELATED PARTY TRANSACTIONS:

(1) The Company's ultimate parent company is Daekyo Holdings Co., Ltd.

(2) Significant transactions, which occurred in the normal course of business with affiliated companies for the years ended December 31, 2007 and 2006, are as follows (Unit: Korean Won in thousands):

	<u>2007</u>		<u>2006</u>	
	<u>Sales</u>	<u>Purchases</u>	<u>Sales</u>	<u>Purchases</u>
Parent company:				
Daekyo Holdings Co., Ltd.	1,488	-	1,395	972,400
Subsidiaries:				
Daekyo Book Center Co., Ltd.	1,345,498	1,593,907	165,284	4,527,321
Daekyo Bertelsmann Korea Co., Ltd.	-	3,134,572	795,654	1,461,317
Daekyo EOL Co., Ltd.	749	2,489,579	710	2,530,893
Daekyo America, Inc.	272,660	616	230,377	17,701
P.T Daekyo Indonesia	51,793	-	-	-
Daekyo Hong Kong Co., Ltd.	132,087	-	47,212	-
Daekyo Japan Co., Ltd.	-	-	2,540	-
Beijing Daekyo Co., Ltd.	213,244	-	183,728	5,000
Sanghai Daekyo Co., Ltd.	139,473	-	59,712	-
Daekyo Malaysia Sdn. Bhd.	148,500	-	125,372	-
Fermatedu Co., Inc.	891,089	562,849	71,712	40,707
The First CS Academy Co., Ltd.	-	1,477,498	-	-
Daekyo Sobics Co., Ltd.	1,017,242	1,370	-	-
Other related parties:	1,748,322	61,783,273	1,210,690	74,754,933
	<u>5,962,145</u>	<u>71,043,664</u>	<u>2,894,386</u>	<u>84,310,272</u>

(3)The related account balances outstanding as of December 31, 2007 and 2006 are as follows
(Unit: Korean Won in thousands).

	2007		2006	
	Receivables	Payables	Receivables	Payables
Parent company:				
Daekyo Holdings Co., Ltd.	182	155,250	127	155,250
Subsidiaries:				
Daekyo Book Center Co., Ltd.	1,475,411	130,230	3,961	692,401
Daekyo Bertelsmann Korea Co., Ltd.	278,098	312,874	487,108	935,691
Daekyo EOL Co., Ltd.	355	2,756	315	6,735
Daekyo America, Inc.	107,551	-	105,290	-
P.T Daekyo Indonesia	27,652	-	-	-
Daekyo Hong Kong Co., Ltd.	50,126	-	390	-
Beijing Daekyo Co., Ltd.	111,872	10,000	47,386	10,000
Yanbian Daekyo Co., Ltd.	-	-	18,671	-
Sanghai Daekyo Co., Ltd.	44,754	-	20,640	-
Daekyo Malaysia Sdn. Bhd.	174,912	-	62,487	-
Fermatedu Co., Inc.	912,487	-	13,880	39,970
The First CS Academy Co., Ltd.	-	361,487	-	-
Daekyo Sobics Co., Ltd.	1,001,758	1,005,762	-	-
Other related parties:	10,236,743	8,212,034	10,329,873	15,550,203
	<u>14,421,901</u>	<u>10,190,393</u>	<u>11,090,128</u>	<u>17,390,250</u>

(4) The compensation costs to key management (directors and internal auditors who have significant control and responsibilities on the Company's operation and business) for the year ended December 31, 2007 are summarized below(Unit: Korean Won in thousands).

	2007
Salaries	4,049,928
Post-retirement benefit (*1)	438,783
	<u>4,488,711</u>

(*1) Estimated amount of accrued severance benefits for key management as of December 31, 2007. Provision for severance benefits for key management is ₩667,283 thousand.

18. STATEMENTS OF CASH FLOWS:

Significant transactions not affecting cash flows for the years ended December 31, 2007 and 2006 are as follows (Unit: Korean Won in thousands):

	2007	2006
Reclassification of the inventories to other investment assets	-	1,312,831
Reclassification of the inventories to right to use donated assets	-	401,663
Current maturities of long-term loans	-	5,845,246
Current maturities of available-for-sale securities	2,157,232	-
Reclassification of the construction-in-progress to land, buildings and others	42,342,376	-
Reclassification of the development costs to software, equipments and others	3	-
Reclassification of the initial throw-in equipment to right to use donated assets	19,923,304	-
Current maturities of long-term accounts payable	-	3,000,000

19. LOSS ON DISCONTINUED OPERATIONS:

(1) On April 30, 2007, the board of directors approved the transfer of Sobics school business and Sobics institution business (“Sobics business segment”) to Daekyo Sobics Co., Ltd., for the concentration on the Noonnoppi Education business, which is the Company’s main business.

