

2009 ANNUAL REPORT

# *Reshaping for Growth*

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## Daekyo is taking a bold step to reshape the future.

Daekyo has made significant progress by diversifying communication channels, upgrading educational systems and continuously investing in research and development to meet ever changing customer needs last year.

The expansion of Noonnoppi learning centers has led the teaching materials business to stable growth. In addition, launch of new products spanning preschoolers and adults as well as the increase of high-end one-on-one memberships have resulted in the improvement of profitability. Daekyo also performs its role as a responsible and upright corporate citizen, returning part of profits to society through diverse CSR programs such as scholarship programs and supports for educational, cultural and academic activities .

With a new concept educational system 'Noonnoppi', Daekyo has created a new paradigm in the domestic educational industry for the past three decades. Moreover, the company has expanded its business areas into publication, educational institutes, home school and online educational programs.

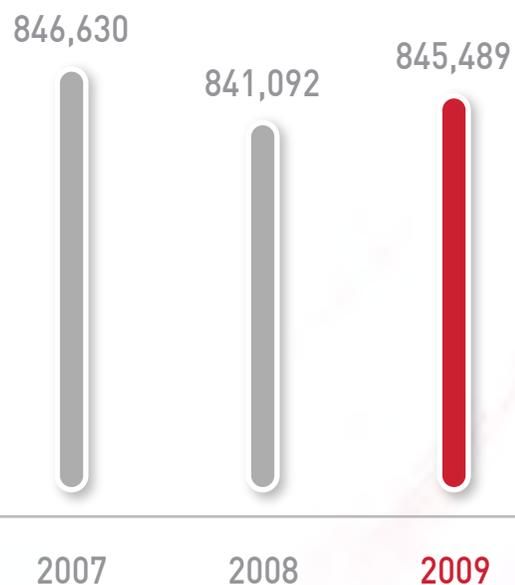
Backed by our passion and experiences, we will make proactive inroads into global markets with our global Noonnoppi brand 'E-nopi', and on-/offline educational programs. Consequently, we aim to be a global company that leads global education and culture businesses.

(KRW in millions)

	2009	2008	2007
Assets	808,725	731,320	882,440
Liabilities	205,552	205,697	234,245
Shareholders' equity	603,173	525,623	648,195
Sales	845,489	841,092	846,630
Growth income	147,567	158,791	177,323
Operating income	60,095	57,210	78,518
Net income	56,490	21,177	48,111
Operating income margin	7.1%	6.8%	9.3%
Net income margin	6.7%	2.5%	5.7%
Return on equity (ROE)	10.0%	4.0%	7.4%
Debt-to-equity	34.1%	39.1%	36.1%

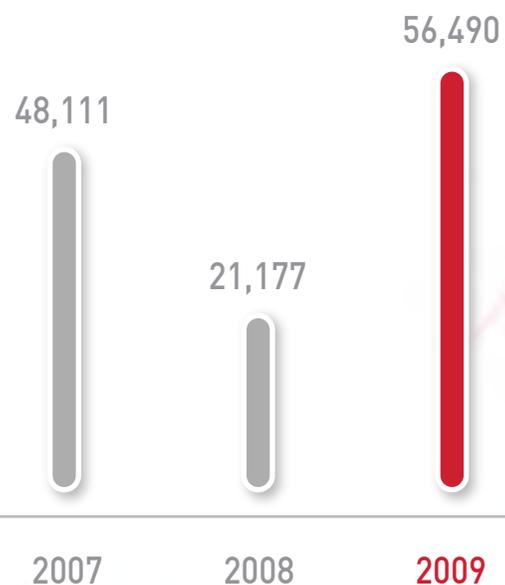
Sales

(Unit: KRW in millions)

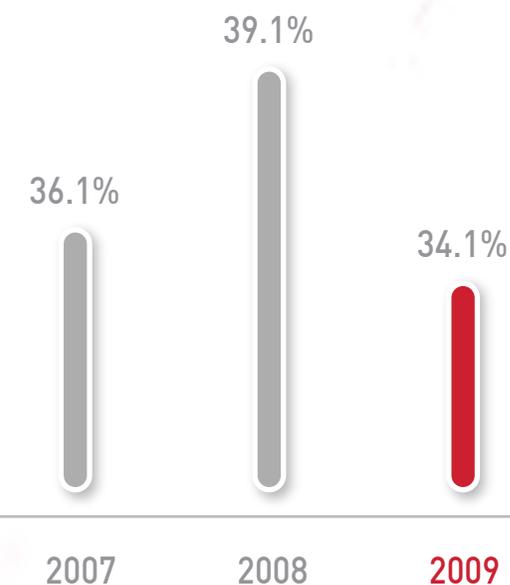


Net Income

(Unit: KRW in millions)



Debt-to-equity



## Dear Shareholders and Customers

Daekyo will be committed to making our society, families and people healthier by offering lifetime education services to fulfill new values.

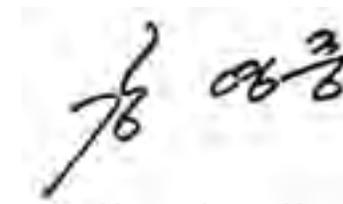
Since its establishment, Daekyo has written a new chapter in educational services for children with the value of "Love of Noonoppi and Noonoppi Education" in its heart as an educational enterprise. This value has been the driving force of our advance to create various educational services suitable for a globalized, diversified social structure.

Today, we are focusing not only on external growth, but also on sustainable growth, using advanced management systems for knowledge, innovation and ethics in order to remain firm in any business condition. In addition, we are making every effort to create future growth engines by developing diverse educational contents, integrating online and offline education services, and carrying out a variety of social contribution activities, academic research supports and sports sponsorships.

Looking back on 2009, Daekyo has created meaningful achievements for future growth by dedicated cooperation and passion for the company and its members despite tough business conditions caused by the global financial crisis. Now we are preparing for another leap in 2010 in order to accomplish our goal to become a 'Global Enterprise with Sustainable Growth' based on the management philosophy of 'Grow Together by Tutoring and Learning.' To this end, Daekyo is determined to further bolster the competitiveness of existing educational services as well as efficiently invest in growth platform businesses and develop overseas markets.

I would like to thank you again for your everlasting trust and encouragements. Daekyo pledges to grow as an admirable and reliable company, offering lifetime educational services based on our ideals that look ahead a hundred year for education. I ask for your support and wish for the very best.

Thank you. Dear Shareholders and Customers



Young-Joong Kang  
Founder & Chairman

**HUMAN**



## Dear Shareholders and Customers

Despite unfavorable economic conditions, Daekyo has strived to consolidate its sustainable growth foundation through tireless changes and challenges last year. Our Noonoppi Business Division laid the groundwork for growth by opening 237 learning centers throughout the nation and succeeded in the expansion of preschooler memberships. The Growth Platform Business showed sharp increase in sales with the Afterschool Tutoring in the lead and achieved the improvement of profitability.

Sales of Noonoppi Business Division decreased 1% compared to the previous year to KRW686.7 billion in 2009, mainly due to downturn of memberships caused by weak supply in the first half of the year. Meanwhile, we accomplished KRW153.4 billion, an increase of 7.5% year on year, in sales of Growth Platform Business, which was attributable to dramatic growth in Afterschool educational program. As a result, our total sales increased 0.5%, or KRW4.4 billion, over the previous year to KRW845.5 billion in 2009.

Operating profit increased 5%, or KRW2.9 billion, year on year to KRW60.1 billion backed by our companywide efforts for cost reduction, and net profit soared 166.7%, or KRW35.3 billion, over the previous year to KRW56.5 billion thanks to the increase of operating profit and gains on disposal of available-for-sale securities and bond funds.

Total assets also increased 10.6%, or KRW77.4 billion, year on year to KRW808.7 billion as of the end of 2009, mainly due to the increase of gains on evaluation of securities including the shares of Shinhan Financial Group. Meanwhile, debt-to-equity fell 5.0% over the previous year to 34.1%, and ROE which had been on a downturn turned to the increase of 3.8% year on year to 10.0%. Consequently, our financial structure has been further stable in 2009.



It seems that the year 2010 will be also a tough year due to the aftermaths of the global financial crisis. However, we will continue our best efforts to step ahead of our competitors and meet the goals through the following management strategies.

First, we will bolster the market domination of Noonoppi business.

To this end, we reorganized the structure in early 2010 by placing the Education R&D Center and Customer Satisfaction Center under the CEO of Noonoppi Business Division in order to focus on the innovation of products and services. We will also aim to attract more preschooler memberships and reduce suspension rate through enhancing face to face customer care. The number of learning centers will be expanded up to 600 until the end of 2010. By doing so, we will achieve 2 million memberships and sales of KRW707.4 billion in Noonoppi business.

Second, we will concentrate on fostering core businesses and expanding new markets.

With our new mid-/long-term vision and business portfolio strategies which were established in 2009, Daekyo intends to foster core businesses with growth potential and expand new markets. For Growth Platform Business, we will consolidate our market dominance through bolstering quality and speed-based customer satisfaction and management innovation, which was promoted two years ago. This will contribute to laying the groundwork for nurturing new businesses as well as strengthening competitiveness of existing flagship business. Through this strategy, we plan to achieve sales of KRW187.3 billion in 2010, an increase of 22.1% over the previous year, in Growth Platform Business Division.

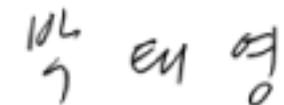
Now we are promoting the following five items for the future: English, online learning, public education, overseas business and expansion of learning centers. We will focus on these five growth items in addition to the improvement of profitability in Noonoppi Business and sales increase of Growth Platform Business. By doing so, we will achieve total sales of KRW1.6 trillion by 2013.

Third, we will create a lively organizational culture.

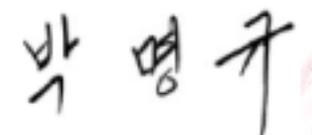
To boost sales and energize Daekyo people, we built up stronger CEO-centered leaderships for two business divisions at the time of reorganization in early 2010, which will contribute to establishing responsible management and superior communication. The performance-based personnel affairs and reward system which was introduced last year will help to enhance productivity and encourage our staff.

With these strategies, we will continue to progress forward to be a global educational and cultural service provider this year.

I ask for your everlasting interest and support for Daekyo.



Tae - Young Park  
Vice President & CEO



Myung - Kyu Park  
Vice President & CEO



Jeong-Tak Kim

Jong-Cheon Yoon

Tae-Young Park

Young-Joong Kang

Myung-Kyu Park

Soo-Wan Park

Jung-Kyoo Park

Ja Song

**Young-Joong Kang** (Chairman of the Board/Group Chairman, Executive)  
 B.A. in Agricultural Chemistry, Konkuk University  
 M.A. in Educational Administration, Yonsei Univ. Graduate School of Education  
 Chairman, Daekyo Group (Current)  
 President, Badminton World Federation (BWF) (Current)  
 Member of Advisory Committee on Tax, National Tax Service (Current)  
 14th President, Korea Scout Association (Current)

**Tae-Young Park** (CEO, Executive)  
 B.A. in French Literature, Seoul National University  
 MBA, Helsinki School of Economics and Business Administration  
 SK/Oasis Records  
 CEO of Growth Platform Business, Daekyo Co., Ltd. (Current)

**Myung-Kyu Park** (CEO, Executive)  
 B.A. in Agricultural Engineering, Gyeongsang National University  
 MBA, KAIST  
 M.A. in HRD Studies, Graduate School of Human Resources Development, Chung-Ang University  
 Head, Education Research Center, Daekyo Co., Ltd.  
 Head, Schoolbook Business Division, Daekyo Co., Ltd.  
 CEO of Noonoppi Business, Daekyo Co., Ltd. (Current)

**Soo-Wan Park** (CFO, Executive)  
 B.A. in Mechanical Engineering, Inha University  
 Hyundai Motor Company  
 CFO, Daekyo D&S Co., Ltd. (Current)  
 COO, Daekyo Holdings Co., Ltd. (Current)  
 CFO, Strategic Planning Dept. Daekyo Co., Ltd. (Current)  
 Head, Management Support Division, Daekyo Co., Ltd. (Current)

**Jong-Cheon Yoon** (Managing Director, Executive)  
 B.A. in Agricultural Chemistry, Konkuk University  
 Shinpoong Metal Co., Ltd./Kirin Co., Ltd.  
 Director, Clover Plastics Corp.  
 CEO, Daekyo Co., Ltd.  
 CEO, Alphome E&C Corp.  
 CEO, Daekyo Holdings Co., Ltd.  
 CEO, Daekyo D&S Co., Ltd. (Current)

**Jung-Kyoo Park** (Outside director, Chairman of Audit Committee)  
 Seoul National University Business School  
 Director, Securities Supervisory Board (now FSS)  
 CEO, Hyundai Investment Consulting Co., Ltd.  
 Auditor, Hyundai Investment & Asset Management  
 Certified Public Accountant (Current)

**Jeong-Tak Kim** (Outside Director, Member of Audit Committee)  
 Ph.D. in Journalism, University of Missouri  
 Journalist, JoongAng Daily/Dongyang Broadcasting System  
 Professor, Sungkyunkwan University  
 Visiting Editorial Writer, Segye Daily  
 Visiting Professor, Sophia University, Japan  
 Commissioner, Seoul City Urban Planning Committee

**Ja Song** (Outside director, Member of Audit Committee)  
 B.A. in Business Administration, Yonsei University  
 M.A./Ph.D. in Business Administration, Washington Business School  
 Chairperson, Management Committee, Korea Management Association  
 Auditor, Yonsei University  
 President, Myongji University  
 President, Yonsei University

### Duties and Authorities

The Board of Directors makes decisions on management, company affairs and major issues as the highest decision making body. The Board also monitors financial situation, convenes shareholders' meetings and makes final decisions on primary investments. The Board consists of eight directors, among which five are inside and three out side.

### Committees

Daekyo's Board of Directors operates three committees to implement in-depth deliberation on agendas: Investment/Policy Review Committee, Personnel/Compensation Committee and CS Management Committee.

#### Investment/Policy Review Committee

The Investment/Policy Review Committee implements deliberation on policies which seriously affect the company's management and pre-reviews of bills to be laid on the Board. The activities in 2009 included the capital increase of Fermatedu, roll-out of learning centers and test marketing of Noonoppi electronic educational materials, etc.

#### Personnel/Compensation Committee

The Personnel/Compensation Committee is responsible for establishing and managing business targets as well as making decisions and deliberating on personnel affairs.

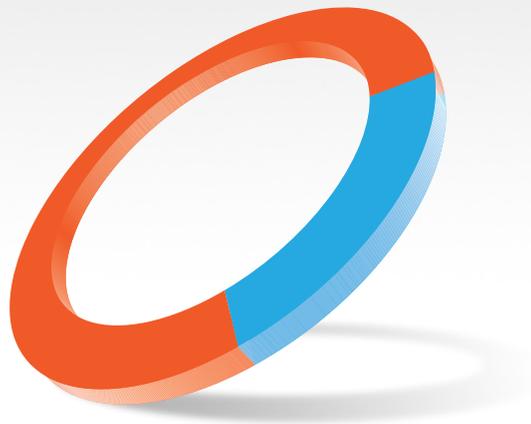
#### CS Management Committee

CS Management Committee is in charge of customer satisfaction issues. The committee reviewed Consumer Complaints Management System (CCMS) and analysis for employee satisfaction in 2009.

# Review of Operations

Despite weakened domestic consumption and intense competition, Daekyo has continued to grow on the basis of solid market domination in 2009. Growth Platform Business Division has seen soaring sales and realized operating profits of KRW2.4 billion, forming a strong growth basis. Noonoppi Business Division has continued to launch new products and expand learning centers, laying the groundwork for another leap. We have also focused on creating new demands through expanding education channels and preschooler memberships.

## Sales Breakdown in 2009



Core Business 81%

NOONOPPI

Growth Platform Business 19%

SCHOOL BUS 100

쌤콕 알타

Soluny

SOBICS  
소빅스

CAIHONG  
chinese

E.nopi

공부완관  
gongbuwan

知 CAMP



# NOONNOPPI

As the company's flagship business, Noonnoppi Education holds a strong dominating stance in the market.

It provides students with learning contents that are designed to meet their academic ability. It also includes systematic management, one-on-one learning programs and individual consultation by Noonnoppi tutors and a variety of evaluation systems.

To bolster competitiveness of Noonnoppi Education, Daekyo tries to maintain a good quality in the training of Noonnoppi tutors and manages more than 100 education researchers to develop efficient learning materials. As of the end of 2009, over 12,000 tutors at around 450 education centers in the nation are delivering quality educational services.

