

MANAGEMENT'S DISCUSSION & ANALYSIS

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Overview

Paradise Co., Ltd. is currently managing casino business operations including Walker-Hill Casino and restaurant business operations including Samcheonggak and Omi. Total sales in 2007 reached 245.1 billion won reflecting 3.6% growth over the previous year, while operating income rose 8.4% to 16.1 billion won.

Casino operation is the main business activity of Paradise Co., Ltd., accounting for more than 97% of the company's total sales. In 2007, the casino unit recorded 3.2% growth in total sales over 2006 and a 4.2% gain in operating income to 17.1 billion won. Sales for the restaurant business, representing approximately 3% of Paradise Co., Ltd.'s total sales, grew 23.7% in 2007 over the previous year to 6.4 billion won owing to a surge in sales recorded by Samcheonggak. Operating losses in this business sector were reduced from 1.6 billion won in 2006 to 1.0 billion won in 2007. This figure is expected to continue falling as operations stabilize.

Market Environment

The Asian casino market is undergoing an expansion in the number and size of new casinos in countries throughout the region. In response to intensifying competition, Paradise Co., Ltd. is concentrating on meeting the needs of customers in the Asian casino market through differentiated competitiveness and marketing efforts, and is striving to ensure sustainable revenue generation.

Changes in Market

From 2006, a year after Korea amended new casino approval rules, the foreigners-only casino market in Korea has entered a phase of fierce competition. Paradise Co., Ltd. has managed to overcome this adversity and continues to lead the market by maintaining constant growth in sales. Following the introduction of competition in the industry, total market size swelled by 30% to 624.2 billion won in 2007. The company has been successful in maintaining the top market position. Please refer to Market Overview on page 12.

Changes in Regulation

The establishment and total number of foreigners-only casinos in Korea has thus far been controlled by regulations including the Tourism Promotion Act and the National Gaming Control Commission Act. In a departure from these regulations, from 2008 foreigners investing more than US\$500 million under the Act on Designation and Operation of Free Economic Zones are permitted to establish new foreigners-only casinos. While this change inevitably alters the competitive environment of the foreigners-only casino industry in Korea, it also creates new opportunities through joint investments and other approaches.

Customer Demand

Generally, demand of casino customers depends on customers' expected loss rate and earnings, foreign exchange rates, and physical accessibility. However, because VIP customers make a high proportion of Paradise Co., Ltd.'s total sales revenue, our success depends more on such factors as meeting customers' needs and marketing capabilities.

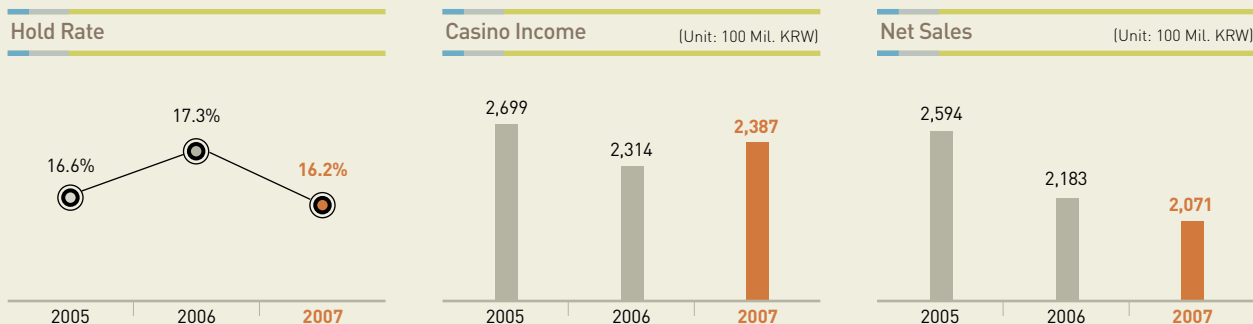
Since early 2007, our company has provided Rebates on Loss for VIP customers, resulting in increased casino revenues and building customer loyalty by decreasing their expected loss rate. The advent of new competitors and declining value of the Yen resulted in a decrease in numbers of Japanese customers, our main customer group by nationality, and in their contribution to total revenues. However, there has been a gradual recovery in this area since late 2007 thanks to strengthened marketing operations targeting Japanese customers. At the same time, with China's GDP increased by over 10% per year, along with rising personal incomes and demand for outbound leisure, we expect the Chinese market to eventually surpass Japan. Therefore, we have accordingly reinforced our VIP Personal Marketing activities aimed at Chinese customers.