As of April 30, 2007, the total assets and liabilities of the Sobics business segment are ₩1,901,018 thousand and ₩345,988 thousand, respectively. Operating loss amounting to ₩1,230,259 thousand, loss on inventory removal amounting to ₩451,146 thousand, impairment loss on development costs and loss on inventory obsolescence amounting to ₩29,947 thousand are included in the loss on discontinued operations. Relating to the loss on discontinued operations amounting to ₩2,231,428 thousand, the income tax effect is ₩613,643 thousand.

(2) On April 30, 2007, the board of directors approved the transfer of Sobics library business (“Library business segment”) to Daekyo Book Center Co., Ltd., for the concentration on the Noonnoppi Education business, which is the Company’s main business.

As of April 30, 2007 the total assets and liabilities of the Library business segment are ₩4,481,068 thousand and ₩3,661,322 thousand, respectively. Relating to the loss on discontinued operations amounting to ₩921,166 thousand, the income tax effect is ₩253,320 thousand.

20. VALUE ADDED INFORMATION:

Value added information for the years ended December 31, 2007 and 2006 are as follows (Unit: Korean Won in thousands):

	2007	2006
Salaries	119,070,664	125,472,336
Provision for severance benefits	12,255,611	16,974,057
Employee benefits	26,238,480	25,690,135
Rental charges	16,093,753	16,397,703
Depreciation	11,219,455	10,933,478
Taxes and dues	1,896,073	1,693,178
	186,774,036	197,160,887

21. CONDENSED FINANCIAL INFORMATION FOR THE FOURTH QUARTER PERIOD:

Condensed financial information (based on unaudited financial statements) for the fourth quarter period ended December 31, 2007 and 2006 is as follows:

Description	2007. 4Q	2006. 4Q
	(In thousands, except per share amounts)	
Sales	209,996,128	210,705,251
Cost of sales	167,748,927	170,710,908
Operating income	10,759,444	8,784,248
Net income (loss)	(6,170,520)	5,842,861
Net income (loss) per common share	(604)	563

22. SELLING AND ADMINISTRATIVE EXPENSES:

The Company's selling and administrative expenses for the years ended December 31, 2007 and 2006 consist of the following (Unit: Korean Won in thousands):

	2007	2006
Salaries and wages	15,466,470	17,553,060
Severance benefits	2,596,753	1,702,218
Employee benefits	5,176,788	5,736,155
Travel	407,791	330,851
Communication	597,894	642,504
Utilities	958,838	733,746
Taxes and dues	1,697,737	1,515,512
Rental	109,783	342,692
Depreciation	6,033,166	5,105,404
Repairs	751,355	210,940
Insurance	463,712	418,685
Entertainment	511,272	691,973
Advertising	39,345,430	39,103,467
Freight	1,909,887	2,042,085
Commissions	27,475,119	27,233,351
Research and development	236,572	391,007
Bad debt	-	461,462
Supplies	293,829	523,056
Publication	857,725	1,072,794
Training	1,287,470	1,682,928
Vehicles maintenance	145,957	168,591
Broadcasting within the firm related expenses	468,252	473,158
Amortization expenses on intangible assets	5,565,507	6,454,363
Miscellaneous	63	338
	112,357,370	114,590,340

Independent Accountant's Review Report on Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

To the Representative Director of
Daekyo Co., Ltd.

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Daekyo Co., Ltd. (the "Company") as of December 31, 2007. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2007, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2007, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

A company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2007, and we did not review its IACS subsequent to December 31, 2007. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.



March 11, 2008

Report on the Operations of the Internal Accounting Control System

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

I, as the Internal Accounting Control Officer ("IACO") of Daekyo Co., Ltd. ("the Company"), assessed the status of the design and operations of the Company's Internal Accounting Control System ("IACS") for the year ended December 31, 2007.

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

Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2007, in all material respects, in accordance with the IACS standards.

Deloitte Amgen LLC

February 18, 2008