



DAEKYO CO., LTD.

**NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
AND INDEPENDENT AUDITORS' REPORT**

Audit • Tax • Consulting • Financial Advisory.

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying non-consolidated balance sheets of Daekyo Co., Ltd. (the "Company") as of December 31, 2008 and 2007, 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, 2008 and 2007, 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 9, 2009

Notice to Readers

This report is effective as of March 9, 2009, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

DAEKYO CO., LTD.

**NON-CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007**

	Korean Won	
	2008	2007
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 8)	₩ 60,542,806	₩ 67,670,719
Short-term financial instruments (Notes 3, 8 and 17)	21,469,747	58,418,960
Short-term investment securities (Note 4)	55,039,298	44,277,964
Trade accounts receivable, net	32,989,520	23,486,235
Other accounts receivable, net	2,712,142	3,324,674
Short-term loans	1,928,872	1,974,786
Accrued income	413,885	2,838,692
Advanced payments	1,911,256	2,130,913
Prepaid expenses	1,409,436	1,832,101
Deferred income tax assets (Note 16)	5,909,897	1,609,315
Inventories, net (Note 6)	21,778,298	15,277,876
Total current assets	<u>206,105,157</u>	<u>222,842,235</u>
NON-CURRENT ASSETS:		
Long-term financial instruments (Notes 3 and 17)	2,440,000	2,500
Long-term loans	5,724,254	8,446,145
Long-term investment securities (Note 4)	161,600,748	292,525,126
Investment securities accounted for using the equity method (Notes 5 and 17)	24,912,051	35,068,133
Other investment assets	7,253,231	6,337,025
Property and equipment, net (Note 6)	202,377,296	200,041,766
Intangible assets, net (Note 7)	67,141,976	62,585,031
Non-current guarantee deposits	53,765,502	54,592,455
Total non-current assets	<u>525,215,058</u>	<u>659,598,181</u>
TOTAL ASSETS	<u>₩ 731,320,215</u>	<u>₩ 882,440,416</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	₩ 12,032,352	₩ 6,713,274
Other accounts payable	18,320,372	16,422,277
Accrued expenses	39,102,380	38,028,836
Withholdings	6,526,812	7,627,021
Advances received	50,880,480	47,177,181
Income tax payable	10,086,895	12,528,465
Provision for returns	834,110	680,815
Total current liabilities	<u>137,783,401</u>	<u>129,177,869</u>

(Continued)

DAEKYO CO., LTD.

**NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2008 AND 2007**

	Korean Won	
	2008	2007
	(In thousands)	
LONG-TERM LIABILITIES:		
Long-term accrued expenses	₩ 4,891,465	₩ 5,031,472
Long-term accounts payable	3,000,000	3,000,000
Long-term deposits received	14,959,473	12,105,469
Provision for mileage	156,796	108,829
Accrued severance benefits, net of payment to National Pension Fund of ₩892,294 thousand in 2008 and ₩1,103,614 thousand in 2007, and severance insurance deposits for employees of ₩45,169,167 thousand in 2008 and ₩43,987,750 thousand in 2007(Note 2)	23,182,487	22,396,567
Deferred income tax liabilities (Note 16)	21,723,504	62,425,179
Total long-term liabilities	67,913,725	105,067,516
TOTAL LIABILITIES	205,697,126	234,245,385
SHAREHOLDERS' EQUITY:		
Capital stock (Note 9)	52,064,920	52,064,920
Capital surplus (Note 10)	71,859,653	71,127,450
Treasury stock (Note 11)	(40,536,283)	(12,293,466)
Stock options (Note 12)	1,567,960	-
Gain on valuation of available-for-sale securities (Note 4)	81,346,878	168,589,429
Loss on valuation of available-for-sale securities (Note 4)	(9,634,304)	(502,869)
Changes in equity using the equity method (Note 5)	1,579,909	666,681
Negative changes in equity using the equity method (Note 5)	(82,141)	(283,360)
Retained earnings (Note 13)	367,456,497	368,826,246
TOTAL SHAREHOLDERS' EQUITY	525,623,089	648,195,031
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩ 731,320,215	₩ 882,440,416

See accompanying notes to non-consolidated financial statements.

메모 [soc1]: Should you group the capital adjustments and accumulated other comprehensive income (loss)?

메모 [LYS2]: We want to present it like the prior format. And we think it is not matiral.

Soc: Ok noted

DAEKYO CO., LTD.

**NON-CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	Korean Won	
	2008	2007
	(In thousands, except for net income per share)	
Sales (Note 19)	₩ 841,092,314	₩ 846,630,204
Cost of sales (Note 19)	670,991,964	655,755,294
Gross profit	<u>170,100,350</u>	<u>190,874,910</u>
Selling and administrative expenses (Note 24)	<u>112,890,312</u>	<u>112,357,370</u>
Operating income	<u>57,210,038</u>	<u>78,517,540</u>
Non-operating income:		
Interest income	6,694,323	7,275,742
Dividend income	4,823,463	4,999,115
Reversal of allowance for doubtful accounts	-	22,220
Foreign exchange gains	180,766	1,131
Gain on disposal of property and equipment	2,140	1,125,909
Gain on foreign currency translation	572,835	117,902
Gain on valuation of investment securities accounted for using the equity method (Note 5)	114,789	235,050
Gain on disposal of short-term investment securities	1,479,625	9,782,559
Gain on disposal of long-term investment securities	297,855	1,371,637
Gain on disposal of investment securities accounted for using the equity method (Note 5)	-	70,185
Others	<u>376,192</u>	<u>1,043,214</u>
	<u>14,541,988</u>	<u>26,044,664</u>
Non-operating expenses:		
Foreign exchange losses	17,915	20,707
Loss on foreign currency translation	211,500	125,433
Donations	2,750,900	20,907,044
Other bad debt expenses	223,350	199,381
Loss on valuation of inventories	340,432	1,660,935
Loss on valuation of investment securities accounted for using the equity method (Note 5)	18,363,339	8,106,336
Loss on valuation of short-term investment securities (Note 4)	6,203,879	-
Loss on disposal of property and equipment	2,352	292
Loss on removal of property and equipment	37,593	7,069,332
Loss on impairment of intangible assets (Note 7)	2,956,476	304,928

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DAEKYO CO., LTD.

