

■ ■ 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 34th fiscal year from January 1, 2004 to December 31, 2004 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 2, 2005

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, 2004 and 2003, 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 did not audit the financial statements of Paradise Hotel Pusan Co., Ltd. and another subsidiary, the investments in which are reflected in the accompanying non-consolidated financial statements using the equity method of accounting. The investments in those subsidiaries represent 9.43% of the Company's total assets as of December 31, 2004, and the equity in their net profits represent 15.25% of the Company's net income before income taxes for the year then ended. These statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the reports of the other auditors.

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 position of PARADISE Co., Ltd. as of December 31, 2004 and 2003, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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

As discussed in Note 15 to the non-consolidated financial statements, during the year ended December 31, 2004, the Company's total incomes from transactions with related companies, including Paradise Hotel Pusan Co., Ltd., are ₩8,505 million (2003: ₩639 million) and total expenses are ₩16,756 million (2003: ₩6,241 million). As of December 31, 2004, the Company's receivables from related companies are ₩4,517 million (2003: ₩5,991 million) and payables are ₩1,481 million (2003: ₩2,084 million). In addition, the Company has guaranteed the repayment of obligations of related companies. The outstanding balance of payment guarantees as of December 31, 2004 is approximately ₩2,302 million. Also, as of December 31, 2004, a substantial portion of the Company's property and equipment is provided as collateral for related companies' loans up to ₩17,640 million.

As discussed in Note 4 to the non-consolidated financial statements, the Company purchased 100,000 shares of common stock of Paradise Hotel Pusan Co., Ltd. from the ex-president of the Company, Mr. R.W.Chun, for ₩25,000 per share (purchase amount: ₩2,500 million), on April 28, 2004. Also, the Company purchased 378,000 shares of Paradise Construction Industrial Co., Ltd. from Paradise Hotel Dogo Co., Ltd. for ₩11,300 per share (purchase amount: ₩4,271 million), on December 28, 2004.

As discussed in Note 4 to the non-consolidated financial statements, the Company received, without consideration, 600,000 shares (fair value: ₩888 million) of Paradise Industry Co., Ltd. from the ex-president of the Company, Mr. R.W.Chun, on May 20, 2004. Also, the Company inherited 980,000 shares (fair value: ₩5,096 million) of Paradise Hotel Dogo Co., Ltd. and 201,600 shares (fair value: ₩1,799 million) of Paradise Construction Industrial Co., Ltd. from the ex-president of the Company, Mr. R.W.Chun, on November 3, 2004. As a result, the Company recognized gains on assets contributed amounting to ₩7,783 million for the year ended December 31, 2004.

As discussed in Note 11 to the non-consolidated financial statements, the Company disposed of 2,028,629 shares of treasury stock (acquisition cost: ₩7,872 million) for ₩4,735 per share, on August 19, 2004. As a result, ₩1,695 million of gains on disposal of treasury stock occurred and ₩1,192 million after deducting the tax effect of ₩503 million was recorded as other capital surplus as of December 31, 2004.

As discussed in Note 9 to the non-consolidated financial statements, on October 12, 2004, the Company repaid ₩40,561 million of convertible bond (face value: ₩24,071 million, guaranteed return rate: 11.00% per annum) including ₩16,490 million of long-term accrued interests at its maturity.

As discussed in Note 2 to the non-consolidated financial statements, the Company has early adopted the Statements of Korean Financial Accounting Standards ("SKFAS") No. 15, Equity-Method as of and for the year ended December 31, 2004. Accordingly, the accompanying financial statements as of and for the year ended December 31, 2003 have been restated for the change, which had no effect on previously reported net income or shareholders' equity.

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 non-consolidated 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 16, 2005

This report is effective as of February 16, 2005, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying 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 As of December 31, 2004 and 2003

PARADISE CO., LTD.