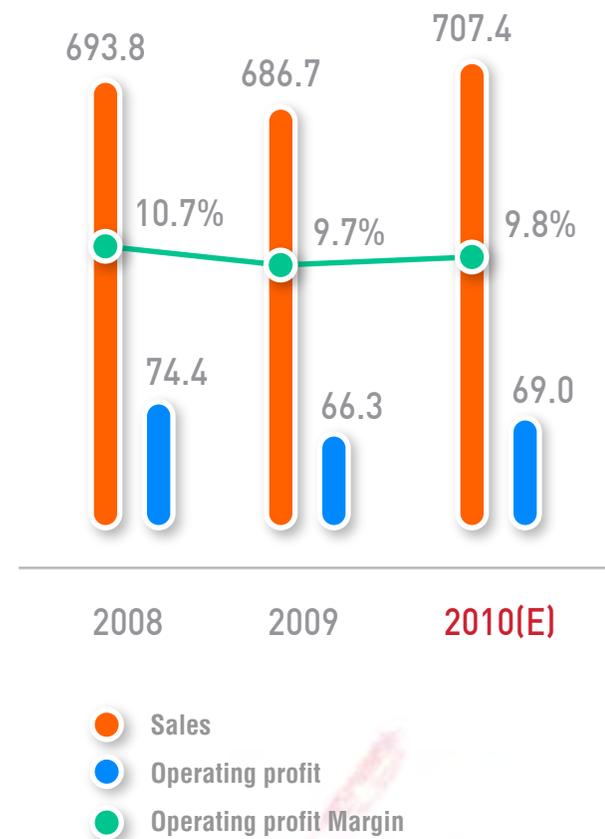
In the Korean private tutoring market worth KRW32 trillion, worksheet sector represents about 14% with KRW4.5 trillion. Currently, Daekyo boasts the largest portion with 36% share in the weekly home-tutoring market, and continues to expand the market share through a variety of plans such as reformation of commission system for tutors, grant of stock option for excellent workforces, suspension rate stabilization campaign and efficient alliance marketing programs.

Noonnoppi Education takes up approximately 81% of all of Daekyo sales and recorded KRW686.7 billion in sales in 2009, of which Noonnoppi Math, Korean and English represented 60%.

To attract new growth in this business, Daekyo is concentrating on attracting more preschooler memberships as well as expanding learning centers.

## Sales

(Unit: KRW in millions)



The weekly home-tutoring market is influenced by product quality, brand loyalty, the customer service relations of tutors and education channels.

The professional education researchers of Daekyo are committed to revising products to meet upgraded educational process and customer needs and developing differentiated new products, which has led us to enjoying the highest competitiveness in the domestic market.

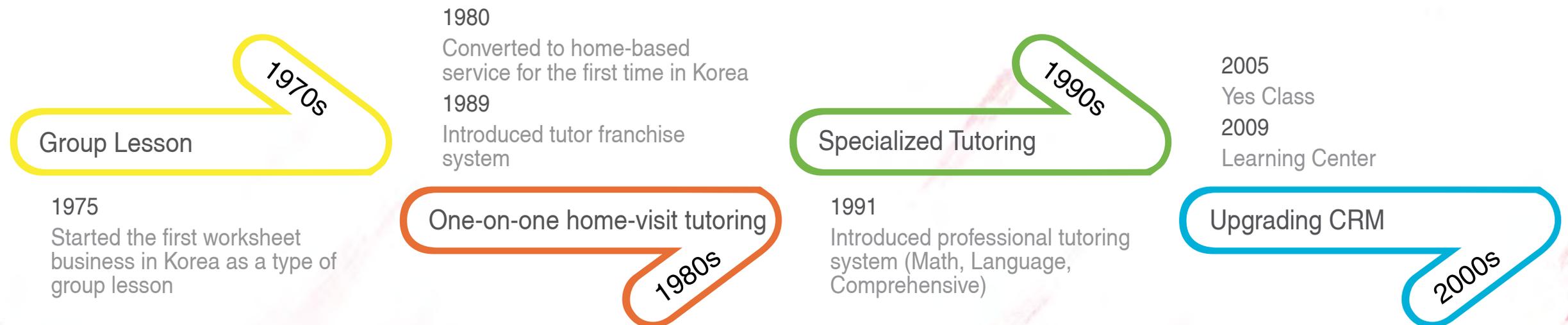
Our representative brand “Noonnoppi” has been ranked number 1 at Korea’s brand power competition sponsored by the KMAC for 12 consecutive years and boasts the dominant position in the domestic educational service industry.

Daekyo first introduced the professional tutoring system to classify tutors into mathematics and linguistics in order to upgrade tutoring methods and students’ academic performances. In addition, the company first established the CRM system, which helps tutors to check their academic progress and offer systematic and differentiated customer services through mobile equipment.

Daekyo has been also the frontrunner in the diversification of education channels. Learning centers and the Yes Class system are the company’s unique services tailored to customer needs, which are now fostering sales growth.

The company will continue to create customer value through attracting more preschooler memberships, regionally customized marketing activities and advanced academic evaluation services. The qualitative growth of branches, cost reduction and profitability improvement will also be promoted to innovatively increase its management efficiency.

## History of Noonnoppi Education



Daekyo is focusing on constructing diverse education channels to bolster competitiveness and create new demands.

The Noonnoppi Learning Center and Yes Class system were introduced to support members to study more conveniently by visiting the centers or tutors' home. The existing home-based tutoring system has been operated by the visit of tutors.

Members are able to visit the Noonnoppi Learning Center and take private lessons at any time they want, which is expected to provide further upgraded one-on-one educational services such as self-imposed study method, homework problem solving, timely correction of wrong answers, diversified study-monitoring system and systematic evaluation system. Consequently, the learning center helps members achieve fundamental academic performances successfully. The number of learning centers will be expanded up to 600 until the end of 2010.

The Yes Class system also supports tutors to secure more study hours by reducing time for visits. By doing so, tutors are able to efficiently manage each student's education process, protect backlog of materials and aid supplementary lessons.



Daekyo operates two business divisions: Noonnoppi Education as the core business and Growth Platform Business. The latter comprises of Platform Business, Fostering Business and Future Business.

Platform Business includes afterschool educational service 'School Bus 100', premium Chinese language program 'Caihong Chinese', and small-group reading and debate program 'Soluny', which are recognized as the blue ocean educational market. This business accounted for 13% of total company sales in 2009, which breaks down to KRW58.7 billion for School Bus 100, KRW30.5 billion for 'Caihong Chinese', and KRW20.7 billion for 'Soluny'.

**SCHOOL BUS 100**

### School Bus 100

The after school educational program 'School Bus 100' has realized CAGR 29% for four recent years and takes a lead in the market. As of the end of 2009, we have participated in this program throughout nationwide 693 schools and held 24.1% market share. We aim to expand the number of schools participating more than 15% year on year in 2010.

**CAIHONG**  
chinese

### Caihong Chinese

'Caihong Chinese' was launched to provide beginners of Chinese language with systematic educational programs. In 2009, this business earned the largest operating profit of KRW1.9 billion just five years after the inception mainly due to launch of premium products. Moreover, we launched 'Business Chinese' for adult use for the first time in the industry in 2010. 'Caihong Chinese' is evolving as a specialized Chinese language brand spanning all ages.

**Soluny**

### Soluny

'Soluny' which is a small-group reading and debate program achieved KRW20.7 billion in sales in 2009 on the strength of the increase of memberships led by the expansion of market volume. Its sales growth was 24% and profitability met the break even point. We plan to continue this growth trend by promoting new product 'Soluny Economic Forum' in addition to the existing 'History' product which had been developed and launched in 2008.

Fostering Business comprises of book collection SOBICS, online educational service for middle school students, and textbook sales. We achieved sales of KRW37.5 billion in 2009 through this business, representing 5% of total company sales.



### SOBICS

SOBICS, a new-concept book collection business, is focusing on developing differentiated products and inspiring sales organization. To nurture talented salespersons and enhance consultation ability, we introduced the reading counselor license system. Mobile office system also adopted since 2005 to offer upgraded membership management.



### Online Educational Service for Middle School Students

Daekyo officially opened the website "Gongbuwarac" in January 2007 in order to provide quality education contents and services.

Recently, the educational service market is rapidly growing backed by the expansion of the entrance examination sector, English education fever and government-led reduction of private education expenses. Furthermore, the convergence of e-learning services and high technology has accelerated the market growth. However, this market is at an early stage with under 5% market penetration ratio.

Daekyo has achieved CAGR 136% in B2C sales for three years since the inception of this service and its memberships have continued to grow by providing differentiated educational management services after the construction of advanced educational management organization "Onssam".



### Textbooks and Reference Books

By achieving the official approval of our mathematics and English textbooks for middle school students, they have been applied to middle schools since 2009. An additional 10 kinds of middle school textbooks received the official approval in July 2009. As for the reference book business, we developed and launched 3 types of reference books for middle school records and a brand for category product. The reference book business is expected to boost sales backed by the entrance into the textbook sector.

# Creating a heart-warming society full of love and sharing

Daekyo is giving back your love and happiness to you and society.

We are committed to implementing a variety of social contribution activities to perform our responsibility as a corporate citizen. To this end, we are investing 10% of net profit in corporate social responsibility activities.

Today, social contribution activities at Daekyo has become not a one-time event but an important corporate culture in which all of our staff voluntarily participate.



CSR(Corporate Social Responsibility)



## Noonnoppi Love Community Service Team

We are delivering our corporate philosophy “Noonnoppi Love” through our voluntary organization “Noonnoppi Love Community Service Team.”

Founded in June 2000, the Noonnoppi Love Community Service Team headed by our CEO Myung-Kyu Park consists of around 11 thousand nationwide members in 25 local branches.

Every year we raise more than KRW300 million donations and operate diverse social activities in cooperation with social service institutes. Our voluntary works are expanded to local regions beyond the metropolitan area and pursue real activities.

Since 2008, we have offered free educational services to more than 550 multi-cultural family children. These services include teaching Korean language and 1 to 1 mentoring to support for achievements in elementary academic ability.



## Daekyo Culture Foundation

We are striving to provide better educational conditions for children.

Founded in 1992, Daekyo Culture Foundation has conducted various social contribution activities for the communities. Our major activities include scholarship programs to provide more educational opportunities, academic supports to organizations and individuals devoting themselves for public interest, award programs and competition events to motivate children and younger people to realize their dreams.

In addition, Daekyo Culture Foundation is supporting art and sports activities of younger people in developing countries by establishing the World Youth Culture Foundation.

Bongam Academy is committed to nurturing future leaders with global sense and superior communication ability.



## Joint social contribution with public services

Daekyo and the Ministry of Health and Welfare join in creating happiness for everyone.

To take full responsibility of a leading educational enterprise, Daekyo signed an MOU with the Ministry of Health and Welfare in April 2009 and has supported Dream Start families. Other activities include free educational services for multicultural families, supports for underprivileged children and jobless youth people, etc.

Daekyo, as a voucher contractor, also provide preschoolers with free consultation services for reading books as part of social services of the Ministry of Health and Welfare .

Having 33 years of know-how from educational services, Daekyo provides language development and Korean language program to multicultural families, as well as parenting and mentoring skills.



## Safe Kids Korea

We are taking the head in preventing children's safety concerns.

Daekyo founded 'Safe Kids Korea' in joint cooperation with The Citizens Coalition for Safety to prevent children's safety concerns in 2001. We have started this with the desire to deliver a big hope for our children to grow up brightly and safely in consideration of our presence that the death rate from children's safety concerns are four to five times higher than OECD member states.

Daekyo and Safe Kids Korea hold 'Children's Safety Campaign' at crosswalks for more than 500 elementary schools every March and host 'Noonnoppi Safe Camp' for children every summer. We have also conducted safe director exams for employees and produced more than 5,000 safe directors until now.

Furthermore, we operate diverse programs for safety and provide guidance to children through practical education of a safe way.

## Sports Activities

The 'Noonnoppi Women's Badminton Team' was established in 1997 to help promote physical fitness in Korea and encourage the balanced development of sports in society.

The 'Noonnoppi Women's Badminton Team' developed star players such as Olympic gold medalist Soo-hyun Bang and Kyung-min Rah. Also chairman Young-joog Kang serves as president of the Badminton World Federation and leads diverse socially responsible activities.

The 'Goyang Daekyo Noonnoppi Women's Soccer Team' which is celebrating its 8th anniversary this year has maintained top ranking status after becoming the Spring League Champions in 2008. Soccer clinics are held for primary school students every year, and Noonnoppi courses are provided free of charge to the girls on soccer teams at 24 primary schools around the country.



## Market Overview

Daekyo is the largest educational and cultural corporation that not only operates its flagship business, "Noonnoppi", but also afterschool classes, academies, online learning programs, and overseas educational business.

The domestic private education market has shown a steady increase of an annual average 11% during the past 10 years and recorded a 5.8% increase over the previous year to KRW32 trillion in 2009. Academies hold the largest portion with 41.4% market share, followed by the worksheet sector with 14.3%.

Worksheet sector which is our flagship business has experienced sluggish growth due to the expansion of other education channels as well as the decrease of preschoolers and elementary school students who are our main customers. To meet this market change, Daekyo is striving to create new customers by diversifying channels such as 'Learning Center' and 'Yes Class' system as well as developing differentiated products.

The afterschool classes which account for approximately 5.5% of the private education market recorded an increase of 10% year on year to KRW1.8 trillion in 2009. The government-led School Liberalization Policy on April 15, 2008 has boosted the afterschool classes sales.

Daekyo boasts the 36% share in the weekly home-tutoring market for sales and memberships. To expand our market share, we continue to focus on revising tutoring commission structures, granting of incentives to qualified employees, suspension stabilization campaigns and a variety of co-marketing activities.

In the afterschool classes sector, Daekyo remained the top with 24.1% market share as of the end of 2009 on the strength of know-how for operating afterschool computer classes and differentiated applicable curricula.

	2009		2008		2007	
	Amount	%	Amount	%	Amount	%
Sales	845.5	100.0	841.1	100.0	846.6	100.0
Worksheet with tutoring	741.5	87.7	745.6	88.6	764.9	90.3
Others	104.0	12.3	95.5	11.4	81.7	9.7
Cost of sales	697.9	82.5	671	79.8	655.8	77.5
Gross profit	147.6	17.5	170.1	20.2	190.9	22.5
Selling & administrative expenses	87.5	10.3	112.9	13.4	112.4	13.3
Operating income	60.1	7.1	57.2	6.8	78.5	9.3
Non-operating income & expense	23.4	2.8	-18	-2.1	-14	-1.7
Income from continuing operations before tax	83.5	9.9	39.2	4.7	64.5	7.6
Net income	56.5	6.7	21.2	2.5	48.1	5.7

## Operating Performance

Sales from Noonoppi Education decreased 1% year on year to KRW686.7 billion due to the downturn of memberships caused by weak supply in the first half of the year. Meanwhile, sales from afterschool classes and Soluny soared 23.7% and 23.6% over the previous year, respectively, which mainly helped Growth Platform Business achieve 7.5% growth to KRW153.4 billion in sales. As a result, our total sales increased 0.5%, or KRW4.4 billion, to KRW845.5 billion in 2009.

Although the domestic weekly home-tutoring market has recently experienced a slump, we expect the market to have growth potential. Therefore, we are focusing on not only attracting more preschooler memberships based on strong brand loyalty but also introducing new education channels including 'Learning Center'.

Our flagship business Noonoppi Education remains the dominant portion with 81% of the company's sales revenue. To secure a balanced business portfolio, we have been striving to foster growth potential businesses and develop new education business models. As a result, the school education division has experienced 20% to 30% growth every quarter backed by excellent brand recognition in the afterschool computer education market and expansion of English classes.

Operating profits increased 5%, or KRW2.9 billion, year on year to KRW60.1 billion thanks to companywide cost reduction efforts. Particularly, Growth Platform Business accomplished KRW2.4 billion in operating profit in 2009, which had been a deficit of KRW12.1 billion in the previous year. Afterschool classes, 'Caihong Chinese' and 'Sobics' also recorded growth in operating profit compared to the previous year.

Net profit also soared 166.7%, or KRW35.3 billion, over the previous year to KRW56.5 billion thanks to the increase of operating profit and gains on disposal of available-for-sale securities and bond funds.

Total assets increased 10.6%, or KRW77.4 billion, year on year to KRW808.7 billion as of the end of 2009, mainly due to the increase of gains on evaluation of securities including the shares of Shinhan Financial Group. Total liabilities recorded KRW205.6 billion, a decrease of KRW0.2 billion, or 0.1%, over the previous year. Shareholders' equity was KRW603.2 billion in 2009, an increase of KRW77.6 billion, or 14.7%, over the previous year.