Results of Operation (FY 2007 compared with FY 2006)

Revenues

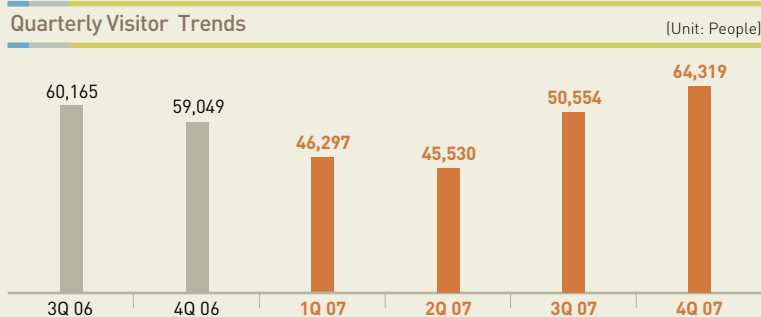
Hold Breakdown & Casino Net Sales

With the introduction of a Rebate on Loss system from early 2007, drop amount increased as a result of reducing customers' expected loss rates. However, as a result of higher casino losses, the hold ratio as a portion of table drop in 2007 fell 1.1%p from 2006 to 16.2%, and despite 3.2% growth in sales, net sales (sales - casino losses) contracted 5.1%.



Visitors

Visitors in 2007 totaled 206,700 people, down 18.9% from the figure recorded in 2006. However, number of visitors has shown a recovery since the latter half of 2007 as a result of strengthened marketing efforts. For a casino like Paradise which earns a high percentage of sales revenue from VIPs, there is little correlation between number of visitors and sales. Factors such as customers' income levels, drop amounts, and betting style have more impact on sales.



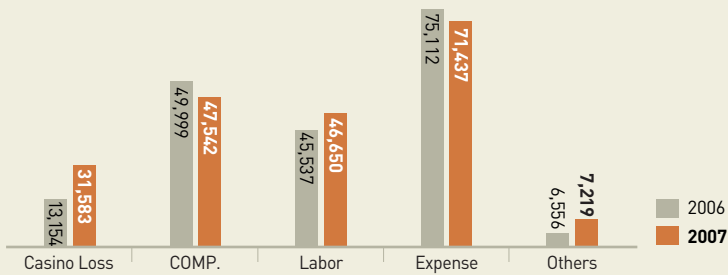
NOTE: The market has entered into perfect competition from 3Q 2006.

Operating Costs and Expenses

Costs & Costs Breakdown

The aforementioned casino loss is a major component of casino costs along with comp. In 2007, the casino loss recorded 31.6 billion won, up 2.4-fold from 13.2 billion won in 2006. Despite reduced comp, total casino costs increased from 63.1 billion to 79.1 billion won, a 25.3% year-on-year hike due to increased casino loss, which led to a 5.6%p increase in the ratio of casino costs to total sales from 26.7% to 32.3%. Labor costs in 2007 grew by a modest annual rate of 2.4%, and cost-cutting efforts helped to reduce expenses in total casino costs by 4.9% to 71.4 billion won, thus lightening the casino's overall cost burden.

Costs & Costs Breakdown (Unit: Mil. KRW)



Selling, General and Administrative Expense

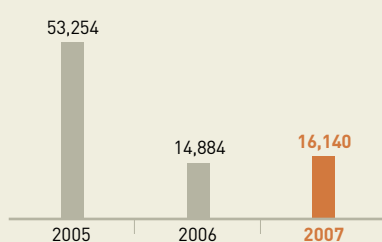
Although gross profits fell 5.6 billion won compared to 2006 to record 40.6 billion won in 2007 amid the rising cost of sales, the company's selling, general and administrative (SG&A) expenses registered a sizeable 21.8% year-on-year decline of 6.8 billion won to 24.5 billion won. The decrease in SG&A expense helped offset the decline in gross profits, enabling a gain in operating income.

Results of Operation (FY 2007 compared with FY 2006) - Continued

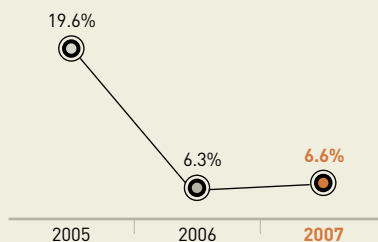
Operating Income

Operating income rose 8.4% in 2007 over a previous year to 16.1 billion won, with the operating income margin climbing 0.3%p from 6.3% to 6.6% over the same period. The company's operating income margin has hovered around the 6% level since the introduction of perfect competition in 2006, but the operating leverage effect is expected to grow, given that most operating management expenses are of a semi-fixed nature.

Operating Income (Unit: Mil. KRW)



Operating Income Margin



Other Income and Expenses

Interests & Dividends

In line with the company's no-debt policy, it maintains good financial stability and generates no interest expenses. Interest income in 2006 would normally have been 10.9 billion won, but a one-time 2.8-billion-won addition due to the cancellation of a long-term saving deposit led to a figure of 13.7 billion won for the year. In 2007, interest income of 11.0 billion was recorded as the company invests its cash & cash equivalent assets in bonds, CP, etc. Owing to dividends received on investment funds, dividend income soared from 8 billion won in 2006 to 18 billion in 2007.

