

■ ■ Part7 AUDIT REPORT & FINANCIAL STATEMENTS





"A Leading Service Business Group in the 21st Century"

AUDIT REPORT & FINANCIAL STATEMENTS



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I. Auditor's Audit Report

I report the following audit result on accounting and business of the 33th fiscal year from January 1, 2003 to December 31, 2003 as an auditor of Paradise co., Ltd.

Outline of the Audit Method

▶ Audit on Accounting

I inspected the accounting book and the relevant documents and minutely investigated the financial statements and attached specification for examined by applying the contrast, actual inspection, session, inquiry and other proper audit procedures in case of need in executing the audit.

▶ Inspection on the business

I received the report on the business from directors if necessary to attend the board of Directors and other major meetings for the business inspection, inspected the important related business documents by using the proper method like inspection of the contents.

Matters on Stating the Accounting Book

The accounting book doesn't have the statement omission or infirm statement and balance sheet and income statements are in accordance with statement of accounting book.

Matters on Indication of Balance Sheet and Income Statements

The assets and profit and loss state of the Company are stated exactly according to law and the Articles in the balance sheet and income statements.

Matters on Business Report

The general condition of the Company is indicated accurately in the business report under law and the Articles.

Matters on the statement of Appropriation of Retained Earnings

The statement of appropriation of retained earning is made out of under law and the Articles and did appropriately considering the financial condition and other conditions of the Company.

March 3, 2004

Auditor Roh, Hansung
Paradise Co. Ltd.





II. Report of Independent Auditors

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

We have audited the accompanying non-consolidated balance sheets of Paradise Co., Ltd. (the "Company") as of December 31, 2003 and 2002, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial positions of Paradise Co., Ltd. as of December 31, 2003 and 2002, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

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

During the years ended December 31, 2003 and 2002, the Company's total incomes from transactions with related companies, including Paradise Hotel Pusan Co., Ltd., are ₩639 million and ₩547 million, respectively, and total expenses are ₩6,241 million and ₩3,513 million, respectively. As of December 31, 2003 and 2002, the Company's receivables to related companies are ₩5,991 million and ₩7,783 million, respectively, and payables are ₩2,084 million and ₩2,151 million, respectively. In addition, the Company has guaranteed the repayment of obligations of related companies. The outstanding balance of payment guarantees as of December 31, 2003 is approximately ₩3,275 million. Also, as of December 31, 2003, substantial portion of the Company's property, plant and equipment is provided as collateral for related companies' loans up to ₩17,640 million.

The Company granted stock options to its executive, pursuant to the resolution by the Board of Directors on February 14, 2003. The stock options are exercisable from February 15, 2005 to February 14, 2013. The number of common shares to be issued by the exercise and the exercise price are 468,500 shares and ₩4,200, respectively.

The Company entered into a treasury stock specified money trust agreement with Woori Bank, pursuant to the resolution by the Board of Directors on March 21, 2003 and October 14, 2003, to stabilize stock prices. The contract amount of the agreement is ₩5,000 million and ₩3,000 million, respectively, and as of December 31, 2003, the Company retains 2,028,629 shares of treasury stock (acquisition cost amounting to ₩7,872 million), accordance with the agreement.

Also, the Company resolved to retire treasury stock in the amount of approximately ₩5,000 million and ₩7,000 million using retained earnings, at the Board of Directors' meeting held on March 25, 2003 and October 16, 2003, respectively. The Company acquired 1,408,451 shares and 1,713,587 shares of treasury stock (acquisition cost amounting to ₩5,507 million and ₩6,822 million, respectively) during the year ended December 31, 2003, and retired them on May 30, 2003, and December 19, 2003, respectively.

The Korean Accounting Standards Board ("KASB") has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards, established by the Korean Financial and Supervisory Board. SKFAS No. 2 through No. 9 became effective for the Company on January 1, 2003, and the Company has adopted these statements in its non-consolidated financial statements for the year ended December 31, 2003. The statement affecting the presentation of the Company's non-consolidated financial statements is SKFAS No. 6, Subsequent Events, which does not recognize the appropriation of retained earnings before the date of appropriation (resolution through the shareholders' meeting). Therefore, the retained earnings shown in the balance sheets are before appropriations. Consequently, the year 2002 non-consolidated financial statements were restated to reflect the retained earnings before appropriations, which resulted decrease of dividend payable and increase of retained earnings by ₩10,188 million.