(Unit : KRW)

ACCOUNTS	2004 FY		2003 FY	
		Amount		Amount
ASSETS				
I. CURRENT ASSETS		233,221,223,798		263,049,796,587
(1) Quick assets		233,221,223,798		263,049,796,587
1. Cash and cash equivalents		67,950,876,233		59,547,801,503
2. Short-term financial instruments		108,091,879,297		163,449,465,007
3. Trading securities		21,564,014,358		21,110,426,913
4. Available-for-sale securities		24,222,409,343		
5. Held-to-maturity securities		809,238,066		835,237,000
6. Trade accounts and notes receivable	7,019,615,620		7,442,478,000	
Allowance for doubtful receivable	△ 1,830,519,510	5,189,096,110	△ 880,428,202	6,562,049,798
7. Other accounts receivable		2,505,393,831		6,220,966,046
8. Accrued income		1,853,253,490		2,588,606,498
9. Advance payments		855,290,186		2,408,849,577
10. Prepaid expenses		179,772,884		326,394,245
II. NON-CURRENT ASSETS		216,508,263,742		164,157,296,424
(1) Investments		136,388,011,596		88,648,805,094
1. Long-term financial instruments		19,680,183,573		24,079,263,573
2. Available-for-sale securities		38,173,139,704		3,335,259,921
3. Held-to-maturity securities		557,312,000		1,320,430,787
4. Equity method investments		59,233,125,658		36,837,131,161
5. Long-term other accounts receivable	2,257,836,659			
Allowance for doubtful receivable	△ 1,192,436,659	1,065,400,000		
6. Long-term loans		760,858,600		842,283,020
7. Non-current guarantee deposits		15,533,575,353		14,145,474,998
8. Deferred income tax assets		1,384,416,708		8,088,961,634
(2) Property and equipments		76,551,590,036		75,243,465,880
1. Land		48,141,975,564		48,141,975,564
2. Buildings	18,029,703,279		18,029,703,279	
Accumulated depreciation	△ 5,114,832,338	12,914,870,941	△ 4,528,396,284	13,501,306,995
3. Building fixtures	5,556,095,052		5,515,095,052	
Accumulated depreciation	△ 2,665,324,349	2,890,770,703	△ 2,348,570,112	3,166,524,940
4. Structures	331,157,336		318,657,336	
Accumulated depreciation	△ 143,123,487	188,033,849	△ 133,182,005	185,475,331
5. Vehicles	756,374,245		1,470,994,995	
Accumulated depreciation	△ 511,090,899	245,283,346	△ 1,197,297,056	273,697,939
6. Equipments	22,244,216,865		19,148,450,292	
Accumulated depreciation	△ 11,194,046,161	11,050,170,704	△ 10,610,280,749	8,538,169,543
7. Facilities	12,518,911,650		12,278,591,680	
Accumulated depreciation	△ 11,398,426,721	1,120,484,929	△ 10,842,276,112	1,436,315,568
(3) Intangible assets		3,568,662,110		265,025,450
1. Industrial rights				932,565
2. Other intangible assets		3,568,662,110		264,092,885
TOTAL ASSETS		449,729,487,540		427,207,093,011

Balance Sheets As of December 31, 2004 and 2003

PARADISE CO., LTD.

(Unit : KRW)