Debt-to-equity fell 5.0% to 34.1%, and current ratio was 154.27% at the end of 2009. ROE which had been on a downturn turned to the increase of 3.8% year on year to 10.0%. Consequently, our financial structure has been further stable in 2009.

	2009	2008	2007
Total assets	808.7	731.3	882.4
Current assets	219.8	206.1	222.8
Non-Current assets	588.9	525.2	659.6
Total liabilities	205.6	205.7	234.2
Current liabilities	142.5	137.8	129.2
Non-Current liabilities	63.1	67.9	105.1
Total shareholders' equity	603.2	525.6	648.2
Capital stock	52.1	52.1	52.1
Capital surplus	70.2	71.9	71.1
Capital Adjustment	-50.3	-39.0	-12.3
Other comprehensive changes	121.7	73.2	168.5
Retained earnings	409.4	367.5	368.8

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 statements of financial position of Daekyo Co., Ltd. (the "Company") as of December 31, 2009 and 2008, and the related non-consolidated statements of income, appropriations of retained earnings, changes in shareholders' equity and cash flows for the years then ended, 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 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 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 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 the Company as of December 31, 2009 and 2008, and the results of its operations, the changes in its retained earnings and shareholders' equity, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, 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 8, 2010

## Notice to Readers

This report is effective as of March 8, 2010, 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.

# NON-CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2009 AND 2008

DAEKYO CO., LTD.

( in thousand of Korean Won)

	2009	2008
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	54,370,173	60,542,806
Short-term financial instruments	10,934,633	21,469,747
Short-term investment securities	84,461,342	55,039,298
Trade accounts receivable, net	38,337,461	32,989,520
Other accounts receivable, net	2,436,317	2,712,142
Short-term loans	2,460,656	1,928,872
Accrued income	391,505	413,885
Advanced payments	1,356,978	1,911,256
Prepaid expenses	2,018,813	1,409,436
Deferred income tax assets	3,384,401	5,909,897
Inventories, net	19,670,565	21,778,298
<b>Total current assets</b>	<b>219,822,844</b>	<b>206,105,157</b>
<b>NON-CURRENT ASSETS:</b>		
Long-term financial instruments	-	2,440,000
Long-term loans	3,479,439	5,724,254
Long-term investment securities	218,040,193	161,600,748
Investment securities accounted for using the equity method	17,288,230	24,912,051
Other investment assets	6,062,262	7,253,231
Property and equipment, net	205,950,794	202,377,296
Intangible assets, net	77,326,179	67,141,976
Non-current guarantee deposits	60,755,181	53,765,502
<b>Total non-current assets</b>	<b>588,902,278</b>	<b>525,215,058</b>
<b>TOTAL ASSETS</b>	<b>808,725,122</b>	<b>731,320,215</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable	8,969,529	12,032,352

	2009	2008
Other accounts payable	16,175,092	18,320,372
Accrued expenses	45,367,827	39,102,380
Withholdings	7,514,900	6,526,812
Advances received	47,144,113	50,880,480
Income tax payable	14,884,232	10,086,895
Provision for returns	2,433,884	834,110
<b>Total current liabilities</b>	<b>142,489,577</b>	<b>137,783,401</b>
<b>LONG-TERM LIABILITIES:</b>		
Long-term accrued expenses	2,408,328	4,891,465
Long-term accounts payable	3,000,000	3,000,000
Long-term deposits received	15,377,534	14,959,473
Provision for mileage	-	156,796
Accrued severance benefits, net of payment to National Pension Fund of ₩292,156 thousand in 2009 and ₩892,294 thousand in 2008, and severance insurance deposits for employees of ₩45,169,167 thousand in 2008, and plan asset of ₩21,032,726 thousand in 2009	10,097,604	23,182,487
Deferred income tax liabilities	32,178,895	21,723,504
<b>Total long-term liabilities</b>	<b>63,062,361</b>	<b>67,913,725</b>
<b>TOTAL LIABILITIES</b>	<b>205,551,938</b>	<b>205,697,126</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock	52,064,920	52,064,920
Capital surplus	70,226,701	71,859,653
Treasury stock	(52,276,066)	(40,536,283)
Stock options	2,018,774	1,567,960
Gain on valuation of available-for-sale securities	126,175,583	81,346,878
Loss on valuation of available-for-sale securities	(4,557,369)	(9,634,304)
Changes in equity using the equity method	731,206	1,579,909
Negative changes in equity using the equity method	(632,345)	(82,141)
Retained earnings	409,421,780	367,456,497
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>603,173,184</b>	<b>525,623,089</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>808,725,122</b>	<b>731,320,215</b>

# NON-CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

DAEKYO CO., LTD.

(In thousands of Korean Won, except for net income per share)

	2009	2008
Sales	845,488,661	841,092,314
Cost of sales	697,921,805	682,301,369
Gross profit	147,566,856	158,790,945
Selling and administrative expenses	87,471,379	101,580,907
Operating income	60,095,477	57,210,038
Non-operating income:		
Interest income	4,627,478	6,694,323
Dividend income	11,855	4,823,463
Reversal of allowance for doubtful accounts	161,207	-
Foreign exchange gains	508,126	180,766
Gain on disposal of property and equipment	138,587	2,140
Gain on foreign currency translation	-	572,835
Gain on valuation of investment securities accounted for using the equity method	779,978	114,789
Gain on disposal of short-term investment securities	14,337,722	1,479,625
Gain on valuation of short-term investment securities	259,358	-
Gain on disposal of long-term investment securities	27,776,286	297,855
Others	624,382	376,192
	<u>49,224,979</u>	<u>14,541,988</u>
Non-operating expenses:		
Interest expense	18,774	-
Foreign exchange losses	462,744	17,915
Loss on foreign currency translation	18,539	211,500
Donations	1,066,925	2,750,900
Other bad debt expenses	-	223,350
Loss on valuation of inventories	2,870,489	340,432
Loss on valuation of investment securities accounted for using the equity method	17,269,361	18,363,339
Loss on valuation of short-term investment securities	-	6,203,879
Loss on disposal of property and equipment	5,668	2,352
Loss on removal of property and equipment	-	37,593
Loss on impairment of intangible assets	1,584,493	2,956,476
Investment advice commission	708,355	-
Others	1,775,170	1,434,974
	<u>25,780,518</u>	<u>32,542,710</u>
Income before income tax	83,539,938	39,209,317
Income tax expense	27,049,580	18,032,757
Net income	<u>56,490,358</u>	<u>21,176,560</u>
Net income per common share - continuing operations	595	210

# NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

DAEKYO CO., LTD.

( in thousand of Korean Won)

	2009	2008
UNAPPROPRIATED RETAINED EARNINGS:		
Unappropriated retained earnings carried over from prior year	1,308,798	5,531,123
Interim dividends	(14,182,400)	(8,056,210)
Net income	56,490,358	21,176,560
	<u>43,616,756</u>	<u>18,651,473</u>
APPROPRIATIONS:		
Reserve for financial structure improvement	-	-
Voluntary reserve	33,000,000	17,000,000
Cash dividends	9,469,027	342,674
	<u>42,469,027</u>	<u>17,342,674</u>
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	1,147,729	1,308,798

# NON-CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

DAEKYO Annual Report 2009 \_ 27

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

DAEKYO CO., LTD.

( in thousand of Korean Won)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
Balance at January 1, 2008	52,064,920	72,265,629	(12,293,466)	167,331,703	368,826,246	648,195,031
Accumulated effect of changes in accounting policy	-	(1,138,178)	-	1,138,178	-	-
Capital after adjustment	52,064,920	71,127,450	(12,293,466)	168,469,881	368,826,246	648,195,031
Dividends	-	-	-	-	(14,490,098)	(14,490,098)
Balances after appropriations	52,064,920	71,127,450	(12,293,266)	168,469,881	354,336,148	633,704,933
Interim dividends	-	-	-	-	(8,056,210)	(8,056,210)
Net income	-	-	-	-	21,176,560	21,176,560
Increase of other capital surplus	-	732,203	-	-	-	732,203
Acquisition of treasury stock	-	-	(28,242,817)	-	-	(28,242,817)
Increase of stock options	-	-	1,567,960	-	-	1,567,960
Gain on valuation of available-for-sale securities	-	-	-	(87,242,551)	-	(87,242,551)
Loss on valuation of available-for-sale securities	-	-	-	(9,131,435)	-	(9,131,435)
Changes in equity using the equity method	-	-	-	913,228	-	913,228
Negative changes in equity using the equity method	-	-	-	201,219	-	201,219
Balance at December 31, 2008	52,064,920	71,859,653	(38,968,323)	73,210,342	367,456,497	525,623,089
Balance at January 1, 2009	52,064,920	71,859,653	(38,968,323)	73,210,342	367,456,497	525,623,089
Dividends	-	-	-	-	(342,674)	(342,674)
Balances after appropriations	52,064,920	71,859,653	(38,968,323)	73,210,342	367,113,823	525,280,415
Interim dividends	-	-	-	-	(14,182,400)	(14,182,400)
Net income	-	-	-	-	56,490,358	56,490,358
Increase of other capital surplus	-	(1,632,952)	-	-	-	(1,632,952)
Acquisition of treasury stock	-	-	(11,739,783)	-	-	(11,739,783)
Increase of stock options	-	-	450,814	-	-	450,814
Gain on valuation of available-for-sale securities	-	-	-	44,828,705	-	44,828,705
Loss on valuation of available-for-sale securities	-	-	-	5,076,935	-	5,076,935
Changes in equity using the equity method	-	-	-	(848,703)	-	(848,703)
Negative changes in equity using the equity method	-	-	-	(550,205)	-	(550,205)
Balance at December 31, 2009	52,064,920	70,226,701	(50,257,292)	121,717,074	409,421,781	603,173,184

# NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

DAEKYO CO., LTD.

( in thousand of Korean Won)

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	56,490,358	21,176,560
Additions of expenses not involving cash outflows:		
Depreciation	10,361,297	9,562,878
Amortization of intangible assets	34,584,344	32,455,150
Provision for severance benefits	10,899,189	15,005,395
Loss on valuation of investment securities accounted for using the equity method	17,269,361	18,363,339
Loss on disposal of property and equipment	5,668	2,352
Loss on removal of property and equipment	-	37,593
Loss on impairment of intangible assets	1,584,493	2,956,476
Loss on valuation of inventories	2,870,489	340,432
Bad debt expenses	466,097	1,115,162
Other bad debt expenses	-	223,350
Commissions	-	1,252,127
Loss on foreign currency translation	-	211,500
Salaries and wages (stock options)	3,656,839	1,567,960
Loss on valuation of short-term investment securities	-	6,203,879
Miscellaneous losses	-	652
Income tax expense	1,113,684	-
	82,811,461	89,298,245
Deduction of items not involving cash inflows:		
Gain on valuation of investment securities accounted for using the equity method	779,978	114,789
Gain on foreign currency translation	-	572,835
Gain on disposal of property and equipment	138,587	2,140
Gain on valuation of short-term investment securities	259,358	-
Gain on disposal of short-term investment securities	14,337,722	1,479,625
Gain on disposal of long-term investment securities	27,776,286	297,855
Reversal of allowance for doubtful accounts	161,207	-
	43,453,138	2,467,244

	2009	2008
Changes in operating assets and liabilities related to operating activities:		
Increase in trade accounts receivable	(5,814,038)	(10,618,447)
Decrease in accrued income	22,379	2,424,807
Decrease in other accounts receivable	437,033	389,181
Decrease (increase) in advanced payments	(1,353,671)	219,658
Decrease (increase) in prepaid expenses	(695,509)	422,664
Increase in inventories	(762,755)	(6,840,854)
Decrease (increase) in deferred income tax assets	2,525,496	(4,300,582)
Increase (decrease) in trade accounts payable	(3,062,823)	5,319,078
Increase (decrease) in other accounts payable	(2,145,280)	1,898,094
Increase in accrued expenses	6,265,448	1,073,543
Increase (decrease) in withholdings	988,088	(1,100,209)
Increase (decrease) in advances received	(3,736,367)	3,703,299
Increase (decrease) in income tax payable	4,797,336	(2,441,570)
Increase in provision for returns	1,599,773	153,295
Payment of severance benefits	(48,720,651)	(13,249,379)
Increase in post-retirement pension plan asset	(21,032,726)	-
Decrease (increase) in severance insurance deposits	45,169,167	(1,181,416)
Decrease in contributions to the National Pension Fund	600,138	211,321
Increase in long-term deposits received	418,061	2,854,004
Decrease in long-term accrued expenses	(2,483,137)	(140,007)
Increase (decrease) in deferred income tax liabilities	(3,811,573)	3,132,451
Increase (decrease) in provision for mileage	(156,796)	47,967
	(30,952,407)	(18,023,102)
Net cash provided by operating activities	64,896,274	89,984,459

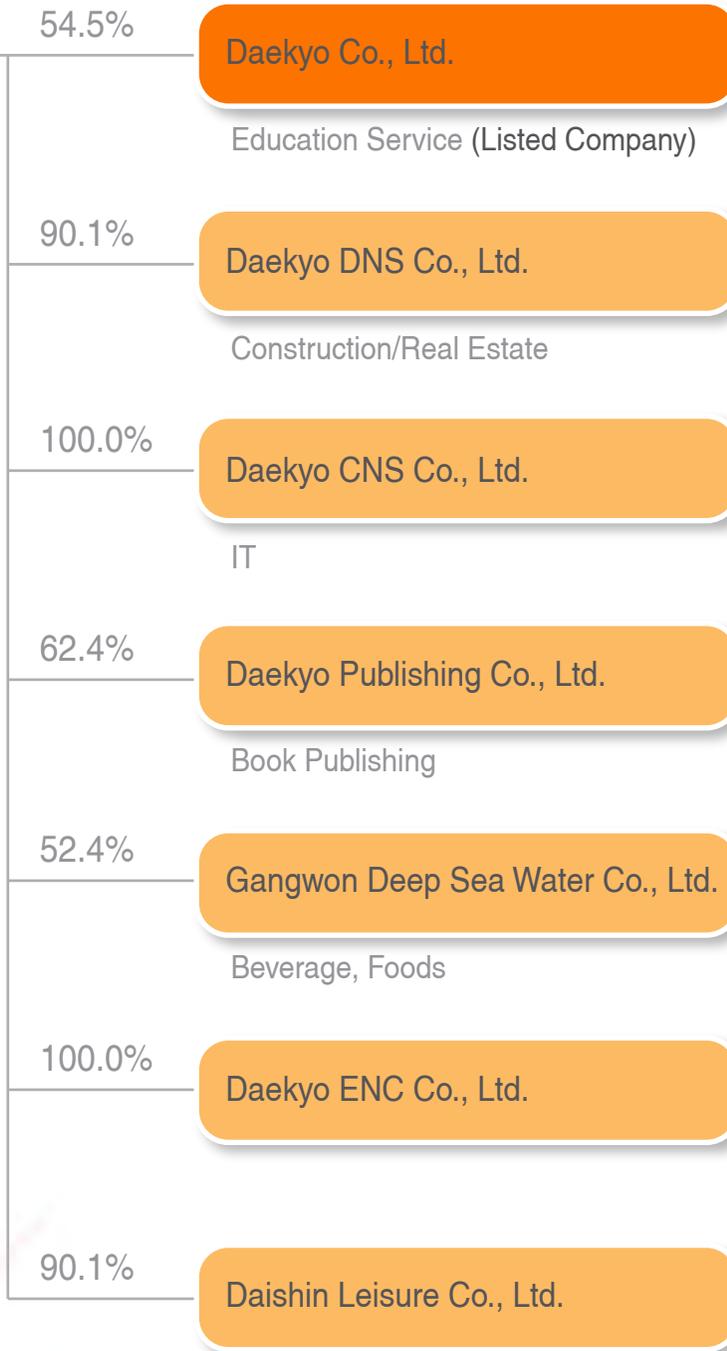
**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from disposal of short-term financial instruments	20,895,114	58,418,960
Proceeds from disposal of trading securities	-	47,296,566
Proceeds from disposal of available-for-sale securities	51,397,333	3,462,835
Proceeds from disposal of long term financial instruments	42,129,236	2,500
Collection of short-term loans	3,339,133	1,981,625
Collection of long-term loans	1,050,000	2,023,545

	2009	2008
Proceeds from non-current guarantee deposits	12,238,560	16,338,045
Proceeds from other investment assets	-	95,348
Proceeds from disposal of property and equipment	165,500	2,140
Collection of intangible assets	60,000	-
	131,274,876	129,621,564
Cash outflows from investing activities:		
Acquisition of short-term financial instruments	7,920,000	21,108,412
Acquisition of long-term financial instruments	-	2,440,000
Acquisition of trading securities	59,450,000	71,973,910
Acquisition of available-for-sale securities	13,392,088	3,256,958
Acquisition of investment securities accounted for using the equity method	10,039,272	6,245,818
Extension of short-term loans	2,279,409	-
Extension of long-term loans	396,694	595,765
Payments for non-current guarantee deposits	19,228,239	16,152,691
Acquisition of other investment assets	-	1,326,022
Acquisition of property and equipment	12,006,400	11,938,353
Acquisition of intangible assets	45,188,964	40,906,882
	169,901,066	175,944,811
Net cash used in investing activities	(38,626,190)	(46,323,247)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash inflows from financing activities:		
Increase in short-term debt	2,492,800	-
Disposal of treasury stock	2,365,593	-
	4,858,393	-
Cash outflows from financial activities:		
Decrease in short-term debt	2,492,800	-
Cash dividends	14,525,074	22,546,308
Acquisition of treasury stock	20,283,236	28,242,817
	37,301,110	50,789,125
Net cash used in financing activities	(32,442,717)	(50,789,125)
Net increase (decrease) in cash and cash equivalents	(6,172,633)	(7,127,913)
Cash and cash equivalents - beginning of the year	60,542,806	67,670,719
Cash and cash equivalents - end of the year	54,370,173	60,542,806

**Daekyo Holdings Co., Ltd.**

Established on May 1, 2001  
(Young-Joong Kang, 79.93%)



**Domestic Subsidiaries (6 companies)**

Name	Business	Ownership
Fermatedu Co., Ltd.	Academies	59.3%
Daekyo Book Center Co., Ltd.	Books, Stationary	97.9%
Daekyo CSA Co., Ltd.	CS Consulting	50.0%
Daekyo Sobics Co., Ltd.	Education Service	83.7%
Daekyo EOL Co., Ltd.	Education Service	56.5%
Daekyo Bookscan Co., Ltd.	Online Sales	100.0%

**Overseas Subsidiaries (8 companies)**

Education Service for Overseas Korean and Local People

Name	Ownership
Daekyo America Inc.	66.5%
Daekyo Hong Kong Co., Ltd.	47.9%
Daekyo Malaysiz Sdn., Bhd.	100.0%
Shanghai Daekyo Co., Ltd.	100.0%
Beijing Daekyo Co., Ltd.	100.0%
P.T Daekyo Indonesia	99.6%
DBES	-
Daekyo Singapore Co., Ltd.	100.0%

### Daekyo Holdings ([www.edaekyo.net](http://www.edaekyo.net))

Daekyo Holding is the holding company of Daekyo group. Its major business includes the efficient investments in subsidiaries, and development, investment, merger & acquisition of promising new businesses.