Foreign Exchange Gains & Losses

As Korean Won currency (KRW) is used in casino operations, visitors exchange their foreign currencies for KRW, generating foreign exchange income. In 2007, due to a substantial increase in visitors holding KRW, foreign exchanges gains were down 21% from 2006's 4.8 billion won to 3.8 billion won. In addition, because the foreign currencies from operating activities are exchanged daily, we seek to limit our exposure to foreign exchange risk by maintaining ± 100 million won in foreign exchange.

Gains & Losses on Equity Method Investment

Until recently, the company has been carrying out restructuring of its equity-method investments, including the renovation or asset transfer of superannuated or low-profit hotels. In 2007, due to business suspension of hotels and other factors, equity-method gains of 100 million won recorded in 2006 converted to losses of 1.3 billion.

Renovation of Paradise Hotel Busan was completed in the first half of 2007, and construction of spa facilities at Paradise Hotel Dogo began in the second half of 2007 with completion expected in mid-2008. At Paradise Jeju, the company transferred the entire hotel part of the operations, thus freeing itself from an impaired capital position. Equity-method gains are forecasted to improve from the second half of 2008, with plans for the restructuring of other invested companies.

Gains & Losses on Equity Method Investment

(Unit: 1,000 KRW)

Invested Company	2007	2006
Paradise Jeju Co., Ltd.	-	(933,568)
Paradise Hotel Busan Co., Ltd.	332,127	449,049
Paradise Industry Co., Ltd.	344,546	466,599
Cymon, Inc.	(11,716)	16,549
Paradise Media Art Co., Ltd.	(600,790)	(408,790)
Paradise International Co., Ltd.	181,394	242,424
Paradise Safari Park Ltd.	222,098	986,426
Paradise Inv. & Dev. Kenya, Ltd.	-	(10,931)
Paradise Hotel Dogo Co., Ltd.	(1,711,076)	(627,024)
Paradise Planning Co., Ltd.	(7,320)	(108,830)
Paradise T&L Co., Ltd.	(32,199)	-
Sidus FNH Benex Cinema Investment Fund I	(62,737)	30,204
Total	(1,345,673)	102,108

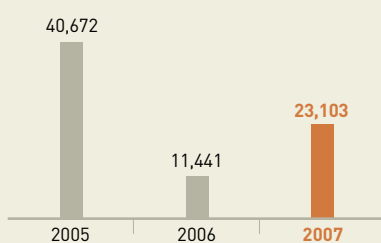
Results of Operation (FY 2007 compared with FY 2006) - Continued

Net Income

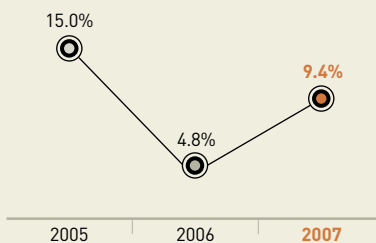
Earnings before income taxes swelled from 23.9 billion won in the previous year to 33.4 billion won in 2007, but income tax expenses declined from 12.4 billion won to 10.2 billion won over the same period. This was due to 4.7 billion won having been paid in 2006 in the form of “additional payment of income tax applicable to prior years” as an outcome of a regular tax investigation. The effective tax rate for 2007 was 30.7%, reflecting a sharp decrease from 52.1% in 2006. Net income soared 11.7 billion won from 11.4 billion won in 2006 to 23.1 billion won, the net income margin nearly doubled from 4.8% to 9.4%, and net income per share rose from 128 won to 267 won.

Net Income

(Unit: Mil. KRW)



Net Income Margin

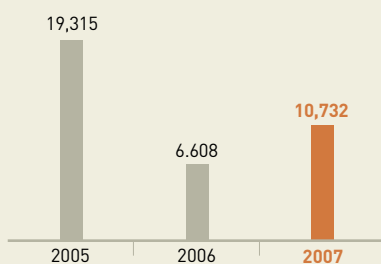


Dividend Policy

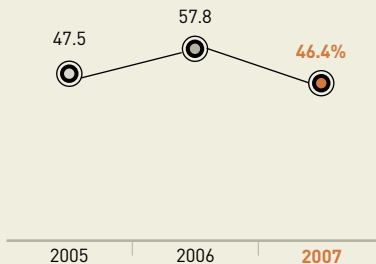
In line with the company's shareholders-oriented management objectives, it implements a high dividend policy, maintaining an annual dividend payout ratio of around 50%. In 2007, management decided on distributing total dividends of 10.7 billion won, equivalent to 46.4% of net income.