ACCOUNTS	2004 FY		2003 FY	
		Amount		Amount
LIABILITIES AND SHAREHOLDER'S EQUITY				
I. CURRENT LIABILITIES		46,317,806,111		80,089,429,577
1. Accounts Payable		1,163,189,695		104,969,495
2. Advances Received		203,928,000		
3. Unearned Revenues		118,484,935		
4. Withholdings		2,152,530,818		1,220,976,085
5. Accrued expenses		30,412,932,260		27,672,223,354
6. Income tax payable		11,605,260,403		11,615,181,936
5. Current maturities of long-term debt		661,480,000		2,049,700,000
6. Current maturities of convertible bond			24,070,860,000	
7. Current maturities of long-term accrued interests			13,355,518,707	37,426,378,707
II. NON-CURRENT LIABILITIES		13,889,727,541		16,020,317,557
1. Long-term debt				661,480,000
2. Accrued severance benefits	24,405,111,760		26,362,137,464	
Contribution to national pension	△494,184,000		△617,953,500	
Severance insurance deposits	△14,125,374,219	9,785,553,541	△15,030,920,407	10,713,263,557
3. leasehold deposits received		4,104,174,000		4,645,574,000
TOTAL LIABILITIES		60,207,533,652		96,109,747,134
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		70,056,812,351		68,864,993,115
1. Paid-in Capital in Excess of Par Value		68,731,905,697		68,731,905,697
2. Gain on Business Combination		133,087,418		133,087,418
3. Gain on Sale of Treasury Stock		1,191,819,236		
III. RETAINED EARNINGS		268,405,777,351		220,685,633,375
1. Legal reserve		13,696,659,740		12,075,393,880
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 reserves		148,731,464,864		122,381,464,864
5. Unappropriated retained earnings (Net income 2004 : 64,229,935,934 won 2003 : 44,182,470,717 won)		63,934,494,747		44,185,616,631
IV. CAPITAL ADJUSTMENTS		4,027,009,186		△5,485,635,613
1. Treasury stock				△7,871,802,905
2. Gain on valuation of available-for-sale securities		985,787,786		
3. Loss on valuation of available-for-sale securities				△120,829,800
4. Gain on valuation of securities of equity method investment		10,074,698,457		9,505,964,731
5. Loss on valuation of securities of equity method investment		△7,059,014,473		△7,010,899,969
6. Stock options		25,537,416		11,932,330
TOTAL SHAREHOLDERS' EQUITY		389,521,953,888		331,097,345,877
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		449,729,487,540		427,207,093,011

Income Statements For the Years Ended December 31, 2004 and 2003

PARADISE CO., LTD.

[Unit : KRW]

ACCOUNTS	2004 FY		2003 FY	
	Amount		Amount	
I. SALES		243,192,328,500		230,639,723,300
1. Income from casino operations	243,192,328,500		230,639,723,300	
II. COST OF SALES		166,144,035,577		155,320,117,299
1. Cost from casino operations	166,144,035,577		155,320,117,299	
III. GROSS PROFIT		77,048,292,923		75,319,606,001
IV. SELLING AND ADMINISTRATIVE EXPENSES		26,291,248,823		23,063,380,597
1. Payroll	9,725,594,180		7,785,291,040	
2. Severance benefits	1,419,205,899		1,071,910,614	
3. Stock compensation expense	6,902,730		6,054,034	
4. Welfare	525,716,286		449,915,729	
5. Travel and transportation	305,566,837		324,569,563	
6. Communication	53,246,980		52,315,795	
7. Utilities	444,109,011		434,675,926	
8. Tax and dues	929,172,801		856,848,922	
9. Rental	339,233,220		103,847,000	
10. Depreciation	1,247,862,038		1,300,606,442	
11. Management and Maintenance	870,515,587		878,858,335	
12. Event	511,833,078		25,013,360	
13. Insurance premiums	291,798,031		331,472,272	
14. Entertainment	800,164,664		825,259,651	
15. Advertising	4,556,662,625		4,684,038,600	
16. Vehicles maintenance	215,255,018		189,001,409	
17. Commissions	1,499,545,970		2,118,988,742	
18. Supplies	153,195,544		148,302,633	
19. Book and publication	157,305,092		185,124,252	
20. Training	22,621,323		27,408,860	
21. Bad debt expenses	2,044,169,308		1,231,806,899	
22. Amortization	164,317,601		29,120,519	
23. Others	7,255,000		2,950,000	
V. OPERATING INCOME		50,757,044,100		52,256,225,404

Income Statements For the Years Ended December 31, 2004 and 2003

PARADISE CO., LTD.