NON-CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Korean Won	
	2008	2007
	(In thousands, except for net income per share)	
Loss on disposal of investment securities accounted for using the equity method (Note 5)	₩ -	₩ 149,810
Others	1,434,974	1,504,382
	<u>32,542,710</u>	<u>40,048,580</u>
Income before income tax -continuing operations	39,209,317	64,513,624
Income tax expense - continuing operations (Note 16)	<u>18,032,757</u>	<u>14,117,295</u>
Net income - continuing operations	21,176,560	50,396,329
Loss on discontinued operations (Note 21)	<u>-</u>	<u>2,285,631</u>
Net income	<u>₩ 21,176,560</u>	<u>₩ 48,110,698</u>
Net income per common share - continuing operations (Note 18)	<u>₩ 210</u>	<u>₩ 493</u>
Net income per common share (Note 18)	<u>₩ 210</u>	<u>₩ 467</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, 2008 AND 2007**

	Korean Won	
	2008	2007
	(In thousands)	
UNAPPROPRIATED RETAINED EARNINGS:		
Unappropriated retained earnings carried over from prior year	₩ 5,531,123	₩ 4,093,397
Interim dividends (Note 14)	(8,056,210)	(7,182,874)
Net income	<u>21,176,560</u>	<u>48,110,698</u>
	<u>18,651,473</u>	<u>45,021,221</u>
APPROPRIATIONS:		
Reserve for financial structure improvement	-	-
Voluntary reserve	17,000,000	25,000,000
Cash dividends (Note 14)	<u>342,674</u>	<u>14,490,098</u>
	<u>17,342,674</u>	<u>39,490,098</u>
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	<u>₩ 1,308,798</u>	<u>₩ 5,531,123</u>

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, 2008 AND 2007**

	Korean Won					
	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
	(In thousands)					
Balance at January 1, 2007	₩ 52,064,920	₩ 71,723,241	₩ (2,472,637)	₩ 149,016,721	₩ 339,483,972	₩ 609,816,217
Accumulated effect of changes in accounting policy	-	(1,138,178)	-	1,138,178	-	-
Capital after adjustment	52,064,920	70,585,062	(2,472,637)	150,154,900	339,483,972	609,816,217
Dividends	-	-	-	-	(11,585,551)	(11,585,551)
Balances after appropriations	52,064,920	70,585,062	(2,472,627)	150,154,900	327,898,421	598,230,667
Interim dividends	-	-	-	-	(7,182,874)	(7,182,874)
Net income	-	-	-	-	48,110,698	48,110,698
Acquisition of treasury stock	-	-	(9,820,829)	-	-	(9,820,829)
Gain on disposal of treasury stock	-	542,388	-	-	-	542,388
Gain on valuation of available- for-sale securities	-	-	-	19,772,622	-	19,772,622
Loss on valuation of available- for-sale securities	-	-	-	(296,680)	-	(296,680)
Changes in equity using the equity method	-	-	-	(58,254)	-	(58,254)
Negative changes in equity using the equity method	-	-	-	(1,102,706)	-	(1,102,706)
Balance at December 31, 2007	₩ 52,064,920	₩ 71,127,450	₩ (12,293,466)	₩ 168,469,881	₩ 368,826,246	₩ 648,195,031
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

See accompanying notes to non-consolidated financial statements.

DAEKYO CO., LTD.

**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	Korean Won	
	2008	2007
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	₩ 21,176,560	₩ 48,110,698
Additions of expenses not involving cash outflows:		
Depreciation	9,562,878	11,219,455
Amortization of intangible assets	32,455,150	30,717,293
Provision for severance benefits	15,005,395	12,255,611
Loss on valuation of investment securities accounted for using the equity method	18,363,339	8,106,336
Loss on disposal of property and equipment	2,352	292
Loss on removal of property and equipment	37,593	6,402,732
Loss on impairment of intangible assets	2,956,476	304,928
Loss on valuation of inventories	340,432	1,660,935
Bad debt expenses	1,115,162	-
Other bad debt expenses	223,350	199,381
Commissions	1,252,127	-
Loss on foreign currency translation	211,500	5,717
Salaries and wages (stock options)	1,567,960	-
Loss on valuation of short-term investment securities	6,203,879	-
Loss on disposal of investment securities accounted for using the equity method	-	149,810
Loss on discontinued operations	-	521,854
Miscellaneous losses	652	11,234
	<u>89,298,245</u>	<u>71,555,579</u>
Deduction of items not involving cash inflows:		
Gain on valuation of investment securities accounted for using the equity method	114,789	235,050
Gain on foreign currency translation	572,835	4,573
Gain on disposal of property and equipment	2,140	1,125,909
Gain on disposal of short-term investment securities	1,479,625	9,782,559
Gain on disposal of long-term investment securities	297,855	1,371,637
Gain on disposal of investment securities accounted for using the equity method	-	70,185
Reversal of allowance for doubtful accounts	-	22,220
	<u>2,467,244</u>	<u>12,612,133</u>

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DAEKYO CO., LTD.