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

Seoul, Korea
February 14, 2004

This report is effective as of February 15, 2004, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

III. Non-consolidated Financial Statements

Balance Sheets December 31, 2003 and 2002

PARADISE CO., LTD.

(Unit : KRW)

ACCOUNTS	2003 FY		2002 FY	
		Amount		Amount
ASSETS				
I. CURRENT ASSETS		263,049,796,587		268,618,198,642
(1) Quick assets		263,049,796,587		268,612,775,110
1. Cash and cash equivalents		59,547,801,503		64,940,921,265
2. Short-term financial instruments		163,449,465,007		182,886,691,781
3. Trading securities		21,110,426,913		
4. Held-to-maturity securities		835,237,000		122,403,690
5. Trade accounts and notes receivables	7,442,478,000		8,765,601,000	
Allowance for doubtful accounts	△ 880,428,202	6,562,049,798	△ 208,621,303	8,556,976,697
6. Other accounts receivable		6,220,966,046		8,094,509,969
7. Accrued income		2,588,606,498		2,384,349,739
8. Advance payments		2,408,849,577		1,351,107,059
9. Prepaid expenses		326,394,245		275,811,910
(2) Inventories				5,423,532
1. Supplies				5,423,532
II. FIXED ASSETS		164,157,296,424		160,227,009,916
(1) Investments		88,648,805,094		88,600,377,602
1. Long-term financial instruments		24,079,263,573		26,293,922,973
2. Available-for-sale securities		3,335,259,921		3,548,469,921
3. Held-to-maturity securities		1,320,430,787		2,138,586,431
4. Equity method investments		36,837,131,161		35,295,399,776
5. Long-term loans		842,283,020		1,027,759,000
6. Non-current guarantee deposits		14,145,474,998		12,700,012,945
7. Deferred income tax assets		8,088,961,634		7,596,226,556
(2) Property, plant and equipment		75,243,465,880		71,555,542,124
1. Land		48,141,975,564		48,141,975,564
2. Buildings	18,029,703,279		17,911,012,079	
Accumulated depreciation	△ 4,528,396,284	13,501,306,995	△ 3,931,478,514	13,979,533,565
3. Auxiliary facilities	5,515,095,052		5,515,095,052	
Accumulated depreciation	△ 2,348,570,112	3,166,524,940	△ 1,988,099,225	3,526,995,827
4. Structures	318,657,336		297,957,336	
Accumulated depreciation	△ 133,182,005	185,475,331	△ 123,377,396	174,579,940
5. Vehicles	1,470,994,995		1,707,795,745	
Accumulated depreciation	△ 1,197,297,056	273,697,939	△ 1,311,193,973	396,601,772
6. Tools and office equipments	19,148,450,292		12,853,084,151	
Accumulated depreciation	△ 10,610,280,749	8,538,169,543	△ 9,549,988,068	3,303,096,083
7. Facilities	12,278,591,680		12,031,861,680	
Accumulated depreciation	△ 10,842,276,112	1,436,315,568	△ 9,999,102,307	2,032,759,373
(3) Intangible assets		265,025,450		71,090,190
1. Patents-industrial		932,565		4,824,339
2. Other intangible assets		264,092,885		66,265,851
TOTAL ASSETS		427,207,093,011		428,845,208,558

Balance Sheets December 31, 2003 and 2002

PARADISE CO., LTD.