(Unit : KRW)

ACCOUNTS	2004 FY		2003 FY	
	Amount		Amount	
VI. NON-OPERATING INCOME		43,294,627,437		25,202,208,069
1. Interest income	11,174,074,642		11,592,925,106	
2. Dividends income	13,739,015		9,745,110	
3. Rental income	2,029,771,821		1,972,032,438	
4. Gain on foreign exchange transaction	1,014,424,045		1,238,404,770	
5. Gain on foreign currency translation	133,721,265		179,163,798	
6. Gain on valuation of trading securities	983,014,358		1,125,508,841	
7. Gain on valuation of available-for-sale securities	413,984,700			
8. Gain on valuation of investments using the equity method of accounting	20,554,631,627		3,439,865,778	
9. Gain on disposal of trading securities	548,823,576			
10. Gain on disposal of available-for-sale securities	14,968,787			
11. Gain on disposal of investments	153,318,180		116,040,000	
12. Gain on disposal of property and equipment	107,053,782		22,337,779	
13. Foreign exchange income	5,416,083,264		4,635,546,412	
14. Others	737,018,375		870,638,037	
VII. NON-OPERATING EXPENSES		9,103,418,264		10,907,137,428
1. Interest expenses	3,190,171,972		4,726,578,734	
2. Loss on foreign exchange transaction	1,433,959,797		1,182,753,608	
3. Loss on foreign currency translation	37,325,499		18,546	
4. Donations	2,830,492,400		2,879,331,680	
5. Loss on disposal of trading securities	18,099,015			
6. Loss on valuation of investments using the equity method of accounting	298,648,082		2,028,215,300	
7. Other bad debt expenses	1,192,436,659			
8. Loss on disposal of property, plant, and equipment	1,425,446		6,149,391	
9. Commission paid on foreign currency deposits	52,814,256		50,582,400	
10. Others	48,045,138		33,507,769	
VIII. ORDINARY INCOME		84,948,253,273		66,551,296,045
IX. EXTRAORDINARY GAIN		7,783,078,400		
1. Gain from Assets Contributed	7,783,078,400			
X. EXTRAORDINARY LOSS				
XI. INCOME BEFORE INCOME TAXES		92,731,331,673		66,551,296,045
XII. INCOME TAXES		28,501,395,739		22,368,825,328
XIII. NET INCOME		64,229,935,934		44,182,470,717
PER SHARE DATA (in won)				
Basic ordinary income per share				
- 2004: 655 won / 2003: 481 won				
Basic earnings per share				
- 2004: 716 won / 2003: 481 won				
Diluted ordinary income per share				
- 2004: 655 won / 2003: 481 won				
Diluted earnings per share				
- 2004: 716 won / 2003: 481 won				

Statements of Appropriations of Retained Earnings

Years Ended December 31, 2004 and 2003

(Date of appropriations : March 18, 2005 and March 19, 2004
For the years ended December 31, 2004 and 2003, respectively)

PARADISE CO., LTD.

(Unit : KRW)

ACCOUNTS	2004 FY		2003 FY	
		Amount		Amount
I. RETAINED EARNINGS BEFORE APPROPRIATIONS		63,934,494,747		44,185,616,631
1. Unappropriated retained earnings carried over from prior years	1,692,171		3,145,914	
2. Changes in retained earnings of investees under the equity method of accounting	△ 297,133,358			
3. Net income	64,229,935,934		44,182,470,717	
4. Reversal of voluntary reserve			12,328,311,225	
5. Retirement of treasury stock			△12,328,311,225	
II. TRANSFER FROM VOLUNTARY RESERVE		243,158,000		
1. Reversal of business rationalization reserve	243,158,000			
III. APPROPRIATION OF RETAINED EARNINGS		64,168,698,065		44,183,924,460
1. Transfer to legal reserve	1,915,336,190		1,621,265,860	
2. Cash dividends (Common stock dividend (DPS %))	19,153,361,875		16,212,658,600	
2004 : Minority 225 won (45%)				
Majority 200 won (40%)				
2003 : Minority 200 won (40%)				
Majority 175 won (35%)				
3. Transfer to voluntary reserve	43,100,000,000		26,350,000,000	
IV. UNAPPROPRIATED RETAINED EARNINGS CARRIED FORWARD TO THE SUBSEQUENT YEAR		8,954,682		1,692,171



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



PARADISE