**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	Korean Won	
	2008	2007
	(In thousands)	
Changes in operating assets and liabilities related to operating activities:		
Increase in trade accounts receivable	₩ (10,618,447)	₩ (150,641)
Decrease (increase) in accrued income	2,424,807	(530,986)
Decrease (increase) in other accounts receivable	389,181	(2,171,684)
Decrease (increase) in advanced payments	219,658	(1,237,147)
Decrease (increase) in prepaid expenses	422,664	(412,569)
Decrease (increase) in inventories	(6,840,854)	4,764,403
Increase in deferred income tax assets	(4,300,582)	(648,037)
Increase (decrease) in trade accounts payable	5,319,078	(7,120,057)
Increase in other accounts payable	1,898,094	934,588
Increase (decrease) in accrued expenses	1,073,543	(1,804,700)
Increase (decrease) in withholdings	(1,100,209)	1,053,357
Increase in advances received	3,703,299	4,956,044
Increase (decrease) in income tax payable	(2,441,570)	8,063,104
Increase in provision for returns	153,295	159,034
Payment of severance benefits	(13,249,379)	(18,056,779)
Increase in severance insurance deposits	(1,181,416)	(1,624,221)
Decrease in contributions to the National Pension Fund	211,321	320,107
Increase (decrease) in long-term deposits received	2,854,004	(274,260)
Decrease in long-term accrued expenses	(140,007)	(803,563)
Increase (decrease) in deferred income tax liabilities	3,132,451	(2,273,533)
Increase in provision for mileage	47,967	108,829
	(18,023,102)	(16,748,711)
Net cash provided by operating activities	89,984,459	90,305,433
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities:		
Proceeds from disposal of short-term financial instruments	58,418,960	53,057,783
Proceeds from disposal of trading securities	47,296,566	61,687,638
Proceeds from disposal of available-for-sale securities	3,462,835	6,513,298
Proceeds from disposal of long term financial instruments	2,500	-
Collection of short-term loans	1,981,625	5,093,276
Collection of long-term loans	2,023,545	1,720
Proceeds from non-current guarantee deposits	16,338,045	20,580,813
Proceeds from other investment assets	95,348	3,120
Proceeds from disposal of property and equipment	2,140	3,904,833
Proceeds from disposal of intangible assets	-	234,876
	129,621,564	151,077,357

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DAEKYO CO., LTD.

**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	Korean Won	
	2008	2007
	(In thousands)	
Cash outflows from investing activities:		
Acquisition of short-term financial instruments	₩ 21,108,412	₩ 54,914,950
Acquisition of trading securities	71,973,910	51,000,000
Acquisition of available-for-sale securities	3,256,958	-
Acquisition of investment securities accounted for using the equity method	6,245,818	7,279,079
Extension of short-term loans	-	107,144
Extension of long-term loans	595,765	2,818,503
Payments for non-current guarantee deposits	16,152,691	18,762,995
Acquisition of other investment assets	1,326,022	6,000
Acquisition of property and equipment	11,938,353	22,185,157
Acquisition of intangible assets	40,906,882	33,921,990
Acquisition of long-term financial instruments	2,440,000	-
	<u>175,944,811</u>	<u>190,995,818</u>
Net cash used in investing activities	<u>(46,323,247)</u>	<u>(39,918,461)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities:		
Disposal of treasury stock	-	5,829,762
Cash outflows from financial activities:		
Cash dividends	22,546,308	18,768,424
Acquisition of treasury stock	28,242,817	15,108,204
	<u>(50,789,125)</u>	<u>(33,876,628)</u>
Net cash used in financing activities	<u>(50,789,125)</u>	<u>(28,046,866)</u>
Net increase (decrease) in cash and cash equivalents	(7,127,913)	22,340,106
Cash and cash equivalents - beginning of the year	<u>67,670,719</u>	<u>45,330,613</u>
Cash and cash equivalents - end of the year (Note 20)	<u>₩ 60,542,806</u>	<u>₩ 67,670,719</u>

See accompanying notes to non-consolidated financial statements.

DAEKYO CO., LTD.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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, 2008, 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	2,073,440	2.4
Others	33,479,790	39.6
	<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, 2008 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, 2007 except for changes due to the application of amended SKAS No.15. Certain reclassifications and changes of presentation have been made in the prior year's non-consolidated financial statements according to SKAS No. 15. Such reclassifications and changes of presentation have no effect on previously reported net assets and net income.

The financial statements in 2008 were approved by the board of directors on March 9, 2009.

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 Equity Securities Accounted for Using the Equity Method)

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

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

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

Investment Securities Accounted for Using the Equity Method

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

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

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

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

Property and Equipment and Related Depreciation

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

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

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

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

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

Intangibles Assets and Amortization Method

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

	<u>Useful lives (Years)</u>
Goodwill	5 years
Industrial property rights	5 - 10 years
Development costs	4 years
Intellectual property rights	5 years
Franchise	5 years
Right to use donated assets	1 - 4 years
Software	4 years

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

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

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rates in effect at the balance sheet date (₩1257.50 to US\$1.00, ₩1393.89 to ¥100.00, ₩1038.31 to Canadian \$1.00, ₩727.21 to NZ\$1.00, ₩162.25 to HK\$1.00, ₩870.00 to AUS\$1.00, ₩1817.65 to GBP1.00, ₩1776.22 to EUR1.00 and ₩875.54 to S\$1.00 at December 31, 2008), and the resulting translation gains and losses are recognized in current operations.