(Unit : KRW)

ACCOUNTS	2003 FY		2002 FY	
	Amount		Amount	
LIABILITIES				
I. CURRENT LIABILITIES		80,089,429,577		44,201,959,184
1. Other accounts payable	104,969,495		653,977,449	
Present value discount		104,969,495	△ 928,584	653,048,865
2. Withholdings		1,220,976,085		1,535,011,020
3. Accrued expenses		27,672,223,354		26,844,799,296
4. Income tax payable		11,615,181,936		12,897,210,003
5. Current portion of long-term liabilities		2,049,700,000		2,271,890,000
6. Current portion of convertible bonds	24,070,860,000			
Long-term accrued interest	13,355,518,707	37,426,378,707		
II. FIXED LIABILITIES		16,020,317,557		67,269,124,571
1. Bonds payable				10,000,000,000
2. Convertible bonds			28,568,950,000	
Long-term accrued interest			11,450,172,389	40,019,122,389
3. Long-term borrowings		661,480,000		2,711,180,000
4. Provision for severance benefits	26,362,137,464		23,610,103,231	
Contribution to national pension plan	△ 617,953,500		△ 715,222,100	
Deposits for severance benefits	△ 15,030,920,407	10,713,263,557	△ 13,010,922,949	9,883,958,182
5. Leasehold deposits received		4,645,574,000		4,654,864,000
TOTAL LIABILITIES		96,109,747,134		111,471,083,755
SHAREHOLDERS' EQUITY				
I. CAPITAL STOCK		47,032,355,000		47,032,355,000
1. Common stock		47,032,355,000		47,032,355,000
II. CAPITAL SURPLUS		68,864,993,115		68,864,993,115
1. Additional paid-in capital		68,731,905,697		68,731,905,697
2. Gain on business combination		133,087,418		133,087,418
III. RETAINED EARNINGS		220,685,633,375		199,019,412,633
1. Legal reserve		12,075,393,880		11,056,600,000
2. Reserve for business rationalization		243,158,000		243,158,000
3. Reserve for business development		41,800,000,000		41,800,000,000
4. Voluntary reserve		122,381,464,864		100,709,776,089
5. Unappropriated retained earnings		44,185,616,631		45,209,878,544
(Net income				
2003 : 44,182,470,717 won				
2002 : 45,480,072,950 won)				
IV. CAPITAL ADJUSTMENTS		△ 5,485,635,613		2,457,364,055
1. Treasury stock		△ 7,871,802,905		
2. Gain on valuation of trading securities				92,380,200
3. Loss on valuation of trading securities		△ 120,829,800		
4. Gain on valuation of equity method investments		2,495,064,762		2,364,983,855
5. Stock option		11,932,330		
TOTAL SHAREHOLDERS' EQUITY		331,097,345,877		317,374,124,803
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		427,207,093,011		428,845,208,558

Income Statements

Years Ended December 31, 2003 and 2002

PARADISE CO., LTD.

(Unit : KRW)

ACCOUNTS	2003 FY	2002 FY
	Amount	Amount
I. SALES	230,639,723,300	239,092,715,300
1. Casino sales	230,639,723,300	239,092,715,300
II. COST OF SALES	155,320,117,299	158,440,341,400
1. Casino costs / Payroll / Expenses	155,320,117,299	158,440,341,400
III. GROSS PROFIT	75,319,606,001	80,652,373,900
IV. Selling and administrative expenses	23,063,380,597	20,092,886,207
1. Salaries expenses	7,785,291,040	8,028,521,947
2. Severance benefits	1,071,910,614	
3. Compensation expenses associated with stock option	6,054,034	
4. Employee benefits	449,915,729	464,941,602
5. Travel expenses	324,569,563	367,743,796
6. Communication expenses	52,315,795	46,314,707
7. Utility expenses	434,675,926	421,060,411
8. Taxes and dues	856,848,922	1,095,685,923
9. Rental expenses	103,847,000	82,946,100
10. Depreciation expenses	1,300,606,442	1,403,397,962
11. Maintenance expenses	878,858,335	937,769,211
12. Event expenses	25,013,360	307,513,022
13. Insurance premium	331,472,272	226,469,343
14. Entertainment expenses	825,259,651	903,835,649
15. Advertising expenses	4,684,038,600	4,598,465,787
16. Vehicles maintenance expenses	189,001,409	164,614,091
17. Service fees	2,118,988,742	733,706,143
18. Supplies expenses	148,302,633	130,726,310
19. Publication expenses	185,124,252	129,833,520
20. Training expenses	27,408,860	20,617,492
21. Bad debt expenses	1,231,806,899	
22. Amortization expenses on intangible assets	29,120,519	26,781,373
23. Miscellaneous Expenses	2,950,000	1,941,818
V. OPERATING INCOME	52,256,225,404	60,559,487,693

Income Statements Years Ended December 31, 2003 and 2002

PARADISE CO., LTD.

