

Audit Report & Financial Statements

Paradise's remarkable efforts to become transparent & vigorous company and also as a global group have changed the company's internal system and consciousness; furthermore, it is changing external view and valuations toward the company



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Auditor's Audit Report

I report the following audit result on accounting and business of the 35th fiscal year from January 1, 2005 to December 31, 2005 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.

February 28, 2006

Auditor Roh, Hansung
Paradise Co., Ltd.



 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, 2005 and 2004, 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 position of PARADISE Co., Ltd. as of December 31, 2005 and 2004, 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, as explained in Notes 2 and 4 to the non-consolidated financial statements, the Company reclassified the investment for Paradise Hotel Dogo Co., Ltd. from trading securities to equity-method investments retroactive to the acquisition date according to the Statements of Korean Financial Accounting Standards ("SKFAS") No. 15, Equity-Method. Therefore, the accompanying non-consolidated financial statements as of December 31, 2004 have been restated for the change, which had no effect on previously reported net income.

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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.

A handwritten signature in cursive script that reads "Samil PricewaterhouseCoopers".

Seoul, Korea
February 10, 2006

This report is effective as of February 10, 2006, 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.



Non-consolidated Financial Statements

Balance Sheets As of December 31, 2005 and 2004

(Unit : KRW)

ACCOUNTS	2005FY		2004FY	
		Amount		Amount
ASSETS				
I. CURRENT ASSETS		(191,956,869,104)		(228,125,223,798)
(1) Quick assets		(191,749,280,493)		(228,125,223,798)
1. Cash and cash equivalents		46,934,089,556		67,950,876,233
2. Short-term financial instruments		97,220,310,433		108,091,879,297
3. Trading securities		5,083,159,623		16,468,014,358
4. Available-for-sale securities		34,167,943,544		24,222,409,343
5. Held-to-maturity securities		86,363,000		809,238,066
6. Trade accounts and notes receivable	6,517,916,509		7,019,615,620	
Allowance for doubtful receivable	△2,406,458,772	4,111,457,737	△1,830,519,510	5,189,096,110
7. Other accounts receivable		497,766,967		2,505,393,831
8. Accrued income		2,347,635,789		1,853,253,490
9. Advance payments		786,700,706		855,290,186
10. Prepaid expenses		197,157,735		179,772,884
11. Current portion of deferred income tax assets		316,695,403		-
(2) Inventories		(207,588,611)		(0)
1. Raw Materials		105,607,611		-
2. Supplies		101,981,000		-
II. NON-CURRENT ASSETS		(300,385,345,512)		(221,604,263,742)
(1) Investments		(203,143,305,419)		(141,484,011,596)
1. Long-term financial instruments		21,036,099,000		19,680,183,573
2. Available-for-sale securities		76,819,330,221		38,173,139,704
3. Held-to-maturity securities		486,424,000		557,312,000
4. Equity method investments		86,949,716,133		64,329,125,658
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		1,630,329,360		760,858,600
7. Non-current guarantee deposits		16,221,406,705		15,533,575,353
8. Deferred income tax assets		-		1,384,416,708
(2) Property and equipments		(94,374,217,830)		(76,551,590,036)
1. Land		48,141,975,564		48,141,975,564
2. Buildings	18,029,703,279		18,029,703,279	
Accumulated depreciation	△5,691,247,233	12,338,456,046	△5,114,832,338	12,914,870,941
3. Building fixtures	5,556,997,052		5,556,095,052	
Accumulated depreciation	△2,880,368,597	2,676,628,455	△2,665,324,349	2,890,770,703
4. Structures	331,157,336		331,157,336	
Accumulated depreciation	△153,223,514	177,933,822	△143,123,487	188,033,849
5. Vehicles	800,039,725		756,374,245	
Accumulated depreciation	△576,096,218	223,943,507	△511,090,899	245,283,346
6. Equipments	29,269,618,628		22,244,216,865	
Accumulated depreciation	△10,725,384,887	18,544,233,741	△11,194,046,161	11,050,170,704
7. Facilities	6,519,039,947		12,518,911,650	
Accumulated depreciation	△2,404,890,553	4,114,149,394	△11,398,426,721	1,120,484,929
8. Construction in progress		8,156,897,301		-
(2) Intangible assets		(2,867,822,263)		(3,568,662,110)
1. Other intangible assets		2,867,822,263		3,568,662,110
TOTAL ASSETS		492,342,214,616		449,729,487,540

Balance Sheets

As of December 31, 2005 and 2004

(Unit : KRW)