### Daekyo D&S ([www.daekyodns.co.kr](http://www.daekyodns.co.kr))

Daekyo D&S is a company specializing in real-estate development and asset management. The company is expanding its business areas from building management into the operation of golf courses.

### Daekyo CNS ([www.daekyocns.com](http://www.daekyocns.com))

Daekyo CNS provides comprehensive IT services such as system integration (SI), system management (SM), IT consulting and IT infra services.

### Daekyo ENC ([www.kids17.net](http://www.kids17.net))

Daekyo ENC provides high-tech video contents suitable for the multimedia age through the only cable channel for children & toddlers, Daekyo Children's TV and the digital satellite broadcasting, KIDS SKY. It also provides learning programs of various genres and intends to strategically engage in video-related businesses.

### Daishin Leisure

Daishin Leisure was established in 2005 by Daekyo CNS for the purpose of operating leisure business. It pursues the creation of eco-friendly cultural spaces with various composite leisure facilities, and is developing a leisure spot that can be loved by people from all over the world.

### Gangwon Deep Sea Water ([www.gwdeepseawater.co.kr](http://www.gwdeepseawater.co.kr))

Gangwon Deep Sea Water was established to enter the environment & biotechnology related sector and health & leisure business. The company is engaging in research, development, manufacturing and sales of deep sea water products and considering Therasophia (sea water treatment facility) business.

### Daekyo Publishing ([www.daekyobook.co.kr](http://www.daekyobook.co.kr))

Daekyo Publishing, a specialty publishing company for children's books, contributes to their emotional and intelligent development. It leads the way in an ever-changing educational environment, and is cultivating a proper educational principle and genuine publishing culture through good books instilled with substantial knowledge and bright dreams.

### Daekyo Culture Foundation ([www.dkculture.org](http://www.dkculture.org))

The Daekyo Culture Foundation was established on December 27, 1991, based on the wishes of Daekyo Inc. and its subsidiaries to create a sound education and culture environment by returning profits to society and to create healthy families and a healthy society.

**World Youth & Culture Foundation**

The World Youth & Culture Foundation was established in 2007 to support sports, culture and arts programs for children everywhere. The purpose is to ensure that all children can freely exercise their right to a basic education.

**Bong-Ahm Educational Foundation** : Gyeonggi Academy of Foreign Languages (GAFL) ([www.gafl.hs.kr](http://www.gafl.hs.kr))

The Bong-Ahm Educational Foundation (GAFL) was established on June 16, 2008 for the purpose of "cultivating global leaders who can shape the future." In step with this goal, the Foundation runs the GAFL. The know-how and infrastructure of Daekyo, the nation's foremost private education institution, are now being applied to rank the GAFL among the world's top seven high schools by 2017. The GAFL, which offers three majors, has a student body of 1,035 and a faculty of more than 70.

**Bong-Ahm Educational Foundation** : Korea Cyber University (KCU) ([www.kcu.ac](http://www.kcu.ac))

The Bong-Ahm Educational Foundation (KCU) was established on October 31, 2009 to operate KCU, which was converted to a university from life-long institution in October 2008. The goal is to cultivate new knowledge from around the world as a lifetime learning program with ubiquitous access. KCU currently has fourteen departments, enrolls more than 6,600 students, and operates a U-Learning Center as well as eight university research institutes.

**Daekyo Bookscan. Co., Ltd** ([www.bookscan.co.kr](http://www.bookscan.co.kr))

Daekyo Bookscan promotes reading in Korea by providing high quality books at the lowest prices. The company operates an online shopping site ([www.bookscan.co.kr](http://www.bookscan.co.kr)), Customer Center (1588-1949), and international comic book shopping mall ([www.comicstorm.co.kr](http://www.comicstorm.co.kr))

**Daekyosobics. Co., Ltd** ([www.daekyosobic.co.kr](http://www.daekyosobic.co.kr))

Daekyosobics has advanced the quality of education at Korean daycare centers by designing specialized education programs that develop infants' imaginations and abilities to express themselves. The company trains qualified teachers for those programs and runs its own SOBICS SCHOOL as well. Plans now call for expanding into music and cultural programs.

**Daekyo Book Center**

The Daekyo Book Center not only sells books but also serves as a cultural center and place to relax. Various entertainment performances and special events for children are offered; the sales floor space is expansive (8,250 ) and the book selection is massive.

**Daekyo Education OnLine, Inc.** ([www.daekophone.com](http://www.daekophone.com))

Daekyo EOL provides one-on-one lessons in English or Chinese conversation with native speakers via the telephone or internet videophone. The company also publishes books and provides courses for corporate customers. Thorough customer management and speedy services result in a unique and sophisticated system for teaching foreign language conversation.

### **Daekyo CSA Co., Ltd.** ([www.firstcs.co.kr](http://www.firstcs.co.kr))

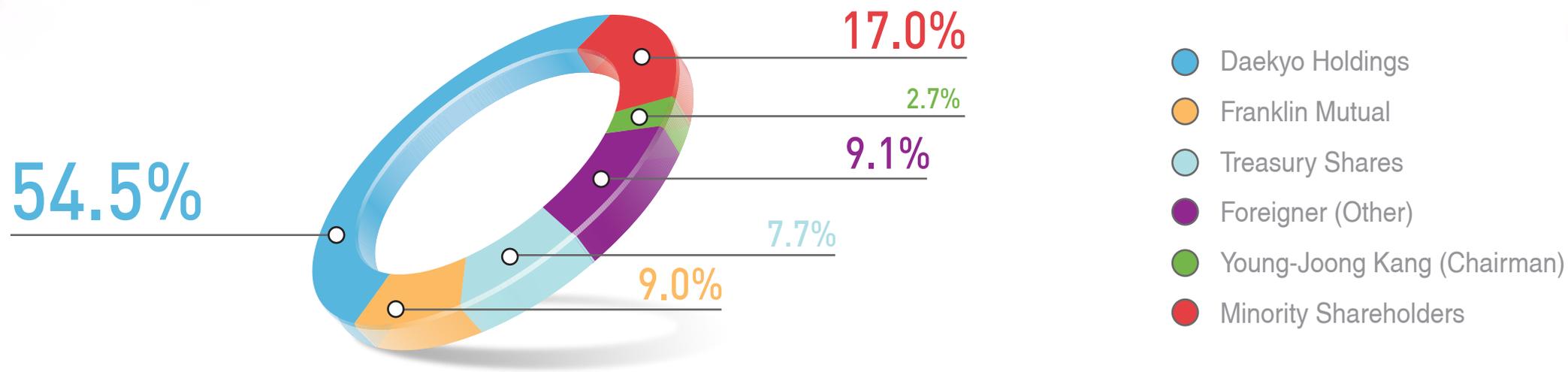
Daekyo CSA serves as an HRD center for the Daekyo Group and provides consultant services corporate clients. This subsidiary has the know-how and licensed specialists to consult on customer satisfaction and human resources issues and to offer customized solutions. It is also equipped with the latest training facilities. The vision today is to be the "world's best customer satisfaction & human resources consultancy that takes customers' customers into account." To this end, the First CS Academy pioneers new changes and innovations.

### **Fermatedu Co., Inc.** ([www.Fermat.co.kr](http://www.Fermat.co.kr))

Fermatedu operates 60 franchises, including 20 directly-run branches nationwide, and an e-learning service to prepare students to take the entrance examinations for attending Korea's foreign language high schools, independent high schools and self-regulated private high schools. The incomparable program contents foster thinking that is creative, logical and integrative with the aim of cultivating rare talent that can excel in various academic competitions or in special programs for the gifted.

### **Daekyo EOL** ([www.daekyophone.com](http://www.daekyophone.com))

Daekyo EOL Inc. was founded in July of 2002. It is an Internet-based education company providing one-on-one lessons in English and Chinese conversation using telephone and video over the internet and publishing books regarding both English and Chinese conversation skills. Daekyo EOL has opened this business, based on Daekyo's online and offline experiences, and it also takes a sophisticated care of customers of all ages, from infants to adults, through Learning Management System (LMS). Moreover, the company has been expanding its business area not only for business-to-customer (B2C) but also business-to-business (B2B).



Major Investment Indices (common Stock)

(KRW, multiple, share)	2009	2008	2007
No. of shares	84,702,850	*84,702,850	8,470,285
Share price (H/L)*	6,840 / 3,625	9,370 / 3,925	112,000 / 75,000
Earnings per share	595	203	4,671
PER (H/L)	11.5 / 6.1	44.6 / 18.7	24.0 / 16.1
Book value per share	5,050	5,437	54,466
PBR (H/L)	1.4 / 0.7	1.8 / 0.7	2.1 / 1.4
Dividends	250	80	2,100
Propensity to dividend(%)	41.9	39.7	45.05

\* Daekyo's stock had split 10-for-1 at September 5, 2008

**Deloitte.**

**안진회계법인**

**DAEKYO CO., LTD.**

**NON-CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
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 statements of financial position of Daekyo Co., Ltd. (the "Company") as of December 31, 2009 and 2008, and the related non-consolidated statements of income, appropriations of retained earnings, changes in shareholders' equity and cash flows for the years then ended, 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 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 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 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 the Company as of December 31, 2009 and 2008, and the results of its operations, the changes in its retained earnings and shareholders' equity, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, 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 8, 2010

### **Notice to Readers**

This report is effective as of March 8, 2010, 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 STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2009 AND 2008**

	Korean Won	
	2009	2008
	(In thousands)	
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 8)	₩ 54,370,173	₩ 60,542,806
Short-term financial instruments (Notes 3 and 8)	10,934,633	21,469,747
Short-term investment securities (Note 4)	84,461,342	55,039,298
Trade accounts receivable, net	38,337,461	32,989,520
Other accounts receivable, net	2,436,317	2,712,142
Short-term loans	2,460,656	1,928,872
Accrued income	391,505	413,885
Advanced payments	1,356,978	1,911,256
Prepaid expenses	2,018,813	1,409,436
Deferred income tax assets (Note 16)	3,384,401	5,909,897
Inventories, net	19,670,565	21,778,298
Total current assets	219,822,844	206,105,157
<b>NON-CURRENT ASSETS:</b>		
Long-term financial instruments (Notes 3)	-	2,440,000
Long-term loans	3,479,439	5,724,254
Long-term investment securities (Note 4)	218,040,193	161,600,748
Investment securities accounted for using the equity method (Notes 5 and 17)	17,288,230	24,912,051
Other investment assets	6,062,262	7,253,231
Property and equipment, net (Note 6)	205,950,794	202,377,296
Intangible assets, net (Note 7)	77,326,179	67,141,976
Non-current guarantee deposits	60,755,181	53,765,502
Total non-current assets	588,902,278	525,215,058
<b>TOTAL ASSETS</b>	<b>₩ 808,725,122</b>	<b>₩ 731,320,215</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable	₩ 8,969,529	₩ 12,032,352
Other accounts payable	16,175,092	18,320,372
Accrued expenses	45,367,827	39,102,380
Withholdings	7,514,900	6,526,812
Advances received	47,144,113	50,880,480
Income tax payable	14,884,232	10,086,895
Provision for returns	2,433,884	834,110
Total current liabilities	142,489,577	137,783,401

(Continued)

**DAEKYO CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)  
AS OF DECEMBER 31, 2009 AND 2008**

	Korean Won	
	2009	2008
	(In thousands)	
<b>LONG-TERM LIABILITIES:</b>		
Long-term accrued expenses	₩ 2,408,328	₩ 4,891,465
Long-term accounts payable	3,000,000	3,000,000
Long-term deposits received	15,377,534	14,959,473
Provision for mileage	-	156,796
Accrued severance benefits, net of payment to National Pension Fund of ₩292,156 thousand in 2009 and ₩892,294 thousand in 2008, and severance insurance deposits for employees of ₩45,169,167 thousand in 2008, and plan asset of ₩21,032,726 thousand in 2009	10,097,604	23,182,487
Deferred income tax liabilities (Note 16)	32,178,895	21,723,504
Total long-term liabilities	63,062,361	67,913,725
<b>TOTAL LIABILITIES</b>	205,551,938	205,697,126
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock (Note 9)	52,064,920	52,064,920
Capital surplus (Note 10)	70,226,701	71,859,653
Treasury stock (Note 11)	(52,276,066)	(40,536,283)
Stock options (Note 12)	2,018,774	1,567,960
Gain on valuation of available-for-sale securities (Note 4)	126,175,583	81,346,878
Loss on valuation of available-for-sale securities (Note 4)	(4,557,369)	(9,634,304)
Changes in equity using the equity method (Note 5)	731,206	1,579,909
Negative changes in equity using the equity method (Note 5)	(632,345)	(82,141)
Retained earnings (Note 13)	409,421,780	367,456,497
<b>TOTAL SHAREHOLDERS' EQUITY</b>	603,173,184	525,623,089
 <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	 ₩ 808,725,122	 ₩ 731,320,215

See accompanying notes to non-consolidated financial statements.