Accrued Severance Benefits

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

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

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

Long-Term Accrued Expenses

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

Provisions

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

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

Income Tax Expense and Deferred Income Tax Assets (liabilities)

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

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

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

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, 2008 and 2007 are calculated by dividing continuing operations' income by the weighted average number of shares outstanding for the years ended December 31, 2008 and 2007.

3. RESTRICTED FINANCIAL INSTRUMENTS:

Long-term financial instruments amounting to ₩2,440,000 thousand (2007: ₩2,500 thousand represent key money deposits required to maintain checking accounts and accordingly, withdrawal of these deposits is restricted) as collateral in connection with guarantees on affiliated companies as of December 31, 2008. Short-term financial instruments amounting to ₩1,538,863 thousand (2007: ₩3,534,073 thousand) were provided as collateral in connection with guarantees on affiliated companies and others as of December 31, 2008.

4. INVESTMENT SECURITIES:

- (1) The Company's short-term investment securities as of December 31, 2008 and 2007 consist of the following (Unit: Korean Won in thousands):

	2008	2007
Government and public bonds	₩ 13,490	₩ 2,146,594
Beneficiary certificates	55,025,808	42,131,370
	<u>₩ 55,039,298</u>	<u>₩ 44,277,964</u>

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

Beneficiary certificates were valued at fair value. Gain and loss on valuation of available-for-sale securities, net of deferred income tax as of December 31, 2008 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, 2008 and 2007 consist of the following (Unit: Korean Won in thousands):

Available-for-sale securities	2008	2007
Marketable equity securities	₩ 161,025,968	₩ 286,431,069
Government and public bonds	24,780	5,594,057
Convertible bonds	500,000	500,000
Money invested (*1)	50,000	-
	<u>₩ 161,600,748</u>	<u>₩ 292,525,126</u>

(*1) The Company has invested money for Pajoo Publisher Cooperative.

Government bonds and convertible bonds are classified as held-to-maturity securities. The maturities of these securities as of December 31, 2008 and 2007 are within 5 years.

- (3) 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
			₩ 58,620,236	₩ 161,025,968	₩ 161,025,968

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.

The Company loaned 37,000 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, 2007 consist of the following (Unit: Korean Won in thousands):

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

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

- (5) Among the above short-term and long-term investment securities, ₩89,894 thousand and ₩345,302 thousand are recognized as interest income relating to debt securities including government bonds for the years ended December 31, 2008 and 2007, respectively.

5. INVESTMENT SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

- (1) 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. (Former: Daekyo Bertelsmann Korea 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
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 financial statements as of December 31, 2008 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. (Former: Daekyo Bertelsmann Korea Co., Ltd.), Daekyo Book Center Co., Ltd. and P.T Daekyo Indonesia in 2008.

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

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

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

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

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

The Company calculated the loss on disposal of investment securities accounted for using the equity method amounting to ₩44,428 thousand due to non-reciprocal transfer of securities of Yanbian Daekyo Co., Ltd. Also, as Daekyo Book Center Co., Ltd. has issued new shares to be purchased during 2007, the Company calculated the loss on disposal of investment securities accounted for using the equity method amounting to ₩105,382 thousand due to difference between paid-in capital and increase in the investor's share of net assets of the investee. In addition, the Company calculated the increase on negative change in equity using the equity method amounting to ₩1,138,178 thousand due to difference between reduction of capital and decrease in the investor's share of net assets of the investee, as Daekyo Bertelsmann Korea Co., Ltd. has reduced its shares by 292,533 shares without any refund during 2007. As it is required to comply with SKAS No. 15, such difference was recognized as additional paid-in-capital

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

- (3) 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					
	Acquisition cost	Retained earnings	Gain (loss) on valuation	Capital adjustment	Others (*)	Carrying value
Daekyo Bookscan Co., Ltd. (Former: Daekyo Bertelsmann Korea 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
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.

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

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

- (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, 2008 and 2007 are as follows (Unit: Korean Won in thousands):

	2008			
	Beginning balance	Increase (decrease)	Amortization (reversal)	Ending balance
Daekyo Bookscan Co., Ltd. (Former: 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
	₩ 11,864,252	₩ -	₩ 2,981,126	₩ 8,883,126

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

- (6) The elimination of unrealized gains or losses relating to the valuation of equity method investments as of December 31, 2008 and 2007 are as follows (Unit: Korean Won in thousands):

	2008	2007
Daekyo America, Inc.	₩ 155,584	₩ 77,174
Sanghai Daekyo Co., Ltd.	53,601	14,093
Daekyo Malaysia Sdn. Bhd.	38,681	12,630
P.T Daekyo Indonesia	22,878	425
Daekyo Hong Kong Co., Ltd.	18,146	9,070
	₩ 288,890	₩ 113,392

- (7) Condensed financial information of the affiliates as of and for the year ended December 31, 2008 is as follows (Unit: Korean Won in thousands):

	Assets	Liabilities	Net assets	Sales	Net income (loss)
Daekyo Bookscan Co., Ltd. (Former: Daekyo Bertelsmann Korea Co., Ltd.)	₩ 6,545,587	₩ 4,790,932	₩ 1,754,655	₩ 4,136,766	₩ (6,590,358)
Daekyo America, Inc.	6,503,927	2,638,642	3,865,285	3,967,857	105
Daekyo Hong Kong Co., Ltd.	2,639,555	1,561,407	1,078,148	1,304,066	282,862
Beijing Daekyo Co., Ltd.	1,020,809	94,568	926,241	543,927	(70,915)
Daekyo Book Center Co., Ltd.	6,772,472	6,258,354	514,118	9,862,424	(1,629,863)
Daekyo EOL Co., Ltd.	616,838	338,425	278,413	2,116,132	317,871
Daekyo Malaysia Sdn. Bhd.	641,706	510,606	131,100	590,902	23,195
Sanghai Daekyo Co., Ltd.	475,301	59,111	416,190	1,026,307	20,773
Fermatedu Co., Inc.	27,047,043	15,406,895	11,640,148	38,980,162	(8,665,977)
The First CS Academy Co., Ltd.	1,515,418	315,627	1,199,791	2,525,614	(684,882)
Daekyo Sobics Co., Ltd.	2,752,652	412,327	2,340,325	4,723,196	(302,901)
P.T Daekyo Indonesia	588,939	114,583	474,356	310,434	(137,903)