(Unit : KRW)

ACCOUNTS	2003 FY	2002 FY
	Amount	Amount
VI. NON-OPERATING INCOME	23,173,992,769	23,607,857,875
1. Interest income	11,592,925,106	9,409,667,275
2. Dividend income	9,745,110	5,688,225
3. Rental income	1,972,032,438	2,009,274,456
4. Gain on foreign currencies transaction	1,238,404,770	961,625,327
5. Gain on foreign currencies translation	179,163,798	92,828,912
6. Gain on valuation of trading securities	1,125,508,841	
7. Gain on valuation of equity method investments	1,411,650,478	2,564,176,169
8. Gain on disposal of investments	116,040,000	4,500,000
9. Gain on disposal of property, plant and equipment	22,337,779	134,755,250
10. Foreign exchange gains	4,635,546,412	5,541,256,437
11. Reversal of allowance for doubtful accounts		1,398,330,297
12. Reversal of provision for severance benefits		266,928,413
13. Other non-operating income	870,638,037	1,218,827,114
VII. NON-OPERATING EXPENSES	8,878,922,128	16,325,780,816
1. Interest expenses	4,726,578,734	6,167,875,565
2. Loss on foreign currencies transaction	1,182,753,608	974,162,492
3. Loss on foreign currencies translation	18,546	103,143,223
4. Donations	2,879,331,680	2,184,686,834
5. Impairment losses on available-for-sale securities		2,014,015,198
6. Loss on disposal of investments		948,907,942
7. Loss on disposal of property, plant and equipment	6,149,391	39,827,200
8. Additional payment of income taxes		3,805,835,290
9. Fees on foregin currency deposit	50,582,400	51,626,400
10. Other non-operating expenses	33,507,769	35,700,672
VIII. ORDINARY INCOME	66,551,296,045	67,841,564,752
IX. EXTRAORDINARY GAINS		
X. EXTRAORDINARY LOSSES		
XI. INCOME BEFORE INCOME TAXES	66,551,296,045	67,841,564,752
XII. INCOME TAXES EXPENSE	22,368,825,328	22,361,491,802
XIII. NET INCOME FOR THE YEAR	44,182,470,717	45,480,072,950
(Basic earnings per share 2003: 481 won / 2002: 582 won Diluted earnings per share 2003: 481 won / 2002: 577 won)		