ACCOUNTS	2005FY		2004FY	
		Amount		Amount
LIABILITIES AND SHAREHOLDER'S EQUITY				
I. CURRENT LIABILITIES		(60,303,954,145)		(46,317,806,111)
1. Trade payables		97,904,672		-
2. Accounts Payable		7,571,392,657		1,163,189,695
3. Advances Received		6,181,750		203,928,000
4. Unearned Revenues		145,397,260		118,484,935
5. Withholdings		2,988,010,785		2,152,530,818
6. Accrued expenses		40,630,476,188		30,412,932,260
7. Income tax payable		8,864,590,833		11,605,260,403
8. Current maturities of long-term debt		-		661,480,000
II. NON-CURRENT LIABILITIES		(17,901,747,941)		(13,889,727,541)
1. Accrued severance benefits	27,145,818,560		24,405,111,760	
Contribution to national pension	△399,006,200		△494,184,000	
Severance insurance deposits	△16,158,194,597	10,588,617,763	△14,125,374,219	9,785,553,541
2. leasehold deposits received		4,192,444,000		4,104,174,000
3. Deferred income tax liabilities		3,120,686,178		-
TOTAL LIABILITIES		78,205,702,086		60,207,533,652
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		(69,817,400,315)		(70,056,812,351)
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		952,407,200		1,191,819,236
III. RETAINED EARNINGS		(289,839,358,006)		(268,405,777,351)
1. Legal reserve		15,611,995,930		13,696,659,740
2. Reserve for business rationalization		-		243,158,000
3. Reserve for business development		41,800,000,000		41,800,000,000
4. Voluntary reserves		191,831,464,864		148,731,464,864
5. Unappropriated retained earnings		40,595,897,212		63,934,494,747
(Net income				
2005 : 40,672,265,196 won				
2004 : 64,229,935,934 won)				
IV. CAPITAL ADJUSTMENTS		7,447,399,209		4,027,009,186
1. Treasury stock		△991,856,674		-
2. Gain on valuation of available-for-sale securities		1,140,072,144		985,787,786
3. Gain on valuation of securities of equity method investment		19,762,938,427		10,074,698,457
4. Loss on valuation of securities of equity method investment		△12,474,603,851		△7,059,014,473
5. Stock options		10,849,163		25,537,416
TOTAL SHAREHOLDERS' EQUITY		414,136,512,530		389,521,953,888
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		492,342,214,616		449,729,487,540

Income Statements

For the Years Ended December 31, 2005 and 2004

(Unit : KRW)

ACCOUNTS	2005FY		2004FY	
		Amount		Amount
I. SALES		271,699,632,809		243,192,328,500
1. Income from casino operations	269,960,654,100		243,192,328,500	
2. Income from Others	1,738,978,709		-	
II. COST OF SALES		190,923,376,516		166,144,035,577
1. Cost from casino operations	188,164,610,036		166,144,035,577	
2. Cost from Others	2,758,766,480		-	
III. GROSS PROFIT		80,776,256,293		77,048,292,923
IV. SELLING AND ADMINISTRATIVE EXPENSES		27,522,416,666		26,291,248,823
1. Payroll	10,979,650,570		9,725,594,180	
2. Severance benefits	2,578,395,640		1,419,205,899	
3. Stock compensation expense	829,836		6,902,730	
4. Welfare	610,645,875		525,716,286	
5. Travel and transportation	281,242,648		305,566,837	
6. Communication	59,633,105		53,246,980	
7. Utilities	446,267,688		444,109,011	
8. Tax and dues	1,533,518,035		929,172,801	
9. Rental	397,517,240		339,233,220	
10. Depreciation	1,093,938,487		1,247,862,038	
11. Management and Maintenance	827,470,135		870,515,587	
12. Event	243,228,035		511,833,078	
13. Insurance premiums	226,870,200		291,798,031	
14. Entertainment	888,658,014		800,164,664	
15. Advertising	3,684,018,925		4,556,662,625	
16. Vehicles maintenance	228,497,829		215,255,018	
17. Service fees	1,062,544,593		1,499,545,970	
18. Supplies	135,057,935		153,195,544	
19. Book and publication	158,509,257		157,305,092	
20. Training	108,081,128		22,621,323	
21. Bad debt expenses	1,847,989,262		2,044,169,308	
22. Amortization	117,903,829		164,317,601	
23. Others	11,948,400		7,255,000	
V. OPERATING INCOME		53,253,839,627		50,757,044,100
VI. NON-OPERATING INCOME		25,024,415,818		43,294,627,437
1. Interest income	11,474,390,044		11,174,074,642	
2. Dividends income	247,380,750		13,739,015	
3. Rental income	1,985,352,420		2,029,771,821	
4. Gain on foreign exchange transaction	1,132,541,813		1,014,424,045	
5. Gain on foreign currency translation	4,671,511		133,721,265	
6. Gain on valuation of trading securities	202,222,161		983,014,358	
7. Gain on disposal of trading securities	505,962,895		548,823,576	
8. Gain on valuation of available-for-sale securities	-		413,984,700	
9. Gain on disposal of available-for-sale securities	352,059,799		14,968,787	
10. Gain on valuation of equity method investments	1,718,365,963		20,554,631,627	