**DAEKYO CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	Korean Won	
	2009	2008
	(In thousands, except for net income per share)	
Sales (Note 19)	₩ 845,488,661	₩ 841,092,314
Cost of sales (Note 19)	697,921,805	682,301,369
Gross profit	147,566,856	158,790,945
Selling and administrative expenses (Note 24)	87,471,379	101,580,907
Operating income	60,095,477	57,210,038
Non-operating income:		
Interest income	4,627,478	6,694,323
Dividend income	11,855	4,823,463
Reversal of allowance for doubtful accounts	161,207	-
Foreign exchange gains	508,126	180,766
Gain on disposal of property and equipment	138,587	2,140
Gain on foreign currency translation	-	572,835
Gain on valuation of investment securities accounted for using the equity method (Note 5)	779,978	114,789
Gain on disposal of short-term investment securities	14,337,722	1,479,625
Gain on valuation of short-term investment securities	259,358	-
Gain on disposal of long-term investment securities	27,776,286	297,855
Others	624,382	376,192
	49,224,979	14,541,988
Non-operating expenses:		
Interest expense	18,774	-
Foreign exchange losses	462,744	17,915
Loss on foreign currency translation	18,539	211,500
Donations	1,066,925	2,750,900
Other bad debt expenses	-	223,350
Loss on valuation of inventories	2,870,489	340,432
Loss on valuation of investment securities accounted for using the equity method (Note 5)	17,269,361	18,363,339
Loss on valuation of short-term investment securities (Note 4)	-	6,203,879
Loss on disposal of property and equipment	5,668	2,352
Loss on removal of property and equipment	-	37,593
Loss on impairment of intangible assets (Note 7)	1,584,493	2,956,476

(Continued)

**DAEKYO CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	Korean Won	
	<u>2009</u>	<u>2008</u>
	(In thousands, except for net income per share)	
Investment advice commission	₩ 708,355	₩ -
Others	<u>1,775,170</u>	<u>1,434,974</u>
	<u>25,780,518</u>	<u>32,542,710</u>
Income before income tax	83,539,938	39,209,317
Income tax expense (Note 16)	<u>27,049,580</u>	<u>18,032,757</u>
Net income	<u>₩ 56,490,358</u>	<u>₩ 21,176,560</u>
Net income per common share - continuing operations (Note 18)	<u>₩ 595</u>	<u>₩ 210</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, 2009 AND 2008**

	Korean Won	
	2009	2008
	(In thousands)	
<b>UNAPPROPRIATED RETAINED EARNINGS:</b>		
Unappropriated retained earnings carried over from prior year	₩ 1,308,798	₩ 5,531,123
Interim dividends (Note 14)	(14,182,400)	(8,056,210)
Net income	56,490,358	21,176,560
	43,616,756	18,651,473
<b>APPROPRIATIONS:</b>		
Reserve for financial structure improvement	-	-
Voluntary reserve	33,000,000	17,000,000
Cash dividends (Note 14)	9,469,027	342,674
	42,469,027	17,342,674
<b>UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR</b>	<b>₩ 1,147,729</b>	<b>₩ 1,308,798</b>

See accompanying notes to non-consolidated financial statements.

**DAEKYO CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	Korean Won					
	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
	(In thousands)					
Balance at January 1, 2008	₩ 52,064,920	₩ 72,265,629	₩ (12,293,466)	₩ 167,331,703	₩ 368,826,246	₩ 648,195,031
Accumulated effect of changes in accounting policy	-	(1,138,178)	-	1,138,178	-	-
Capital after adjustment	52,064,920	71,127,450	(12,293,466)	168,469,881	368,826,246	648,195,031
Dividends	-	-	-	-	(14,490,098)	(14,490,098)
Balances after appropriations	52,064,920	71,127,450	(12,293,266)	168,469,881	354,336,148	633,704,933
Interim dividends	-	-	-	-	(8,056,210)	(8,056,210)
Net income	-	-	-	-	21,176,560	21,176,560
Increase of other capital surplus	-	732,203	-	-	-	732,203
Acquisition of treasury stock	-	-	(28,242,817)	-	-	(28,242,817)
Increase of stock options	-	-	1,567,960	-	-	1,567,960
Gain on valuation of available- for-sale securities	-	-	-	(87,242,551)	-	(87,242,551)
Loss on valuation of available- for-sale securities	-	-	-	(9,131,435)	-	(9,131,435)
Changes in equity using the equity method	-	-	-	913,228	-	913,228
Negative changes in equity using the equity method	-	-	-	201,219	-	201,219
Balance at December 31, 2008	<u>₩ 52,064,920</u>	<u>₩ 71,859,653</u>	<u>₩ (38,968,323)</u>	<u>₩ 73,210,342</u>	<u>₩ 367,456,497</u>	<u>₩ 525,623,089</u>
Balance at January 1, 2009	₩ 52,064,920	₩ 71,859,653	₩ (38,968,323)	₩ 73,210,342	₩ 367,456,497	₩ 525,623,089
Dividends	-	-	-	-	(342,674)	(342,674)
Balances after appropriations	52,064,920	71,859,653	(38,968,323)	73,210,342	367,113,823	525,280,415
Interim dividends	-	-	-	-	(14,182,400)	(14,182,400)
Net income	-	-	-	-	56,490,358	56,490,358
Increase of other capital surplus	-	(1,632,952)	-	-	-	(1,632,952)
Acquisition of treasury stock	-	-	(11,739,783)	-	-	(11,739,783)
Increase of stock options	-	-	450,814	-	-	450,814
Gain on valuation of available- for-sale securities	-	-	-	44,828,705	-	44,828,705
Loss on valuation of available- for-sale securities	-	-	-	5,076,935	-	5,076,935
Changes in equity using the equity method	-	-	-	(848,703)	-	(848,703)
Negative changes in equity using the equity method	-	-	-	(550,205)	-	(550,205)
Balance at December 31, 2009	<u>₩ 52,064,920</u>	<u>₩ 70,226,701</u>	<u>₩ (50,257,292)</u>	<u>₩ 121,717,074</u>	<u>₩ 409,421,781</u>	<u>₩ 603,173,184</u>

See accompanying notes to non-consolidated financial statements.

**DAEKYO CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	Korean Won	
	2009	2008
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	₩ 56,490,358	₩ 21,176,560
Additions of expenses not involving cash outflows:		
Depreciation	10,361,297	9,562,878
Amortization of intangible assets	34,584,344	32,455,150
Provision for severance benefits	10,899,189	15,005,395
Loss on valuation of investment securities accounted for using the equity method	17,269,361	18,363,339
Loss on disposal of property and equipment	5,668	2,352
Loss on removal of property and equipment	-	37,593
Loss on impairment of intangible assets	1,584,493	2,956,476
Loss on valuation of inventories	2,870,489	340,432
Bad debt expenses	466,097	1,115,162
Other bad debt expenses	-	223,350
Commissions	-	1,252,127
Loss on foreign currency translation	-	211,500
Salaries and wages (stock options)	3,656,839	1,567,960
Loss on valuation of short-term investment securities	-	6,203,879
Miscellaneous losses	-	652
Income tax expense	1,113,684	-
	82,811,461	89,298,245
Deduction of items not involving cash inflows:		
Gain on valuation of investment securities accounted for using the equity method	779,978	114,789
Gain on foreign currency translation	-	572,835
Gain on disposal of property and equipment	138,587	2,140
Gain on valuation of short-term investment securities	259,358	-
Gain on disposal of short-term investment securities	14,337,722	1,479,625
Gain on disposal of long-term investment securities	27,776,286	297,855
Reversal of allowance for doubtful accounts	161,207	-
	43,453,138	2,467,244

(Continued)

**DAEKYO CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	Korean Won	
	2009	2008
	(In thousands)	
Changes in operating assets and liabilities related to operating activities:		
Increase in trade accounts receivable	₩ (5,814,038)	₩ (10,618,447)
Decrease in accrued income	22,379	2,424,807
Decrease in other accounts receivable	437,033	389,181
Decrease (increase) in advanced payments	(1,353,671)	219,658
Decrease (increase) in prepaid expenses	(695,509)	422,664
Increase in inventories	(762,755)	(6,840,854)
Decrease (increase) in deferred income tax assets	2,525,496	(4,300,582)
Increase (decrease) in trade accounts payable	(3,062,823)	5,319,078
Increase (decrease) in other accounts payable	(2,145,280)	1,898,094
Increase in accrued expenses	6,265,448	1,073,543
Increase (decrease) in withholdings	988,088	(1,100,209)
Increase (decrease) in advances received	(3,736,367)	3,703,299
Increase (decrease) in income tax payable	4,797,336	(2,441,570)
Increase in provision for returns	1,599,773	153,295
Payment of severance benefits	(48,720,651)	(13,249,379)
Increase in post-retirement pension plan asset	(21,032,726)	-
Decrease (increase) in severance insurance deposits	45,169,167	(1,181,416)
Decrease in contributions to the National Pension Fund	600,138	211,321
Increase in long-term deposits received	418,061	2,854,004
Decrease in long-term accrued expenses	(2,483,137)	(140,007)
Increase (decrease) in deferred income tax liabilities	(3,811,573)	3,132,451
Increase (decrease) in provision for mileage	(156,796)	47,967
	<u>(30,952,407)</u>	<u>(18,023,102)</u>
Net cash provided by operating activities	<u>64,896,274</u>	<u>89,984,459</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of short-term financial instruments	20,895,114	58,418,960
Proceeds from disposal of trading securities	-	47,296,566
Proceeds from disposal of available-for-sale securities	51,397,333	3,462,835
Proceeds from disposal of long term financial instruments	42,129,236	2,500
Collection of short-term loans	3,339,133	1,981,625
Collection of long-term loans	1,050,000	2,023,545
Proceeds from non-current guarantee deposits	12,238,560	16,338,045
Proceeds from other investment assets	-	95,348
Proceeds from disposal of property and equipment	165,500	2,140
Collection of intangible assets	60,000	-
	<u>131,274,876</u>	<u>129,621,564</u>

(Continued)

**DAEKYO CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	Korean Won	
	2009	2008
	(In thousands)	
Cash outflows from investing activities:		
Acquisition of short-term financial instruments	₩ 7,920,000	₩ 21,108,412
Acquisition of long-term financial instruments	-	2,440,000
Acquisition of trading securities	59,450,000	71,973,910
Acquisition of available-for-sale securities	13,392,088	3,256,958
Acquisition of investment securities accounted for using the equity method	10,039,272	6,245,818
Extension of short-term loans	2,279,409	-
Extension of long-term loans	396,694	595,765
Payments for non-current guarantee deposits	19,228,239	16,152,691
Acquisition of other investment assets	-	1,326,022
Acquisition of property and equipment	12,006,400	11,938,353
Acquisition of intangible assets	45,188,964	40,906,882
	169,901,066	175,944,811
Net cash used in investing activities	(38,626,190)	(46,323,247)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash inflows from financing activities:		
Increase in short-term debt	2,492,800	-
Disposal of treasury stock	2,365,593	-
	4,858,393	-
Cash outflows from financial activities:		
Decrease in short-term debt	2,492,800	-
Cash dividends	14,525,074	22,546,308
Acquisition of treasury stock	20,283,236	28,242,817
	37,301,110	50,789,125
Net cash used in financing activities	(32,442,717)	(50,789,125)
Net increase (decrease) in cash and cash equivalents	(6,172,633)	(7,127,913)
Cash and cash equivalents - beginning of the year	60,542,806	67,670,719
Cash and cash equivalents - end of the year (Note 20)	₩ 54,370,173	₩ 60,542,806

See accompanying notes to non-consolidated financial statements.

## DAEKYO CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

#### 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, 2009, the Company's shareholders for common stock are as follows:

Name of shareholder	Number of shares owned	Percentage of ownership (%)
Daekyo Holdings Co., Ltd.	46,171,200	54.5
Daekyo Culture Foundation	2,978,420	3.5
Kang, Young Jung	2,191,440	2.6
Others	33,361,790	39.4
	<u>84,702,850</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. The Company resolved stock split (₩5,000 to ₩500) at the board of directors and general meeting of shareholders on July 21, 2008 and September 5, 2008, respectively, that was effected on October 8, 2008.

#### 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 (“SKAS”)

The Company prepared its non-consolidated financial statements as of December 31, 2009 in accordance with the existing Korea Financial Accounting Standards and 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, 2008. However, in accordance with amendments to the Act on External Audit for Stock Companies, the Company renamed the balance sheets to statements of financial position.

The financial statements in 2009 were approved by the board of directors on March 8, 2010.

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 are 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 Investment 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 end of the reporting period, 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 end of the reporting period, 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 end of the reporting period (₩1,167.60 to USD1.00, ₩150.56 to HKD1.00, ₩844.76 to NZD1.00, ₩1,045.06 to AUD1.00, ₩1,877.73 to GBP1.00, ₩1,674.28 to EUR1.00 and ₩831.27 to SGD1.00 at December 31, 2009), 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 end of the reporting period.

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 statements of financial position 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 end of the reporting period.

### 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 end of the reporting period 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.

### Continuing Operation's Income per Share and Income per Share

The Company's continuing operation's income per share and income per share for the years ended December 31, 2009 and 2008 are calculated by dividing continuing operations' income by the weighted average number of shares outstanding for the years ended December 31, 2009 and 2008.

### **3. RESTRICTED FINANCIAL INSTRUMENTS:**

Short-term financial instruments amounting to ₩6,360,000 thousand (2008: ₩1,538,863 thousand) were provided as collateral in connection with guarantees on affiliated companies and others as of December 31, 2009. Long-term financial instruments amounting to ₩2,440,000 were provided as collateral in connection with guarantees on affiliated companies as of December 31, 2008.

**4. INVESTMENT SECURITIES:**

- (1) The Company's short-term investment securities as of December 31, 2009 and 2008 consist of the following (Unit: Korean Won in thousands):

	<u>2009</u>	<u>2008</u>
Government and public bonds	₩ -	₩ 13,490
Beneficiary certificates	84,461,341	55,025,808
	<u>₩ 84,461,341</u>	<u>₩ 55,039,298</u>

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, 2009 was accounted for as accumulated other comprehensive income (loss).

The Company accounted difference of ELS's fair value against acquisition cost as gain on valuation of short-term investment securities in non-operating income.

- (2) The Company's long-term investment securities as of December 31, 2009 and 2008 consist of the following (Unit: Korean Won in thousands):

<u>Available-for-sale securities</u>	<u>2009</u>	<u>2008</u>
Marketable equity securities	₩ 217,772,783	₩ 161,025,968
Government and public bonds	24,780	24,780
Convertible bonds	-	500,000
Money invested (*1)	242,630	50,000
	<u>₩ 218,040,193</u>	<u>₩ 161,600,748</u>

(\*1) The Company has invested money for Pajoo Publisher Cooperative, Korea Authorized Textbook Cooperative and Korea Middle School Authorized Textbook Cooperative.

Government bonds and convertible bonds are classified as held-to-maturity securities. The maturities of these securities as of December 31, 2009 and 2008 are within 5 years.

- (3) The Company's marketable equity securities classified as available-for-sale as of December 31, 2009 consist of the following (Unit: Korean Won in thousands):

	2009				
	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Fair value	Carrying value
Marketable equity securities:					
Shinhan Financial Group Co., Ltd.	5,409,397	1.06	₩57,899,240	₩217,753,012	₩217,753,012
Inzi Controls Co., Ltd.	6,000	0.04	67,503	19,770	19,770
			<u>₩57,966,743</u>	<u>₩217,772,782</u>	<u>₩217,772,782</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, 2009, was accounted for as accumulated other comprehensive income.

The Company loaned 1,145,243 shares (Shinhan Financial Group Co., Ltd) to others by loan transaction with Korea Securities Depository as of December 31, 2008.

- (4) The Company's marketable equity securities classified as available-for-sale as of December 31, 2008 consist of the following (Unit: Korean Won in thousands):

	2008				
	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Fair value	Carrying value
Marketable equity securities:					
Shinhan Financial Group Co., Ltd.	5,409,397	1.365	₩57,897,360	₩160,659,091	₩160,659,091
CJ Home Shopping Corp.	9,004	0.078	655,373	353,857	353,857
Inzi Controls Co., Ltd.	6,000	0.066	67,503	13,020	13,020
			<u>₩58,620,236</u>	<u>₩161,025,968</u>	<u>₩161,025,968</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, 2008, was accounted for as accumulated other comprehensive income.

- (5) Among the above short-term and long-term investment securities, ₩773 thousand and ₩89,894 thousand are recognized as interest income relating to debt securities including government bonds for the years ended December 31, 2009 and 2008, respectively.

## 5. INVESTMENT SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

- (1) Investment securities accounted for using the equity method as of December 31, 2009 consist of the following: (Unit: Korean Won in thousands):

	2009				
	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Market or net asset value	Carrying value
Daekyo Bookscan Co., Ltd.	₩ 1,149,407	100.00	₩ 11,085,550	₩ 2,619,786	₩ 1,811,154
Daekyo America, Inc.	535	66.54	2,605,622	1,538,128	1,421,728
Daekyo Hong Kong Co., Ltd.	2,272,727	47.89	250,000	829,527	804,746
Beijing Daekyo Co., Ltd.	-	100.00	445,142	345,451	345,451
Daekyo Book Center Co., Ltd.	501,446	97.93	5,183,800	1,931,748	1,959,928
Interesting Creative Co., Ltd.	64,738	20.00	680,000	-	-
Daekyo EOL Co., Ltd.	12,210	56.53	842,490	474,453	474,453
Daekyo Malaysia Sdn. Bhd.	1,940,988	100.00	599,793	188,443	141,956
Sanghai Daekyo Co., Ltd.	-	100.00	4,734,115	4,543,844	4,501,467
Daekyo Bertelsmann Educational Service Limited	524,000	50.00	657,420	-	-
Fermatedu Co., Inc.	912,000	59.32	28,724,000	2,322,855	2,322,855
Child-Care Consortium (*1)	1,600	16.44	1,728,068	729,017	729,017
Daekyo CSA Co., Ltd (Formerly The First CS Academy Co., Ltd.)	200,000	50.00	1,000,000	599,896	599,896
Daekyo Sobics Co., Ltd.	502,300	83.72	2,511,500	1,959,242	1,959,242
P.T Daekyo Indonesia	719,000	99.81	679,508	1,692,691	1,692,691
			<u>₩61,727,008</u>	<u>₩ 18,301,026</u>	<u>₩ 17,288,230</u>

- (\*1) 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 financial statements as of December 31, 2009 are not audited. In order to ensure the credibility of the financial statements of those subsidiaries, the Company has performed the following procedures to determine the reliability of the provisional financial statements and identified no significant errors in the investees' financial statements:

- Obtained the signature of the chief executive officer and internal auditor of the equity method investee asserting that the unaudited and unreviewed financial statements are accurate;
- Checked whether the major transactions identified by the Company, including public disclosures, were appropriately reflected in the unaudited and unreviewed financial statements;
- Checked the material accounting issues and solution discussed between the external auditor and the equity method investee;
- Performed an analytical review on the potential difference between unaudited financial statements and audited financial statements.