6. PROPERTY AND EQUIPMENT:

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

	Land	Buildings	Structures	Machinery	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	67,653,304	123,911,340	2,811,430	-	214,348
Accumulated depreciation	-	28,379,376	488,202	468,200	956,561
Accumulated impairment	-	-	-	-	-

	Tools	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	-	7,080,311	527,788	178,755	202,377,296
Accumulated depreciation	28,256	76,325,683	-	-	106,646,278
Accumulated impairment	-	5,975	-	-	5,975

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

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

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

- (3) As of December 31, 2008, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, approximates ₩ 122,471,440 thousand (2007: ₩ 107,700,503 thousand).

메모 [soc3]: Not tally with cash flow

메모 [LYS4]: But, we think it must be presented as Korean report.

Soc: Ok noted and for documentation purposes.

- (4) As of December 31, 2008, the Company's inventories and property, plant and equipment are insured as follows (Unit: Korean Won in thousands):

Account	2007	Details
Buildings and equipment	₩ 141,818,289	Insurance against fire and other casualty losses
Inventories	2,000,000	
Right to use donated assets	15,703,981	
	₩ 159,522,270	

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, 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	5,493,248	106,775	24,082,211	34,806,411	-	2,653,332	-	67,141,977
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

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

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

메모 [LYS5]: But, we think it must be presented as Korean report.

Soc: Ok noted and for documentation purposes

메모 [soc6]: Not tally with BS

8. MONETARY ASSETS DENOMINATED IN FOREIGN CURRENCIES

Monetary assets denominated in foreign currencies as of December 31, 2008 and 2007 are as follows
(Unit: Korean Won in thousands):

	2008				2007			
	Korean Won Equivalent		Foreign currencies		Korean Won equivalent		Foreign currencies	
Cash and cash equivalents	₩	684,204	USD	544,099	₩	208,330	USD	222,053
		72,864	HKD	449,087		1	HKD	2
		2,424	NZD	3,333		1	NZD	2
		7	AUD	8		7	AUD	8
		1,466	GBP	806		1,489	GBP	795
		941	EUR	530		-	EUR	-
		15,234	SGD	17,400		7,606	SGD	12,326
Short-term financial instruments		18,863	USD	15,000		13,810	USD	15,000
Total	₩	<u>796,003</u>			₩	<u>231,244</u>		

9. CAPITAL STOCK

(1) Capital stock

The details of capital stock as of December 31, 2008 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

- (1) 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, 2008, the Company holds treasury stock consisting of 4,834,380 shares of common stock and 2,353,280 shares of preferred stock.

12. STOCK OPTIONS

- (1) The stock options granted all employees to purchase the Company's stock are summarized 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. 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, 2008 and 2007 are as follows (Unit: Korean Won in thousands):

	2008	2007
Legal reserve (Profit reserve)	₩ 32,300,000	₩ 32,300,000
Other reserve	316,505,025	291,505,025
Amount of reserve	₩ 348,805,025	₩ 323,805,025

- (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, 2008 and 2007 are as follows (Unit: Korean Won):

(1) Interim dividends

	2008		2007	
	Common stock	Preferred stock	Common stock	Preferred stock
Par value per share(*1)	500	500	500	500
Dividend ratio	16%	16%	14%	14%
Dividend per share (*1)	80	80	70	70
Number of shares				
Outstanding (*1)	82,553,775	18,148,850	83,895,500	18,716,990
Amount of dividends	6,604,302	1,451,908		1,310,189
	thousand	thousand	5,872,685 thousand	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

	2008		2007	
	Common stock	Preferred stock	Common stock	Preferred stock
Par value per share (*1)	500	500	500	500
Dividend ratio	-	4%	28%	30%
Dividend per share (*1)	-	20	140	150
Number of shares				
outstanding (*1)	79,868,470	17,133,710	83,810,350	18,377,660
Amount of dividends		342,674	11,733,449	2,756,649
	-	thousand	thousand	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

	2008	2007
Total dividends	8,398,884 thousand	21,672,972 thousand
Net income	21,176,560 thousand	48,110,698 thousand
Dividend payout ratio	39.66%	45.05%

(4) Dividend yield ratio

	2008		2007	
	Common stock	Preferred stock	Common stock	Preferred stock
Market price as of balance sheet date (*1 & *2)	4,854	2,814	9,085	5,323
Dividend per share (*2)	80	100	210	220
Dividend yield ratio	1.65%	3.55%	2.31%	4.13%

(*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 2007 are presented based on ₩500.