Income Statements For the Years Ended December 31, 2005 and 2004

(Unit : KRW)

ACCOUNTS	2005FY		2004FY	
	Amount		Amount	
11. Gain on disposal of equity method investments	51,927,253		-	
12. Gain on disposal of investments	86,442,634		153,318,180	
13. Gain on disposal of property and equipment	-		107,053,782	
14. Foreign exchange income	5,211,657,662		5,416,083,264	
15. Reversal of allowance for doubtful accounts	1,192,436,659		-	
16. Others	859,004,254		737,018,375	
VII. NON-OPERATING EXPENSES		13,819,140,558		9,103,418,264
1. Interest expenses	4,909,313		3,190,171,972	
2. Loss on foreign exchange transaction	1,265,755,296		1,433,959,797	
3. Loss on foreign currency translation	39,066,790		37,325,499	
4. Donations	3,617,980,000		2,830,492,400	
5. Loss on valuation of trading securities	84,062,538		-	
6. Loss on disposal of trading securities	6,455,382		18,099,015	
7. Loss on valuation of equity method investments	6,825,245,667		298,648,082	
8. Loss on disposal of property, plant, and equipment	407,858,813		1,425,446	
9. Additional payment of income taxes	1,457,346,764	-		
10. Commission paid on foreign currency deposits	50,137,200		52,814,256	
11. Other bad debt expenses	-		1,192,436,659	
12. Others	60,322,795		48,045,138	
VIII. ORDINARY INCOME		64,459,114,887		84,948,253,273
IX. EXTRAORDINARY GAIN		-		7,783,078,400
1. Gain on Assets Contributed	-		7,783,078,400	
X. EXTRAORDINARY LOSS		-		-
XI. INCOME BEFORE INCOME TAXES		64,459,114,887		92,731,331,673
XII. INCOME TAXES		23,786,849,691		28,501,395,739
XIII. NET INCOME		40,672,265,196		64,229,935,934
PER SHARE DATA (in won)				
Basic ordinary income per share				
- 2005: 447 won / 2004: 655 won				
Basic earnings per share				
- 2005: 447 won / 2004: 716 won				
Diluted ordinary income per share				
- 2005: 447 won / 2004: 655 won				
Diluted earnings per share				
- 2005: 447 won / 2004: 716 won				

Statements of Appropriations of Retained Earnings Years Ended December 31, 2005 and 2004

(Date of appropriations : March 17, 2006 and March 18, 2005 For the years ended December 31, 2005 and 2004, respectively)

(Unit : KRW)

ACCOUNTS	2005FY		2004FY	
		Amount		Amount
I. RETAINED EARNINGS BEFORE APPROPRIATIONS		40,595,897,212		63,934,494,747
1. Unappropriated retained earnings carried over from prior years	8,954,682		1,692,171	
2. Changes in retained earnings of investees under the equity method of accounting	Δ 85,322,666		Δ 297,133,358	
3. Net income	40,672,265,196		64,229,935,934	
II. TRANSFER FROM VOLUNTARY RESERVE		-		243,158,000
1. Reversal of business rationalization reserve	-		243,158,000	64,168,698,065
III. APPROPRIATION OF RETAINED EARNINGS		40,546,291,415		
1. Transfer to legal reserve	1,931,481,040		1,915,336,190	
2. Cash dividends	19,314,810,375		19,153,361,875	
(Common stock dividend (DPS %)				
2005 : Minority 225 won (45%)				
Majority 200 won (40%)				
2004 : Minority 225 won (45%)				
Majority 200 won (40%)				
3. Transfer to voluntary reserve	19,300,000,000		43,100,000,000	
IV. UNAPPROPRIATED RETAINED EARNINGS CARRIED FORWARD TO THE SUBSEQUENT YEAR		49,605,797		8,954,682