The Company acquired shares of Daekyo Bookscan Co., Ltd., Daekyo Book Center Co., Ltd., Sanghai Daekyo Co., Ltd. and Fermatedu Co., Inc. in 2009.

- (2) Investment securities accounted for using the equity method as of December 31, 2008 consist of the following: (Unit: Korean Won in thousands):

	2008				
	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Market or net asset value	Carrying value
Daekyo Bookscan Co., Ltd.	1,007,467	100.00	₩ 9,665,550	₩ 1,754,655	₩ 1,575,892
Daekyo America, Inc.	535	66.54	2,605,622	2,571,961	2,427,856
Daekyo Hong Kong Co., Ltd.	2,272,727	47.89	250,000	516,325	498,179
Beijing Daekyo Co., Ltd.	-	100.00	445,142	471,665	471,665
Daekyo Book Center Co., Ltd.	304,338	90.54	3,183,800	465,480	465,480
Interesting Creative Co., Ltd.	64,738	20.00	680,000	-	-
Daekyo EOL Co., Ltd.	12,210	56.53	842,490	157,387	157,387
Daekyo Malaysia Sdn. Bhd.	1,940,988	100.00	599,793	131,101	92,420
Sanghai Daekyo Co., Ltd.	-	100.00	274,843	416,190	362,588
Daekyo Bertelsmann Educational Service Limited	524,000	50.00	657,419	-	-
Fermatedu Co., Inc.	480,000	51.00	26,564,000	5,936,476	14,986,885
Child-Care Consortium (*1)	1,600	16.44	1,728,068	863,963	863,963
Daekyo CSA Co., Ltd. (Formerly The First CS Academy Co.,Ltd.)	200,000	50.00	1,000,000	599,896	599,896
Daekyo Sobics Co., Ltd.	502,300	83.72	2,511,500	1,959,242	1,959,242
P.T Daekyo Indonesia	719,000	99.58	679,508	473,475	450,598
			<u>₩51,687,735</u>	<u>₩ 16,317,816</u>	<u>₩ 24,912,051</u>

(\*1) 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 acquired shares of Daekyo Bookscan Co., Ltd., Daekyo Book Center Co., Ltd. and P.T Daekyo Indonesia in 2008.

- (3) The details of investment securities accounted for using the equity method as of December 31, 2009 consist of the following (Unit: Korean Won in thousands):

	2009					Carrying value
	Acquisition cost	Retained earnings	Gain (loss) on valuation	Capital adjustment	Others (*)	
Daekyo Bookscan Co., Ltd.	₩ 11,085,550	₩ (7,841,834)	₩ (1,177,922)	₩ (42,698)	₩ (211,942)	₩ 1,811,154
Daekyo America, Inc.	2,605,622	(874,621)	22,030	(331,303)	-	1,421,728
Daekyo Hong Kong Co., Ltd.	250,000	75,582	376,601	102,564	-	804,747
Beijing Daekyo Co., Ltd.	445,142	(74,740)	(101,397)	76,446	-	345,451
Daekyo Book Center Co., Ltd.	5,183,800	(2,983,329)	(505,552)	459,043	(194,034)	1,959,928
Interesting Creative Co., Ltd.	680,000	(680,000)	-	-	-	-
Daekyo EOL Co., Ltd.	842,490	(685,103)	317,066	-	-	474,453
Daekyo Malaysia Sdn. Bhd.	599,793	(461,114)	61,039	(57,762)	-	141,956
Sanghai Daekyo Co., Ltd.1	4,734,115	(2,080)	(33,764)	(196,805)	-	4,501,466
Daekyo Bertelsmann Educational Service Limited	657,420	(657,420)	-	-	-	-
Fermatedu Co., Inc.	28,724,000	(11,577,115)	(15,049,228)	-	225,198	2,322,855
Child-Care Consortium	1,728,068	(864,105)	(134,946)	-	-	729,017
Daekyo CSA Co., Ltd. (Formerly The First CS Academy Co., Ltd.)	1,000,000	(400,104)	-	-	-	599,896
Daekyo Sobics Co., Ltd.	2,511,500	(552,258)	(266,551)	-	-	1,692,691
P.T Daekyo Indonesia	679,508	(289,236)	3,241	89,375	-	482,888
	<u>₩ 61,727,008</u>	<u>₩(27,867,477)</u>	<u>₩ (16,489,383)</u>	<u>₩ 98,860</u>	<u>₩ (180,778)</u>	<u>₩ 17,288,230</u>

(\*) In case there was any change in interest ownership due to an increase of shares of the subsidiaries, the difference between the amount caused from that change and an acquisition cost was recognized as additional paid-in capital.

- (4) The details of investment securities accounted for using the equity method as of December 31, 2008 consist of the following (Unit: Korean Won in thousands):

	2008					Carrying value
	Acquisition cost	Retained earnings	Gain (loss) on valuation	Capital adjustment	Others (*)	
Daekyo Bookscan Co., Ltd.	₩ 9,665,550	₩ (1,672,190)	₩ (6,169,645)	₩ (35,881)	₩ (211,942)	₩ 1,575,892
Daekyo America, Inc.	2,605,622	(723,420)	(151,200)	696,854	-	2,427,856
Daekyo Hong Kong Co., Ltd.	250,000	(39,207)	114,789	172,597	-	498,179
Beijing Daekyo Co., Ltd.	445,142	(3,824)	(70,915)	101,262	-	471,665
Daekyo Book Center Co., Ltd.	3,183,800	(725,597)	(2,257,732)	459,043	(194,034)	465,480
Interesting Creative Co., Ltd.	680,000	(680,000)	-	-	-	-
Daekyo EOL Co., Ltd.	842,490	(668,986)	(16,117)	-	-	157,387
Daekyo Malaysia Sdn. Bhd.	599,793	(309,160)	(151,954)	(46,259)	-	92,420
Sanghai Daekyo Co., Ltd.1	274,843	25,379	(27,459)	89,825	-	362,588
Daekyo Bertelsmann Educational Service Limited	657,419	(313,777)	(343,642)	-	-	-
Fermatedu Co., Inc.	26,564,000	(3,167,294)	(8,409,821)	-	-	14,986,885
Child-Care Consortium	1,728,068	(864,105)	-	-	-	863,963
Daekyo CSA Co., Ltd. (Formerly The First CS Academy Co., Ltd.)	1,000,000	(42,690)	(357,414)	-	-	599,896
Daekyo Sobics Co., Ltd.	2,511,500	(248,815)	(303,443)	-	-	1,959,242
P.T Daekyo Indonesia	679,508	(185,240)	(103,996)	60,326	-	450,598
	<u>₩51,687,735</u>	<u>₩(9,618,926)</u>	<u>₩ (18,248,549)</u>	<u>₩ 1,497,767</u>	<u>₩ (405,976)</u>	<u>₩ 24,912,051</u>

(\*) In case there was any change in interest ownership due to an increase of shares of the subsidiaries, the difference between the amount caused from that change and an acquisition cost was recognized as additional paid-in capital.

- (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, 2009 and 2008 are as follows (Unit: Korean Won in thousands):

	2009			
	Beginning balance	Increase (decrease)	Amortization (reversal)	Ending balance
Daekyo Bookscan Co., Ltd.	₩ (178,763)	₩ -	₩ (26,698)	₩ (152,065)
Daekyo America, Inc.	11,479	-	2,701	8,778
Daekyo Book Center Co., Ltd	-	33,153	4,974	28,179
Fermatedu Co., Inc.	9,050,410	-	9,050,410	-
	<u>₩ 8,883,126</u>	<u>₩ 33,153</u>	<u>₩ 9,031,387</u>	<u>₩ (115,108)</u>

	2008			
	Beginning balance	Increase (decrease)	Amortization (reversal)	Ending balance
Daekyo Bookscan Co., Ltd. (Formerly Daekyo Bertelsmann Korea Co., Ltd.)	₩ (703,047)	₩ -	₩ (524,284)	₩ (178,763)
Daekyo America, Inc.	13,505	-	2,026	11,479
Fermatedu Co., Inc.	12,553,794	-	3,503,384	9,050,410
	<u>₩ 11,864,252</u>	<u>₩ -</u>	<u>₩ 2,981,126</u>	<u>₩ 8,883,126</u>

- (6) The elimination of unrealized gains or losses relating to the valuation of equity method investments as of December 31, 2009 and 2008 are as follows (Unit: Korean Won in thousands):

	2009	2008
Daekyo America, Inc.	₩ 656,567	₩ -
Daekyo America, Inc.	125,178	155,584
Sanghai Daekyo Co., Ltd.	42,377	53,601
Daekyo Malaysia Sdn. Bhd.	46,487	38,681
P.T Daekyo Indonesia	2,299	22,878
Daekyo Hong Kong Co., Ltd.	24,780	18,146
	<u>₩ 897,688</u>	<u>₩ 288,890</u>

- (7) Condensed financial information of the affiliates as of and for the year ended December 31, 2009 is as follows (Unit: Korean Won in thousands):

	Assets	Liabilities	Net assets	Sales	Net income (loss)
Daekyo Bookscan Co., Ltd.	₩ 4,228,588	₩ 1,608,802	₩ 2,619,786	₩ 3,051,952	₩ (602,128)
Daekyo America, Inc.	7,954,426	5,642,842	2,311,584	3,995,771	(75,251)
Daekyo Hong Kong Co., Ltd.	3,796,562	2,064,412	1,732,150	2,234,361	800,461
Beijing Daekyo Co., Ltd.	370,846	25,395	345,451	337,055	(101,309)
Daekyo Book Center Co., Ltd.	5,810,683	3,838,101	1,972,582	10,322,886	(342,768)
Daekyo EOL Co., Ltd.	1,168,173	328,880	839,294	3,179,270	557,887
Daekyo Malaysia Sdn. Bhd.	843,960	655,516	188,443	911,417	79,868
Sanghai Daekyo Co., Ltd.	4,568,701	24,857	4,543,844	753,026	(42,444)
Fermatedu Co., Inc.	17,000,780	13,074,975	3,915,805	22,173,677	(8,761,499)
Child-Care Consortium	5,178,613	744,206	4,434,407	4,001,631	(819,641)
Daekyo CSA Co., Ltd. (Formerly The First CS Academy Co., Ltd.)	2,189,133	865,299	1,199,791	6,377,357	-
Daekyo Sobics Co., Ltd.	3,289,281	1,267,353	2,021,928	5,221,271	(325,076)
P.T Daekyo Indonesia.	649,993	163,903	486,090	505,518	(17,191)

**6. PROPERTY AND EQUIPMENT:**

- (1) Changes in property and equipment for the year ended December 31, 2009 are as follows (Unit: Korean Won in thousands):

	Land	Buildings	Structures	Vehicles
Beginning balance	₩ 67,653,304	₩ 123,911,340	₩ 2,811,430	₩ 214,348
Acquisition/ Capitalized costs	39,067	113,543	5,997	189,524
Disposal	-	-	-	(24,190)
Depreciation	-	(3,717,816)	(84,532)	(169,844)
Others (transfer)	-	291,242	-	-
Ending balance	<u>67,692,371</u>	<u>120,598,309</u>	<u>2,732,895</u>	<u>209,838</u>

	Equipment	Other	Construction- in-progress	Total
Beginning balance	₩ 7,080,311	₩ 527,788	₩ 178,775	₩ 202,377,296
Acquisition/ Capitalized costs	11,545,802	-	112,467	12,006,400
Disposal	(5,365)	-	-	(29,555)
Depreciation	(6,389,105)	-	-	10,361,297
Others (transfer)	50,000	-	1,616,708	1,957,950
Ending balance	<u>12,281,643</u>	<u>527,788</u>	<u>1,907,950</u>	<u>205,950,794</u>

- (2) Changes in property and equipment for the year ended December 31, 2008 are as follows (Unit: Korean Won in thousands):

	Land	Buildings	Structures	Vehicles
Beginning balance	₩ 65,770,085	₩ 123,236,760	₩ 2,772,120	₩ 174,081
Acquisition/ Capitalized costs	1,883,219	4,385,393	123,688	169,191
Disposal	-	-	-	-
Depreciation	-	(3,710,813)	(84,378)	(128,924)
Others (transfer)	-	-	-	-
Ending balance	<u>67,653,304</u>	<u>123,911,340</u>	<u>2,811,430</u>	<u>214,348</u>

	Equipment	Other	Construction- in-progress	Total
Beginning balance	₩ 7,817,639	₩ 271,081	₩ -	₩ 200,041,766
Acquisition/ Capitalized costs	4,941,380	256,707	178,755	11,938,353
Disposal	(39,944)	-	-	(39,944)
Depreciation	(5,638,764)	-	-	(9,562,879)
Others (transfer)	-	-	-	-
Ending balance	<u>7,080,311</u>	<u>527,788</u>	<u>178,755</u>	<u>202,377,296</u>

- (3) As of December 31, 2009, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, approximates ₩ 113,311,155 thousand (2008: ₩ 113,719,479 thousand).

- (4) As of December 31, 2009, the Company's inventories and property, plant and equipment are insured as follows (Unit: Korean Won in thousands):

Account	2009	Details
Buildings and equipment	₩ 175,046,871	Insurance against fire and other casualty losses
Inventories	10,494,757	
	<u>₩ 185,541,628</u>	

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, 2009 consist of the following (Unit: Korean Won in thousands):

	Goodwill	Industrial property rights	Right to use donated assets	Development costs	Software	Total
Beginning balance	₩ 5,493,248	₩ 106,775	₩ 24,082,211	₩ 34,806,411	₩ 2,653,331	₩ 67,141,976
Acquisition	717,058	69,685	-	21,976,821	282,360	23,045,924
Transfer	-	-	23,420,140	(1,729,091)	1,679,091	23,370,140
Disposal	(60,000)	-	(3,025)	-	-	(63,025)
Amortization	(1,891,334)	(46,068)	(19,364,146)	(11,081,542)	(2,201,253)	(34,584,343)
Impairment	(116,219)	-	-	(1,468,274)	-	(1,584,493)
Others	-	-	-	-	-	-
Ending balance	<u>4,142,753</u>	<u>130,392</u>	<u>28,135,180</u>	<u>42,504,325</u>	<u>2,413,529</u>	<u>77,326,179</u>
Accumulated amortization	6,457,109	667,607	68,919,614	66,509,539	9,296,111	151,849,980
Accumulated impairment loss	417,861	-	-	6,360,552	1,892,191	8,670,604

- (2) The Company's intangible assets as of December 31, 2008 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	₩ 3,251,725	₩ 121,336	₩ 25,513,717	₩ 31,478,137	₩ 106,099	₩ 2,048,596	₩ 65,421	₩ 62,585,031
Acquisition	3,716,000	35,229	-	21,282,165	-	69,560	-	25,102,954
Transfer	-	-	16,117,745	(4,408,879)	-	4,408,879	-	16,117,745
Disposal	-	-	-	-	-	-	-	-
Amortization	(1,326,502)	(49,790)	(17,549,251)	(11,078,532)	(106,099)	(2,279,555)	(65,421)	(32,455,150)
Impairment	(147,975)	-	-	(1,214,353)	-	(1,594,148)	-	(2,956,476)
Others	-	-	-	(1,252,127)	-	-	-	(1,252,127)
Ending balance	<u>5,493,248</u>	<u>106,775</u>	<u>24,082,211</u>	<u>34,806,411</u>	<u>-</u>	<u>2,653,332</u>	<u>-</u>	<u>67,141,977</u>
Accumulated amortization	4,579,517	621,539	49,555,743	57,374,912	3,215,362	7,094,856	356,844	122,798,773
Accumulated impairment loss	301,642	-	-	4,892,278	142,523	1,892,191	-	7,228,633

## 8. MONETARY ASSETS DENOMINATED IN FOREIGN CURRENCIES

Monetary assets denominated in foreign currencies as of December 31, 2009 and 2008 are as follows (Unit: Korean Won in thousands):

	2009				2008			
	Korean Won Equivalent		Foreign currencies		Korean Won equivalent		Foreign currencies	
Cash and cash equivalents	₩	348,276	USD	298,284	₩	684,204	USD	544,099
		67,798	HKD	450,308		72,864	HKD	449,087
		2,846	NZD	3,369		2,424	NZD	3,333
		9	AUD	9		7	AUD	8
		1,522	GBP	811		1,466	GBP	806
		892	EUR	533		941	EUR	530
Short-term financial instruments		14,510	SGD	17,455		15,234	SGD	17,400
		-	USD	-		18,863	USD	15,000
Total	₩	<u>435,853</u>			₩	<u>796,003</u>		

## 9. CAPITAL STOCK

### (1) Capital stock

The details of capital stock as of December 31, 2009 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)
1,500,000,000 shares	500 won	Common stock	84,702,850 shares	₩ 42,351,425
1,942,699 shares	500 won	Preferred stock (*1)	19,426,990 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.