15. COMPREHENSIVE INCOME STATEMENT

The details of comprehensive income for the years ended December 31, 2008 and 2007 are as follows
(Unit: Korean Won in thousands):

	2008	2007
Net income	₩ 21,176,560	₩ 48,110,698
Accumulated other comprehensive income (loss):		
Gain on valuation of available-for-sale securities (tax effect: ₩40,959,342 thousand in 2008 and ₩7,499,960 thousand in 2007)	(87,242,551)	19,772,622
Loss on valuation of available-for-sale securities (tax effect: ₩2,874,784 thousand in 2008 ₩112,534 thousand in 2007)	(9,131,435)	(296,680)
Changes in equity arising on application of the equity method (*1)	913,228	(58,254)
Negative changes in equity arising on application of the equity method (*1)	201,219	(1,102,706)
Comprehensive income	₩ (74,082,979)	₩ 66,425,680

(*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, 2008 and 2007 is computed as follows (Unit: Korean Won in thousands):

	2008	2007
Current income tax	₩ 19,200,888	₩ 13,577,106
Changes in deferred tax assets (liabilities) of temporary differences	(45,002,257)	7,266,384
Deferred tax deducted to shareholders' equity	43,834,126	(7,387,426)
Tax credit deducted to shareholders' equity	-	(205,733)
Total income tax expense	18,032,757	13,250,331
Income tax expense of continuing operations	18,032,757	14,117,295
Income tax benefits of discontinuing operations	-	(866,964)
Net income of continuing operations before income tax	39,209,317	64,513,624
Effective tax rate (Income tax expense of continuing operations / Net income of continuing operations before income tax)	45.99%	21.88%

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

	2008		2007	
	Temporary differences	Permanent differences	Temporary differences	Permanent differences
Addition	₩ 201,907,183	₩ 11,193,560	₩ 46,430,237	₩ 5,237,439
Deduction	38,827,982	141,655,150	40,155,578	1,498,372
Net reconciliation	163,079,201	(130,461,590)	6,274,659	3,739,067

(3) Changes in temporary differences for the years ended December 31, 2008 and 2007 are as follows (Unit: Korean Won in thousands):

<2008>

	January 1, 2008	Difference	Increase (Decrease)	December 31, 2008
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)
Gain on valuation of available-for-sale securities	(231,843,531)	-	146,411,990	(85,431,541)
Gain on valuation of equity-method investments	754,857	-	(225,2625)	(1,497,768)
Others	2,400,635	-	(2,400,635)	-
Accumulated temporary difference	₩(210,615,024)	₩ (367,548)	₩ 163,079,202	₩ (47,903,370)

<2007>

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

(4) Changes in deferred tax assets and liabilities for the years ended December 31, 2008 and 2007 are as follows (Unit: Korean Won in thousands):

<2008>

	January 1 2008	Increase	December 31, 2008	Current	Non-current
Long-term accrued service fee payable	₩ 1,383,655	₩ (307,533)	₩ 1,076,122	₩ -	₩ 1,076,122
Accrued income	(780,640)	680,480	(100,160)	(100,160)	-
Interest income (MMF)	(21,961)	(4,955)	(26,916)	(26,916)	-
Valuation of marketable securities	(1,394,433)	278,886	(1,115,547)	-	(1,115,547)
Accrued severance benefits	11,759,974	(2,054,394)	9,705,580	-	9,705,580
Severance insurance expenses	(11,759,974)	2,054,394	(9,705,580)	-	(9,705,580)
Allowance for doubtful accounts	1,400,173	(33,667)	1,366,506	1,366,506	-
Depreciation	106,004	16,843	122,847	-	122,847
Equity method investments	2,689,147	3,452,491	6,141,638	-	6,141,638
Accrued expenses (remuneration)	909,042	(460,741)	448,301	448,301	-
Reserve for returned goods	187,223	14,632	201,855	201,855	-
Accrued expenses (mileage)	29,928	4,567	34,495	-	34,495
Impairment of intangible assets	456,699	231,140	687,839	-	687,839
Inventories	5,242	(5,242)	-	-	-
Foreign exchange gains	-	(87,443)	(87,443)	(87,443)	-
Gain on valuation of available-for-sale securities	(63,756,971)	45,335,465	(18,421,506)	4,107,754	(22,529,260)
Gain on valuation of equity-method investments	207,586	(537,095)	(329,509)	-	(329,509)
Others	660,175	(660,175)	-	-	-
Accumulated temporary difference	(57,919,131)	47,917,653	(10,001,478)	5,909,897	(15,911,375)
Equity method investments (*1)	2,896,733	-	5,812,129	-	5,812,129
Deferred income tax assets (liabilities) (*2)	(60,815,864)	-	(15,813,607)	5,909,897	(21,723,504)

<2007>

	January 1, 2007	Increase	December 31, 2007	Current	Non-current
Long-term accrued service fee payable	₩ 1,604,635	₩ (220,980)	₩ 1,383,655	₩ -	₩ 1,383,655
Accrued income	(634,619)	(146,021)	(780,640)	(780,640)	-
Interest income (MMF)	(14,115)	(7,846)	(21,961)	(21,961)	-
Valuation of marketable securities	(1,394,433)	-	(1,394,433)	-	(1,394,433)
Accrued severance benefits	11,701,178	58,796	11,759,974	-	11,759,974
Severance insurance expenses	(11,649,971)	(110,003)	(11,759,974)	-	(11,759,974)
Allowance for doubtful accounts	1,361,277	38,896	1,400,173	1,400,173	-
Bad debt expense	79,862	(79,862)	-	-	-
Depreciation	86,116	19,888	106,004	-	106,004
Equity method investments	494,937	2,194,210	2,689,147	-	2,689,147
Accrued expenses (remuneration)	684,750	224,292	909,042	909,042	-
Reserve for returned goods	143,490	43,733	187,223	187,223	-
Accrued expenses (mileage)	65,063	(35,135)	29,928	-	29,928
Impairment of intangible assets	739,090	(282,391)	456,699	-	456,699
Inventories	5,242	-	5,242	5,242	-
Deferred income taxes deducted from shareholders' equity	(56,369,545)	(7,387,426)	(63,756,971)	(89,764)	(63,667,207)
Gain on valuation of equity-method investments	-	207,586	207,586	-	207,586
Others	660,175	-	660,175	-	660,175
Accumulated temporary difference	(52,436,868)	(5,482,263)	(57,919,131)	1,609,315	(59,528,446)
Equity method investments	1,112,613	-	2,896,733	-	2,896,733
Deferred income tax assets (liabilities)	(53,549,480)	-	(60,815,864)	1,609,315	(62,425,179)