Statements of Appropriations of Retained Earnings

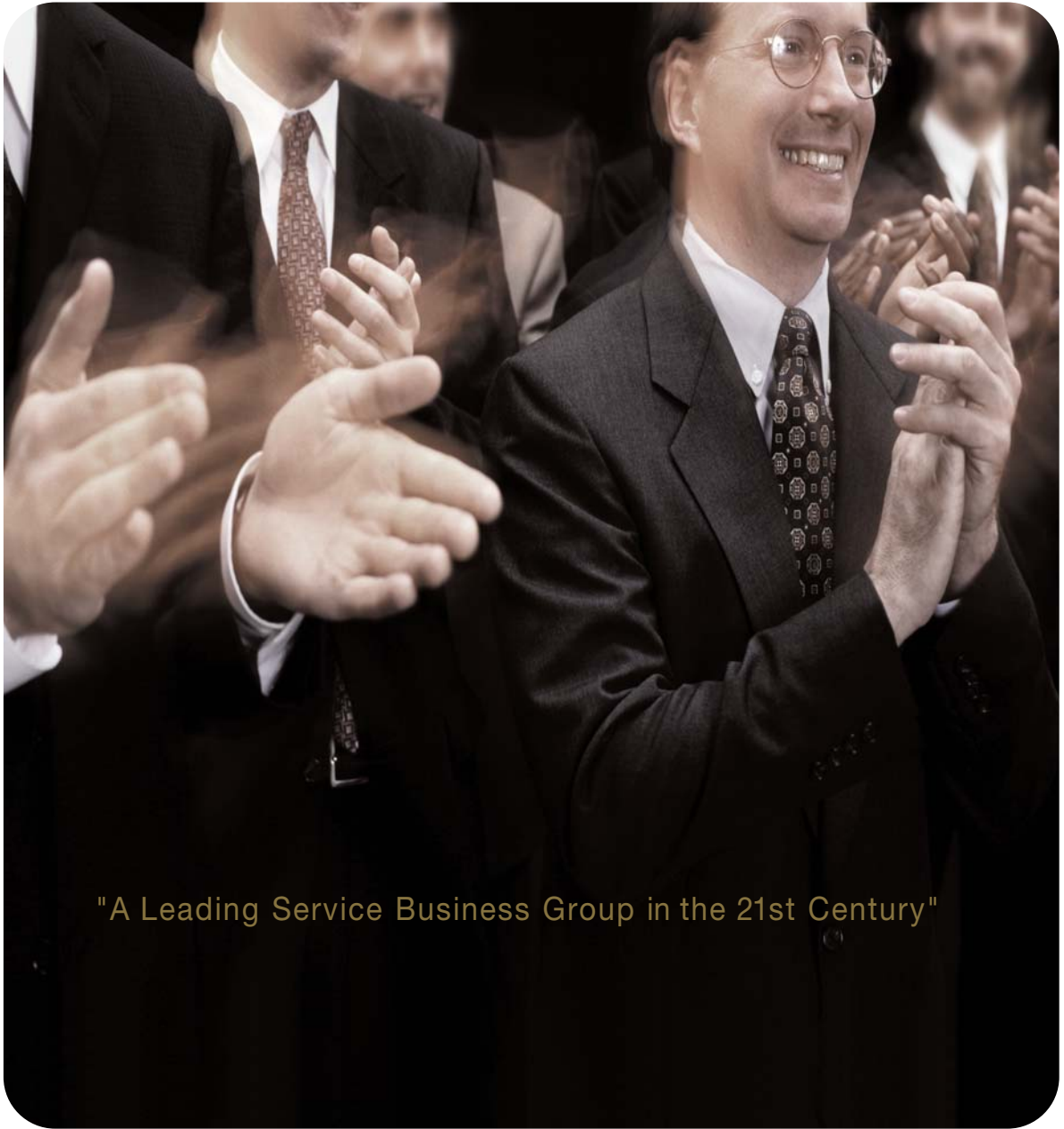
Years Ended December 31, 2003 and 2002

(Date of appropriations : March 19, 2004 and March 19, 2003
For the years ended December 31, 2003 and 2002, respectively)

PARADISE CO., LTD.

(Unit : KRW)

ACCOUNTS	2003 FY		2002 FY	
		Amount		Amount
I. RETAINED EARNINGS BEFORE APPROPRIATIONS		44,185,616,631		45,209,878,544
1. Unappropriated retained earnings carried-over from prior years	3,145,914		38,019,728	
2. Changes in retained earnings of investees under the equity method of accounting			△ 308,214,134	
3. Net income	44,182,470,717		45,480,072,950	
4. Reversal of other reserve	12,328,311,225			
5. Retirement of treasury stock	△12,328,311,225			
II. APPROPRIATION OF RETAINED EARNINGS		44,183,924,460		45,206,732,630
1. Transfer to legal reserve	1,621,265,860		1,018,793,880	
2. Cash dividends (Common stock dividend (DPS%))	16,212,658,600		10,187,938,750	
2003 : Minority 200 won (40%) Majority 175 won (35%)				
2002 : Minority 125 won (25%) Majority 100 won (20%)				
3. Transfer to voluntary reserve	26,350,000,000		34,000,000,000	
III. UNAPPROPRIATED RETAINED EARNINGS CARRIED FORWARD TO SUBSEQUENT YEAR		1,692,171		3,145,914



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