The Company resolved stock split (₩5,000 to ₩500) at the board of directors and general meeting of shareholders on July 21, 2008 and September 5, 2008, respectively, that was effected on October 8, 2008.

## 10. CAPITAL SURPLUS

Other capital surplus arose from the disposal of treasury stock which was 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.

## 11. TREASURY STOCK

As of December 31, 2009, the Company holds treasury stock consisting of 6,843,781 shares of common stock and 4,125,903 shares of preferred stock.

## 12. STOCK OPTIONS

- (1) As of December 31, 2009, the summary of stock options granted to all employees that has not exceeded its vesting period is as follows:

	Description
The date of first announcement about stock options	July. 1, 2009
Granted shares	Common stock: 544,147 shares
Exercise price (*1)	A standard price of common stock x (1- Discount rate)
Exercisable period	Jan. 25, 2010 ~ Jan. 31, 2010

- (\*1) The standard price of common stock are ₩5,820. The minimum of discount rate is 40% and the maximum of discount rate is 100%

Above stock options may be substituted to preferred stocks of equal value to the choice of the employee, and base price of preferred stock price at substitution is ₩3,100.

The total compensation amount is expensed and the same amount is accounted for as stock options (paid-in capital)

Subsequent to end of the reporting period, as stock options for 488,268 shares of common stock and 81,946 shares of preferred stock were exercised, the treasury stocks were granted.

- (2) Summary of stock options granted to all employees during 2009 that have been expired is as follows:

	Description
The date of first announcement about stock options	March. 3, 2009
Granted shares	Common stock: 498,150 shares
Exercise price (*1)	A standard price of common stock x (1- Discount rate)
Exercisable period	July. 20, 2009 ~ July. 26, 2009

- (\*1) The standard price of common stock are ₩5,330. The minimum of discount rate is 40% and the maximum of discount rate is 100%

Above stock options may be substituted to preferred stocks of equal value to the choice of the employee and base price of preferred stock price at substitution is ₩2,707.

The total compensation amount is expensed and the same amount is accounted for as stock options (paid-in capital)

As stock options for 468,004 shares of common stock and 76,117 shares of preferred stock were exercised, the treasury stocks were granted and it resulted in ₩1,262,070 thousand of loss on disposal of treasury stock.

- (3) As of December 31, 2008, the summary of stock options granted to all employees are as follows:

	Description
The date of first announcement about stock options	Aug. 11, 2008
Granted shares	Common stock: 615,448 shares Preferred stock: 107,429 shares
Exercise price (*1)	A standard price of common stock x (1- Discount rate) A standard price of preferred stock x (1- Discount rate)
Exercisable period	Jan. 19, 2009 ~ Jan. 28, 2009

- (\*1) The standard price of common stock and preferred stock are ₩4,800 and ₩2,810, respectively. The minimum of discount rate is 20% and the maximum of discount rate is 100%

The total compensation amount is expensed and the same amount is accounted for as stock options (paid-in capital)

As stock options for 552,645 shares of common stock and 103,130 shares of preferred stock were exercised, the treasury stocks were granted and it resulted in ₩1,709,764 thousand of loss on disposal of treasury stock.

### 13. RETAINED EARNINGS

(1) Retained earnings as of December 31, 2009 and 2008 are as follows (Unit: Korean Won in thousands):

	<u>2009</u>	<u>2008</u>
Legal reserve (Profit reserve)	₩ 32,300,000	₩ 32,300,000
Other reserve	<u>333,505,025</u>	<u>316,505,025</u>
	<u>₩ 365,805,025</u>	<u>₩ 348,805,025</u>

(2) The Company is required by Korean Commercial Code to appropriate as a legal reserve a minimum of 10% its cash dividends until such reserve equals 50% of its issued stock. The reserve is not available for the payment of cash dividends but may be transferred to capital stock or used to offset accumulated deficit, if any

## 14. DIVIDENDS

Details of cash dividends and dividend payout ratio for the years ended December 31, 2009 and 2008 are as follows (Unit: Korean Won):

### (1) Interim dividends

	2009		2008	
	Common stock	Preferred stock	Common stock	Preferred stock
Par value per share(*1)	500	500	500	500
Dividend ratio	30%	30%	16%	16%
Dividend per share (*1)	150	150	80	80
Number of shares				
Outstanding (*1)	78,798,225	15,751,110	82,553,775	18,148,850
Amount of dividends	11,819,734 thousand	2,362,667 thousand	6,604,302 thousand	1,451,908 thousand

(\*1) Due to the common and preferred stock-split during 2008, the closing price, dividend, and the weighted average number of shares are presented based on ₩500.

### (2) Year-end dividends

	2009		2008	
	Common stock	Preferred stock	Common stock	Preferred stock
Par value per share (*1)	500	500	500	500
Dividend ratio	20%	4%	-	4%
Dividend per share (*1)	100	110	-	20
Number of shares				
outstanding (*1)	77,859,069	15,301,087	79,868,470	17,133,710
Amount of dividends	7,785,907 thousand	1,683,120 thousand	-	342,674 thousand

(\*1) Due to the common and preferred stock-split during 2008, the closing price, dividend, and the weighted average number of shares are presented based on ₩500.

### (3) Dividend payout ratio

	2009	2008
Total dividends	23,651,427 thousand	8,398,884 thousand
Net income	56,490,358 thousand	21,176,560 thousand
Dividend payout ratio	41.87%	39.66%

### (4) Dividend yield ratio

	2009		2008	
	Common stock	Preferred stock	Common stock	Preferred stock
Market price as of the end of the reporting period (*1 & *2)	5,843	3,139	4,854	2,814
Dividend per share (*2)	250	260	80	100
Dividend yield ratio	4.28%	8.28%	1.65%	3.55%

(\*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.

(\*2) Due to the common and preferred stock-split, the closing price and dividend per share for 2008 are presented based on ₩500.

## 15. COMPREHENSIVE INCOME STATEMENTS

The details of comprehensive income for the years ended December 31, 2009 and 2008 are as follows  
(Unit: Korean Won in thousands):

	2009	2008
Net income	₩ 56,490,358	₩ 21,176,560
Accumulated other comprehensive income (loss):		
Gain on valuation of available-for-sale securities (tax effect: ₩(-)12,655,042 thousand in 2009 and ₩40,959,342 thousand in 2008)	44,828,705	(87,242,551)
Loss on valuation of available-for-sale securities (tax effect: ₩(-)1,611,922 thousand in 2008 ₩2,874,784 thousand in 2008)	5,076,935	(9,131,435)
Changes in equity arising on application of the equity method (*1)	(848,703)	913,228
Negative changes in equity arising on application of the equity method (*1)	(550,205)	201,219
Comprehensive income	<u>₩104,997,090</u>	<u>₩(74,082,979)</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.

## 16. INCOME TAX

(1) Income tax expense for the years ended December 31, 2009 and 2008 is computed as follows (Unit: Korean Won in thousands):

	2009	2008
Current income tax	₩ 23,030,733	₩ 19,229,470
Changes in deferred tax assets (liabilities) of temporary differences	12,980,886	(45,002,257)
Tax deducted to shareholders' equity	(14,266,963)	43,834,126
Tax refund	(1,012,063)	(91,582)
Additional tax, etc.	6,316,987	-
Total income tax expense	<u>27,049,580</u>	<u>18,032,757</u>

(2) Relationship between income before tax in financial accounting and income tax expense for the years ended December 31, 2009 and 2008 is as follows (Unit: Korean Won in thousands):

	2009	2008
Income before tax in financial accounting	₩ 83,539,938	₩ 39,209,317
Tax effect at the rate of 24.2%	20,192,465	10,767,162
Adjustments :	6,857,115	7,265,595
Tax-free income	(1,301,739)	(428,889)
Non-deductible expenses	5,339,871	7,497,951
Tax credit	(600,000)	-
Changes in deferred tax assets (liabilities) in the beginning	(2,100,930)	-
Tax refund	(1,012,063)	(91,582)
Additional tax & others	6,316,987	-
Others(Changes in tax rate & others)	214,989	288,115
Income tax expense	27,049,580	18,032,757
Effective tax rate (income tax expense/pretax income)	32.38%	45.99%

(3)

Changes in temporary differences and deferred tax assets and liabilities for the year ended December 31, 2009 are as follows (Unit: Korean Won in thousands):

< Changes in temporary differences >

	January 1, 2009	Difference	Increase (Decrease)	December 31, 2009
1) Temporary differences that affects income				
Long-term accrued service fee payable	₩ 4,891,464	₩ -	₩ (2,483,137)	₩ 2,408,327
Accrued income	(413,885)	-	22,379	(391,506)
Interest income (MMF)	(111,222)	-	34,283	(76,939)
Valuation of marketable securities	(5,070,666)	-	-	(5,070,666)
Accrued severance benefits	44,116,272	-	(22,412,688)	21,703,584
Severance insurance expenses	(44,116,272)	-	28,271,759	(15,844,513)
Allowance for Severance insurance	-	(1,239,850)	310,979	(928,871)
Allowance for doubtful accounts	5,646,717	1,830	(127,262)	5,521,285
Depreciation	558,395	(210,391)	6,982	354,986
Equity method investments	27,916,538	-	16,489,383	44,405,921
Accrued expenses (remuneration)	1,852,485	241	548,135	2,400,861
Reserve for returned goods	834,110	-	1,599,774	2,433,884
Accrued expenses (mileage)	156,796	-	(156,796)	-
Impairment of intangible assets	3,126,541	198,975	(995,397)	2,330,119
Gain on Foreign exchange	(572,835)	-	546,913	(25,922)
Loss on Foreign exchange	211,500	-	170,210	381,710
Amortization on development cost	-	7,074,422	(1,455,946)	5,618,476
Amortization on asset	-	1,626,857	144,223	1,771,080
Suspense payment on officer	-	1,239,850	(310,979)	928,871
Bad debt loss	-	-	3,095	3,095
Loss on valuation of short-term investment securities	6,203,879	-	(6,463,237)	(259,358)
Subtotal	<u>45,229,817</u>	<u>8,691,934</u>	<u>13,742,673</u>	<u>67,664,424</u>
2) Temporary differences on changes in shareholders' equity				
Gain on valuation of available-for-sale securities	(104,335,251)	-	(57,483,746)	(161,818,997)
Loss on valuation of available-for-sale securities	12,699,831	-	(6,688,857)	6,010,974
Changes in equity using the equity method	(1,579,909)	-	848,703	(731,206)
Negative changes in equity using the equity method	82,141	-	550,204	632,345
Capital surplus in equity using the equity method	405,976	-	(225,198)	180,778
Advanced depreciation provision	(102,882,005)	-	34,853,990	(68,028,015)
Subtotal	<u>(195,609,217)</u>	<u>-</u>	<u>(28,144,904)</u>	<u>(223,754,121)</u>
	<u>(150,379,400)</u>	<u>8,691,934</u>	<u>(14,402,231)</u>	<u>(156,089,697)</u>
Deferred income tax assets (liabilities) not recognized (*1)	(76,057,259)			
Tax rate (*2)	24.2% or 22%			
Deferred income tax assets (liabilities)	(15,813,607)			

< Deferred tax assets and liabilities >

	Temporary differences (Current)	Temporary differences (Non-current)	Deferred tax assets and liabilities (Current)	Deferred tax assets and liabilities (Non-current)
1) Temporary differences that affects income				
Long-term accrued service fee payable	₩ -	₩ 2,408,327	₩ -	₩ 529,832
Accrued income	(391,506)	-	(94,744)	-
Interest income (MMF)	(76,939)	-	(18,619)	-
Valuation of marketable securities	-	(5,070,666)	-	(1,115,546)
Accrued severance benefits	-	21,703,584	-	4,774,789
Severance insurance expenses	-	(15,844,513)	-	(3,485,793)
Allowance for Severance insurance	-	(928,871)	-	(204,352)
Allowance for doubtful accounts	5,521,285	-	1,336,151	-
Depreciation	-	354,986	-	78,097
Equity method investments	-	44,405,921	-	9,769,303
Accrued expenses (remuneration)	2,400,861	-	581,008	-
Reserve for returned goods	2,433,884	-	589,000	-
Accrued expenses (mileage)	-	-	-	-
Impairment of intangible assets	-	2,330,119	-	512,626
Gain on Foreign exchange	(25,922)	-	(6,273)	-
Loss on Foreign exchange	381,710	-	92,374	-
Amortization on development cost	-	5,618,476	-	1,294,792
Amortization on asset	-	1,771,080	-	389,638
Suspense payment on officer	-	928,871	-	204,352
Bad debt loss	3,095	-	749	-
Loss on valuation of short-term investment securities	(259,358)	-	(62,765)	-
Subtotal	<u>9,987,110</u>	<u>57,677,314</u>	<u>2,416,881</u>	<u>12,747,738</u>
2) Temporary differences on changes in shareholders' equity				
Gain on valuation of available-for-sale securities	(1,965,225)	(159,853,772)	(475,584)	(35,167,830)
Loss on valuation of available-for-sale securities	5,963,241	47,733	1,443,104	10,501
Changes in equity using the equity method	-	(731,206)	-	(160,865)
Negative changes in equity using the equity method	-	632,345	-	139,116
Capital surplus in equity using the equity method	-	180,778	-	39,771
Advanced depreciation provision	-	(68,028,015)	-	(14,966,163)
Subtotal	<u>3,998,016</u>	<u>(227,752,137)</u>	<u>967,520</u>	<u>(50,105,470)</u>
	<u>13,985,126</u>	<u>(170,074,823)</u>	<u>3,384,401</u>	<u>(37,357,732)</u>
Deferred income tax assets (liabilities) not recognized (*1)	-	(23,540,177)	-	(5,178,838)
Tax rate (*2)	24.2%	24.2% or 22%		
Deferred income tax assets (liabilities)	<u>₩ 3,384,401</u>	<u>₩ (32,178,894)</u>	<u>₩ 3,384,401</u>	<u>₩ (32,178,894)</u>

(\*1) The tax effect of accumulation temporary differences when corresponding temporary differences are expected to be reversed or realized.

(\*2) Tax rate is the enacted marginal tax rate which is expected to be applied to taxable income in the periods the deferred tax liability or asset is expected to be settled or realized.