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

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

17. COMMITMENTS AND CONTINGENCIES:

- (1) As of December 31, 2008, the Company has credit agreements with Woori Bank amounting to ₩25,000,000 thousand for the corporate purchase card.
- (2) As of December 31, 2008, the Company provides guarantees amounting to ₩3,960,000 thousand for certain lessees in relation to the lessees' guarantee deposits and also guarantees amounting to US\$15,000 for YTC (Chinese Test for Young Learners) in relation to business guarantee deposits. Seoul Guarantee Insurance has provided the Company with a guarantee for performance and others up to ₩692,432 thousand as of December 31, 2008.
- (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 ₩2,072,077 thousand and ₩2,192,800 thousand to Two Hands Media Co., Ltd. in 2008 and 2007, 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 ₩353,722,434 thousand (2007: ₩356,846,503 thousand) for the year ended December 31, 2008.
- (5) On March 30, 2005, the Company acquired 75% ownership in Bertelsmann Korea Co., Ltd., after which this investee changed its name to 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.
- (6) 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%.
- (7) The Company has been providing a financial guaranty amounting to 17,500,000 RMB (₩ 3,221,575 thousand 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 82,581,632 shares and 84,147,380 shares in 2008 and 2007, respectively. A stock split during 2008 has affected the computation of the weighted average number of common stocks outstanding for 2007 and 2008.

The weighted-average number of common stocks outstanding in 2008 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	(4,834,380)		(774,244,710)
Common stocks outstanding	<u>79,868,470</u>		<u>30,142,295,540</u>
			365 days
The weighted average number of shares			<u>82,581,632</u>

- (2) The weighted-average number of preferred stocks outstanding is 18,303,447 shares and 18,677,010 shares in 2008 and 2007, respectively. A stock split during 2008 has affected the computation of the weighted average number of stocks outstanding for 2007 and 2008.

The weighted-average number of preferred stocks outstanding in 2008 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	(2,353,280)		(410,093,080)
Preferred stocks outstanding	<u>17,073,710</u>		<u>6,680,758,270</u>
			365 days
The weighted average number of shares			<u>18,303,447</u>

- (3) The net income for common stocks and preferred stocks for the years ended December 31, 2008 and 2007 is as follows (Unit: Korean Won in thousands):

	2008	2007
Net income	₩ 21,176,560	₩ 48,110,698
Net income for preferred stocks	<u>(3,818,888)</u>	<u>(8,803,033)</u>
Net income for common stocks	<u>₩ 17,357,672</u>	<u>₩ 39,307,665</u>

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

Dividends for preferred stocks	17,073,710* (₩500*9%)	₩ 768,317
Surplus for the preferred stocks after dividends	₩16,814,161 thousand (*) *[18,303,447/(82,581,632+18,303,447)]	3,050,571
Net income of the preferred stocks		<u>₩ 3,818,888</u>

(*) The computation was based on 9% of common stock and preferred stock as dividend.

메모 [soc7]: Do you mean add'l dividends? I will suggest upon receipt of your clarification

메모 [LYS8]: I don't mean add'l dividends. It is just assumption for calculation of earnings per common share.

First, We calculated Net income of the preferred stocks. After then, calculated Net income for common stocks.

Soc: Do you mean "share of preferred stocks on income after dividends"? If yes, we used as above or instead of "surplus of the....." we used "surplus for the....."

- (4) The earnings per common share for the years ended December 31, 2008 and 2007 is as follows (In thousands won except per share amount)

	2008	2007
Net income for common shares	₩ 17,357,672	₩ 39,307,665
The weighted average number	82,581,632	84,147,380
Earnings per common share	210	467

- (5) The earnings per share for preferred stocks for the years ended December 31, 2008 and 2007 is as follows (Unit: Korean Won in thousands except per share amount):

	2008	2007
Net income for preferred stocks	₩ 3,818,888	₩ 8,803,033
The weighted average number	18,303,447	18,677,010
Earning per preferred share	209	471

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, 2008 and 2007, are as follows (Unit: Korean Won in thousands):

	2008		2007	
	Sales	Purchases	Sales	Purchases
Parent company:				
Daekyo Holdings Co., Ltd.	₩ 533,789	₩ 1,772,628	₩ 1,488	₩ -
Subsidiaries:				
Daekyo Book Center Co., Ltd.	161,685	676,927	1,345,498	1,593,907
Daekyo EOL Co., Ltd.	2,505	2,295,608	749	3,134,572
Daekyo Bertelsmann Korea Co., Ltd.	432,548	9,321,521	-	2,489,579
Daekyo America, Inc.	591,793	-	272,660	616
P.T Daekyo Indonesia	149,045	-	51,793	-
Daekyo Hong Kong Co., Ltd.	358,974	-	132,087	-
Beijing Daekyo Co., Ltd.	259,846	-	213,244	-
Sanghai Daekyo Co., Ltd.	129,204	-	139,473	-
Daekyo Malaysia Sdn. Bhd.	327,885	-	148,500	-
Fermatedu Co., Inc.	477,718	913	891,089	562,849
The First CS Academy Co., Ltd.	-	2,207,272	-	1,477,498
Daekyo Sobics Co., Ltd.	138,283	232,665	1,017,242	1,370
Other related parties:	2,120,050	83,907,194	1,748,322	61,783,273
	₩ 5,683,325	₩ 100,414,728	₩ 5,962,145	₩ 71,043,664

- (3) The related account balances outstanding as of December 31, 2008 and 2007 are as follows (Unit: Korean Won in thousands).

	2008		2007	
	Receivables	Payables	Receivables	Payables
Parent company:				
Daekyo Holdings Co., Ltd.	₩ 136	₩ 680,783	₩ 182	₩ 155,250
Subsidiaries:				
Daekyo Book Center Co., Ltd.	1,596,827	136,703	1,475,411	130,230
Daekyo EOL Co., Ltd.	-	1,691	355	2,756
Daekyo Bertelsmann Korea Co., Ltd.	185,052	237,896	278,098	312,874
Daekyo America, Inc.	207,442	-	107,551	-
P.T Daekyo Indonesia	-	-	27,652	-
Daekyo Hong Kong Co., Ltd.	203,660	-	50,126	-
Beijing Daekyo Co., Ltd.	140,948	10,000	111,872	10,000
Sanghai Daekyo Co., Ltd.	49,303	-	44,754	-
Daekyo Malaysia Sdn. Bhd.	411,085	-	174,912	-
Fermatedu Co., Inc.	1,154,918	-	912,487	-
The First CS Academy Co., Ltd.	-	252,499	-	361,487
Daekyo Sobics Co., Ltd.	808,288	778,048	1,001,758	1,005,762
Other related parties:	8,414,151	13,919,615	10,236,743	8,212,034
	<u>₩ 13,171,810</u>	<u>₩ 16,017,234</u>	<u>₩ 14,421,901</u>	<u>₩ 10,190,393</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, 2008 and 2007 are summarized below (Unit: Korean Won in thousands).

	2008	2007
Salaries	₩ 3,672,711	₩ 4,049,928
Post-retirement benefit (*1)	1,056,511	438,783
	<u>₩ 4,729,222</u>	<u>₩ 4,488,711</u>

- (*1) Estimated amount of accrued severance benefits for key management as of December 31, 2008 and 2007. Provision for severance benefits for key management are ₩717,307 thousand and ₩667,283 thousand, respectively.

20. STATEMENTS OF CASH FLOWS:

Significant transactions not affecting cash flows for the years ended December 31, 2008 and 2007 are as follows (Unit: Korean Won in thousands):

	2008	2007
Current maturities of long-term loans	₩ 1,666,574	₩ -
Current maturities of available-for-sale securities	2,814,464	2,157,232
Reclassification of the construction-in-progress to land, buildings and others	-	42,342,376
Reclassification of the development costs to software, equipments and others	5,287,207	3,407,562
Reclassification of the initial throw-in equipment to right to use donated assets	313,816	19,923,304

The cash on statements of cash flows is cash and cash equivalents on the balance sheets.

21. LOSS ON DISCONTINUED OPERATIONS:

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

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

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

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

22. VALUE ADDED INFORMATION

Value added information for the years ended December 31, 2008 and 2007 are as follows (Unit: Korean Won in thousands):

	2008	2007
Salaries	₩ 119,072,858	₩ 119,070,664
Provision for severance benefits	15,005,395	12,255,611
Employee benefits	27,417,272	26,238,480
Rental charges	16,339,778	16,093,753
Depreciation	9,562,878	11,219,455
Taxes and dues	2,022,408	1,896,073
	<u>₩ 189,420,589</u>	<u>₩ 186,774,036</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, 2008 and 2007 is as follows:

Description	2008. 4Q (In thousands, except per share amounts)	2007. 4Q
Sales	₩ 211,626,438	₩ 209,996,128
Cost of sales	172,844,573	167,748,927
Operating income	7,960,515	10,759,444
Net loss	7,403,547	6,170,520
Net loss per common share	73	60

24. SELLING AND ADMINISTRATIVE EXPENSES:

The Company's selling and administrative expenses for the years ended December 31, 2008 and 2007 consist of the following (Unit: Korean Won in thousands):

	2008	2007
Salaries and wages	₩ 14,213,653	₩ 15,466,470
Severance benefits	1,407,167	2,596,753
Employee benefits	5,350,946	5,176,788
Travel	201,051	407,791
Communication	673,649	597,894
Utilities	997,500	958,838
Taxes and dues	1,828,628	1,697,737
Rental	127,144	109,783
Depreciation	5,876,787	6,033,166
Repairs	931,473	751,355
Insurance	563,042	463,712
Entertainment	391,714	511,272
Advertising	43,539,386	39,345,430
Freight	2,005,108	1,909,887
Commissions	26,012,567	27,475,119
Research and development	397,619	236,572
Bad debt	1,115,162	-
Supplies	475,017	293,829
Publication	1,423,371	857,725
Training	1,094,138	1,287,470
Vehicles maintenance	255,418	145,957
Broadcasting within the firm related expenses	470,681	468,252
Amortization expenses on intangible assets	3,539,070	5,565,507
Miscellaneous	21	63
	<u>₩ 112,890,312</u>	<u>₩ 112,357,370</u>

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, 2008. 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, 2008, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2008, 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, 2008, and we did not review its IACS subsequent to December 31, 2008. 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 9, 2009

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, 2008.

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, 2008, in all material respects, in accordance with the IACS standards.

March 9, 2009