(4) Changes in temporary differences and deferred tax assets and liabilities for the year ended December 31, 2008 are as follows (Unit: Korean Won in thousands):

< Changes in temporary differences >

	January 1, 2008	Difference	Increase (Decrease)	December 31, 2008
1) Temporary differences that affects income				
Long-term accrued service fee payable	₩ 5,031,472	₩ -	₩ (140,007)	₩ 4,891,465
Accrued income	(2,838,692)	-	2,424,807	(413,885)
Interest income (MMF)	(79,859)	-	(31,363)	(111,222)
Valuation of marketable securities	(5,070,666)	-	-	(5,070,666)
Accrued severance benefits	42,763,541	-	1,352,731	44,116,272
Severance insurance expenses	(42,763,542)	-	(1,352,730)	(44,116,272)
Allowance for doubtful accounts	5,091,538	(201,273)	756,452	5,646,717
Depreciation	385,467	(36,749)	209,677	558,395
Equity method investments	9,778,715	(110,728)	18,248,551	27,916,538
Accrued expenses (remuneration)	3,305,606	-	(1,453,121)	1,852,485
Reserve for returned goods	680,815	-	153,295	834,110
Accrued expenses (mileage)	108,829	-	47,967	156,796
Impairment of intangible assets	1,660,730	-	14,658,11	3,126,541
Inventories	19,061	(19,061)	-	-
Foreign exchange gains	-	263	(361,598)	(361,335)
Others	2,400,635	-	(2,400,635)	-
Subtotal	<u>20,473,650</u>	<u>(367,548)</u>	<u>18,919,837</u>	<u>39,025,939</u>
2) Temporary differences on changes in shareholders' equity				
Change on valuation of available-for-sale securities	(231,843,531)	-	146,411,990	(85,431,541)
Changes in equity using the equity method	754,857	-	(2,252,625)	(1,497,768)
Capital surplus in equity using the equity method	405,976	-	-	405,976
Advanced depreciation provision	(102,882,005)	-	-	(102,882,005)
Subtotal	<u>(333,564,703)</u>	<u>-</u>	<u>144,159,365</u>	<u>(189,405,338)</u>
	<u>(313,091,053)</u>	<u>(367,548)</u>	<u>163,079,202</u>	<u>(150,379,399)</u>
Deferred income tax assets (liabilities) not recognized (*1)	(91,942,457)			(76,057,259)
Tax rate (*2)	27.5%			
Deferred income tax assets (liabilities)	(60,815,864)			

<Deferred tax assets and liabilities>

	Temporary differences (Current)	Temporary differences (Non-current)	Deferred tax assets and liabilities (Current)	Deferred tax assets and liabilities (Non-current)
1) Temporary differences that affects income				
Long-term accrued service fee payable	₩ -	₩ 4,891,465	₩ (140,007)	₩ 1,076,122
Accrued income	(413,885)	-	(100,160)	-
Interest income (MMF)	(111,222)	-	(26,916)	-
Valuation of marketable securities	-	(5,070,666)	-	(1,115,547)
Accrued severance benefits	-	44,116,272	-	9,705,580
Severance insurance expenses	-	(44,116,272)	-	(9,705,580)
Allowance for doubtful accounts	5,646,717	-	1,366,506	-
Depreciation	-	558,395	-	122,847
Equity method investments	-	27,916,538	-	6,141,638
Accrued expenses (remuneration)	1,852,485	-	448,301	-
Reserve for returned goods	834,110	-	201,855	-
Accrued expenses (mileage)	-	156,796	-	34,495
Impairment of intangible assets	-	3,126,541	-	687,839
Inventories	-	-	-	-
Foreign exchange gains	(361,335)	-	(87,443)	-
Others	-	-	-	-
Minor total	<u>7,446,870</u>	<u>31,579,069</u>	<u>1,802,143</u>	<u>6,947,394</u>
2) Temporary differences on changes in shareholders' equity				
Change on valuation of available-for-sale securities	16,974,191	(102,405,732)	4,107,754	(22,529,260)
Changes in equity using the equity method	-	(1,497,768)	-	(329,509)
Capital surplus in equity using the equity method	-	405,976	-	-
Advanced depreciation provision	-	(102,882,005)	-	-
Subtotal	<u>16,974,191</u>	<u>(206,379,529)</u>	<u>4,107,754</u>	<u>(22,858,769)</u>
	<u>24,421,061</u>	<u>(174,800,460)</u>	<u>5,909,897</u>	<u>(15,911,375)</u>
Deferred income tax assets (liabilities) not recognized (*1)	-	(76,057,259)	-	5,812,129
Tax rate (*2)	24.2%	22%		
Deferred income tax assets (liabilities)	<u>₩ 5,909,897</u>	<u>₩ (21,723,504)</u>	<u>₩ 5,909,897</u>	<u>₩ (21,723,504)</u>

(\*1) The tax effect of accumulation temporary differences when corresponding temporary differences are expected to be reversed or realized.

(\*2) Tax rate is the enacted marginal tax rate which is expected to be applied to taxable income in the periods the deferred tax liability or asset is expected to be settled or realized.

## 17. COMMITMENTS AND CONTINGENCIES:

- (1) As of December 31, 2009, the Company has credit agreements with Woori Bank amounting to ₩25,000,000 thousand for the corporate purchase card.
- (2) As of December 31, 2009, the Company provides guarantees amounting to ₩6,360,000 thousand for certain lessees in relation to the lessees' guarantee deposits. Seoul Guarantee Insurance has provided the Company with a guarantee for performance and others up to ₩1,635,984 thousand as of December 31, 2009.
- (3) The Company shall pay a certain percentage of sales as royalties to Two Hands Media Co., Ltd. relating to the use of intellectual property rights over 'Noon-no-pi Math'. Based on this contract, the Company paid ₩1,994,239 thousand and ₩2,072,077 thousand to Two Hands Media Co., Ltd. in 2009 and 2008, 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 ₩357,991,349 thousand (2008: ₩353,722,434 thousand) for the year ended December 31, 2009.
- (5) On March 30, 2005, the Company acquired 75% ownership in Daekyo Bookscan Co., Ltd. As committed by the Company, if the said investee incurs cumulative losses totaling ₩4,000,000 thousand, its shareholdings in the investee may be reduced to 50% and if the said cumulative losses exceed ₩4,000,000 thousand, the Company must exercise its preemptive rights to purchase the investee's new shares for up to ₩3,000,000 thousand. Should the investee be eventually liquidated, the Company will shoulder all liquidation costs.

Daekyo Bookscan Co., Ltd. did an unequal curtailment of capital (₩2,900,000 thousand, 292,533 shares) without compensation for the reduction of accumulated deficit in 2007, and the ratio of shareholding of the Company became 60.59%. During 2008, the Company acquired additional shares amounting to ₩ 5,500,000 thousand which increases the ownership to 100%.

- (6) The Company has been providing a financial guaranty amounting to 17,500,000 RMB for Bertelsmann Shanghai Management so Daekyo Bertelsmann Education Service Ltd. could expand their markets in China and manage the business well for that region.

## 18. EARNINGS PER SHARE

- (1) The weighted-average number of common stocks outstanding is 78,822,268 shares and 82,581,632 shares in 2009 and 2008, respectively. A stock split during 2008 has affected the computation of the weighted average number of common stocks outstanding for 2009 and 2008.

The weighted-average number of common stocks outstanding in 2009 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
Issued common stocks	84,702,850	365	30,916,540,250
Treasury stock	(6,843,781)		(2,146,412,316)
Common stocks outstanding	<u>77,859,069</u>		<u>28,770,127,934</u>
			365 days
The weighted average number of shares			<u>78,822,268</u>

- (2) The weighted-average number of preferred stocks outstanding is 15,943,622 shares and 18,303,447 shares in 2009 and 2008, respectively. A stock split during 2008 has affected the computation of the weighted average number of stocks outstanding for 2008 and 2009.

The weighted-average number of preferred stocks outstanding in 2009 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
Issued preferred stocks	19,426,990	365	7,090,851,350
Treasury stock	(4,125,903)		(1,271,429,163)
Preferred stocks outstanding	<u>15,301,087</u>		<u>5,819,422,187</u>
			365 days
The weighted average number of shares			<u>15,943,622</u>

- (3) The net income for common stocks and preferred stocks for the years ended December 31, 2009 and 2008 is as follows (Unit: Korean Won in thousands):

	2009	2008
Net income	₩ 56,490,358	₩ 21,176,560
Net income for preferred stocks	(9,594,092)	(3,818,888)
Net income for common stocks	<u>₩ 46,896,266</u>	<u>₩ 17,357,672</u>

The net income for preferred stocks for the years ended December 31, 2009 is calculated as follows (Unit: Korean Won in thousands):

Dividends for preferred stocks	15,301,087* (₩500*22%)	₩ 1,683,120
Surplus of the preferred stocks after dividends	₩47,021,331 thousand (*) *[15,943,622/(15,943,622+78,822,268)]	<u>7,910,972</u>
Net income of the preferred stocks		<u>₩ 9,594,092</u>

- (\*) The computation was based on 20% of common stock and 22% of preferred stock as dividend.

- (4) The earnings per common share for the years ended December 31, 2009 and 2008 is as follows (In thousands won except per share amount)

	2009	2008
Net income for common shares	₩ 46,896,266	₩ 17,357,672
The weighted average number	78,822,268	82,581,632
Earnings per common share	595	210

- (5) The earnings per share for preferred stocks for the years ended December 31, 2009 and 2008 is as follows (Unit: Korean Won in thousands except per share amount):

	2009	2008
Net income for preferred stocks	₩ 9,594,092	₩ 3,818,888
The weighted average number	15,943,622	18,303,447
Earning per preferred share	602	209

## 19. 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, 2009 and 2008, are as follows (Unit: Korean Won in thousands):

	2009		2008	
	Sales	Purchases	Sales	Purchases
Parent company:				
Daekyo Holdings Co., Ltd.	₩ 23,374	₩ 1,137,994	₩ 533,789	₩ 1,772,628
Subsidiaries:				
Daekyo Book Center Co., Ltd.	18,608	1,016,305	161,685	676,927
Daekyo EOL Co., Ltd.	3,272	3,377,115	2,505	2,295,608
Daekyo Bookscan Co., Ltd.	130,787	2,907,597	432,548	9,321,521
Daekyo America, Inc.	971,407	13,157	591,793	-
P.T Daekyo Indonesia	281,025	-	149,045	-
Daekyo Hong Kong Co., Ltd.	571,853	-	358,974	-
Beijing Daekyo Co., Ltd.	140,206	-	259,846	-
Sanghai Daekyo Co., Ltd.	104,895	-	129,204	-
Daekyo Malaysia Sdn. Bhd.	461,192	-	327,885	-
Fermatedu Co., Inc.	292,723	3,061	477,718	913
Daekyo CSA Co., Ltd (Formerly The First CS Academy Co., Ltd.)	-	5,319,421	-	2,207,272
Daekyo Sobics Co., Ltd.	117,521	1,400	138,283	232,665
Other related parties	1,266,713	71,587,740	2,120,050	83,907,194
	<u>₩ 4,383,576</u>	<u>₩ 85,363,790</u>	<u>₩ 5,683,325</u>	<u>₩100,414,728</u>

- (3) The related account balances outstanding as of December 31, 2009 and 2008 are as follows (Unit: Korean Won in thousands).

	2009		2008	
	Receivables	Payables	Receivables	Payables
Parent company:				
Daekyo Holdings Co., Ltd.	₩ 132	₩ 590,677	₩ 136	₩ 680,783
Subsidiaries:				
Daekyo Book Center Co., Ltd.	1,347	253	1,596,827	136,703
Daekyo EOL Co., Ltd.	-	2,462	-	1,691
Daekyo Bookscan Co., Ltd.	296,335	30,468	185,052	237,896
Daekyo America, Inc.	827,156	67	207,442	-
P.T Daekyo Indonesia	57,166	395	-	-
Daekyo Hong Kong Co., Ltd.	16,199	-	203,660	-
Beijing Daekyo Co., Ltd.	86,330	10,000	140,948	10,000
Sanghai Daekyo Co., Ltd.	48,472	-	49,303	-
Daekyo Malaysia Sdn. Bhd.	631,738	-	411,085	-
Fermatedu Co., Inc.	1,350,492	2,731	1,154,918	-
Daekyo CSA Co., Ltd (Formerly The First CS Academy Co., Ltd.)	-	597,508	-	252,499
Daekyo Sobics Co., Ltd.	800,925	778,047	808,288	778,048
Other related parties	8,566,740	9,942,213	8,414,151	13,919,615
	<u>₩12,683,032</u>	<u>₩11,954,821</u>	<u>₩ 13,171,810</u>	<u>₩ 16,017,234</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 years ended December 31, 2009 and 2008 is summarized below (Unit: Korean Won in thousands).

	2009	2008
Salaries	₩ 3,602,953	₩ 3,672,711
Post-retirement benefit (*1)	1,318,199	1,056,511
	<u>₩ 4,921,152</u>	<u>₩ 4,729,222</u>

- (\*1) Estimated amount of accrued severance benefits for key management as of December 31, 2009 and 2008. Provision for severance benefits for key management are ₩585,062 thousand and ₩717,307 thousand, respectively.

## 20. STATEMENTS OF CASH FLOWS:

Significant transactions not affecting cash flows for the years ended December 31, 2009 and 2008 are as follows (Unit: Korean Won in thousands):

	2009	2008
Current maturities of long-term financial instruments	₩ 2,440,000	₩ -
Current maturities of long-term loans	1,591,508	1,666,574
Current maturities of available-for-sale securities	-	2,814,464
Reclassification of the construction-in-progress to buildings	291,242	-
Reclassification of the development costs to software, equipments and others	2,000,612	5,287,207
Reclassification of the initial throw-in equipment to right to use donated assets	1,190,969	313,816

The cash on statements of cash flows is cash and cash equivalents in the statements of financial position.

## 21. ACQUISITION OF BUSINESS:

On July, 1, 2009, the Company acquired the internet book sales business segment of Daekyo Bookscan Co., Ltd., in order to reinforce internet business segment of their own. The Company treated the acquisition using the purchase accounting method which resulted in ₩716,254 thousand of goodwill.

## 22. VALUE ADDED INFORMATION

Value added information for the years ended December 31, 2009 and 2008 are as follows (Unit: Korean Won in thousands):

	2009	2008
Salaries	₩ 125,173,588	₩ 119,072,858
Provision for severance benefits	10,899,189	15,005,395
Employee benefits	28,702,371	27,417,272
Rental charges	17,722,720	16,339,778
Depreciation	10,361,297	9,562,878
Taxes and dues	2,065,636	2,022,408
	<u>₩ 194,924,801</u>	<u>₩ 189,420,589</u>

## 23. CONDENSED FINANCIAL INFORMATION FOR THE FOURTH QUARTER PERIOD:

Condensed financial information (based on unaudited financial statements) for the fourth quarter period ended December 31, 2009 and 2008 is as follows:

	2009. 4Q	2008. 4Q
	(In thousands, except per share amounts)	
Description		
Sales	₩ 212,379,308	₩ 211,626,438
Cost of sales	180,191,054	172,844,573
Operating income	14,880,221	7,960,515
Net loss	3,008,070	7,403,547
Net loss per common share	33	73

**24. SELLING AND ADMINISTRATIVE EXPENSES:**

The Company's selling and administrative expenses for the years ended December 31, 2009 and 2008 consist of the following (Unit: Korean Won in thousands):

	2009	2008
Salaries and wages	₩ 14,105,707	₩ 14,213,653
Severance benefits	1,151,665	1,407,167
Employee benefits	4,857,039	5,350,946
Travel	293,642	201,051
Communication	692,626	673,649
Utilities	1,124,929	997,500
Taxes and dues	1,869,709	1,828,628
Rental	284,881	127,144
Depreciation	6,519,125	5,876,787
Repairs	433,005	931,473
Insurance	727,513	563,042
Entertainment	312,481	391,714
Advertising	31,679,413	43,539,386
Freight	2,098,967	2,005,108
Commissions	13,844,322	14,703,162
Research and development	508,813	397,619
Bad debt	466,097	1,115,162
Supplies	443,231	475,017
Publication	1,713,340	1,423,371
Training	614,910	1,094,138
Vehicles maintenance	243,637	255,418
Broadcasting within the firm related expenses	491,704	470,681
Amortization expenses on intangible assets	2,994,623	3,539,070
Miscellaneous	-	21
	<u>₩ 87,471,379</u>	<u>₩ 101,580,907</u>

**25. K-IFRS ADOPTION PLAN AND CURRENT STATUS :**

As all the listed companies are required to prepare the financial statements in accordance with K-IFRS from 2011, the Company will adopt K-IFRS starting from 2011.

The Company organized and nominated a group of employees just to manage all the related matters for the adoption of K-IFRS. The Company is providing the K-IFRS internal and external trainings to the employees. The group has been reporting regularly to the management of the K-IFRS adoption plan and the status of such plan. The plans and the current status on the plans are as follows:

Activity	Preparation plans	Current status
The K-IFRS adoption task force team and the related financial analysis	Organize task force team to prepare for K-IFRS adoption	- 2008.06 – 08: the first phase of the consultation is completed by the external consultants. (analysis of the difference between K-GAAP and K-IFRS) - 2009.06 – present: the second phase of the consultation is in progress by the external consultants. (completion of K-IFRS accounting policies and pro forma financial statements, & others)
Employee training	Training sessions for employees until 2010.06 to obtain the knowledge about K-IFRS.	- 2008.05 – present: (1) employee training sessions (subsidiaries included) (2) presentation of effects from K-IFRS adoption (3) reporting to the board of directors and the management
Accounting system organization	Set-up the accounting systems for K-IFRS by 2010.06	-The Company is currently assessing the impact the adoption of K-IFRS will have on the accounting systems.

## **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, 2009. 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, 2009, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2009, 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, 2009, and we did not review its IACS subsequent to December 31, 2009. 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 8, 2010

## **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, 2009.

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, 2009, in all material respects, in accordance with the IACS standards.

March 8, 2010