Dividends

(Unit: Mil. KRW)



Dividend Payout Ratio



Outlook

With steady annual expansion of Korea's foreigners-only casino market, we expect to sustain our growth rate by attracting not only our existing Japanese client base, but also by tapping the potentially vast Chinese customer base. Paradise Walker-Hill Casino, renowned for the latest equipment and unmatched scale, is striving to reinforce our leading position in the foreigners-only casino market amid tumultuous changes in our operating environment both at home and abroad. To do this, we have established a mid-term roadmap, "Fun & First Casino 2010," to seek out new growth engines and enhance our position.

With our unparalleled knowhow and experience accumulated from nearly 40 years in business, Paradise Co, Ltd. will redouble its efforts to solidify customer trust, enhance the level of VIP service, and provide an ever livelier and more appealing gaming atmosphere. In addition, we will utilize our vast VIP customer marketing experience to pursue innovative strategies to attract new customers, and by adopting the most competitive marketing systems to achieve maximum operational efficiency at our casino.

In step with global casino market trends, we are actively looking to expand into new business areas. In January 2008, we launched our junket program, which is expected to enhance our profit model and maximize our brand power. This initiative is considered essential to secure a foothold in the potentially enormous Chinese VIP market, and is expected to elevate the reputation of Paradise Walker-Hill Casino over the mid- and long-term future. At the same time, we continue to scout out new overseas business opportunities that will serve as "cash cows" for Paradise's sustainable growth.

Lastly, we will create management systems better suited to today's competitive operating environment, including fostering and retaining the most competitive workforce, instilling a world-class corporate culture, and providing industry's best employee benefits program. With our motto, "Outstanding human resources are our main growth engines," we place top value on cultivating the best HR to ensure that no matter how competitive the market becomes, Paradise will continue to come out on top.

With our unrivalled knowhow from nearly 40 years in the foreigners-only casino business, with our solid financial structure, and with our great strides in new business creation and HR development, we, at Paradise, are confident of our ability to maintain our position as the undisputed market leader.

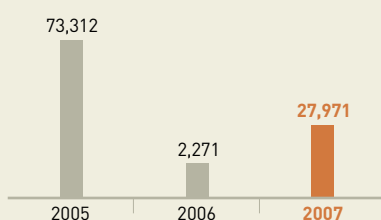
Liquidity and Capital Resources

Paradise Co., Ltd. places high priority on returns to our shareholders, via dividends, a portion of the profits we generate from our business and investment activities. Following dividend payout, we put a portion of the surplus into working capital, and finally reinvest the remaining surplus in financial assets in order to generate new income. Having abundant current assets gives us a stable financial structure and the ability to respond quickly to any future investment opportunities.

Cash Flow

Due to the increase in net income in 2007, cash flow from operating activities posted a tremendous gain from 2.3 billion won in 2006 to 28.0 billion won. Conversely, cash flow from investing activities fell sharply from 31.7 billion won in 2006 to 18.1 billion won for 2007. Cash flow from financing activities for the same two years slipped from 29.1 billion won to 14.5 billion won, the result of a steep contraction in dividend payments from 19.3 billion won paid in 2006 (for FY 2005) to just 6.6 billion won paid in 2007 (for FY 2006).

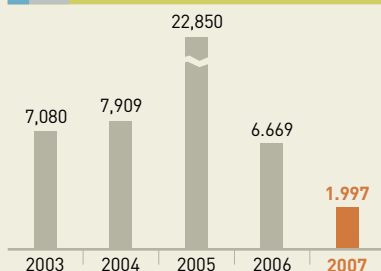
Cash Flow from Operating Activities (Unit: Mil. KRW)



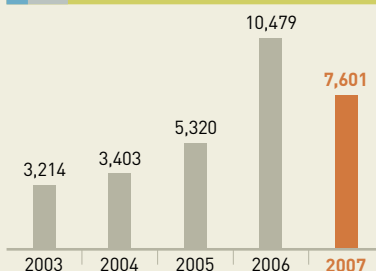
CAPEX and Depreciation

In response to rising competition, Paradise Co., Ltd. implemented a casino ERP system in January 2006 and initiated a full-scale facilities remodeling project, giving it the largest physical dimensions of any gaming facility in Korea. Because the casino facilities are treated as a semi-permanent structure, it is expected that CAPEX after 2007 will be limited to maintenance expenses. Furthermore, because the ERP system and casino facilities are depreciated according to the fixed-rate method, the company's depreciation costs are expected to continually decrease.

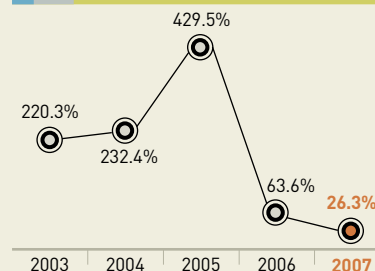
NET CAPEX (Unit: Mil. KRW)



Depreciation & Amortization (Unit: Mil. KRW)

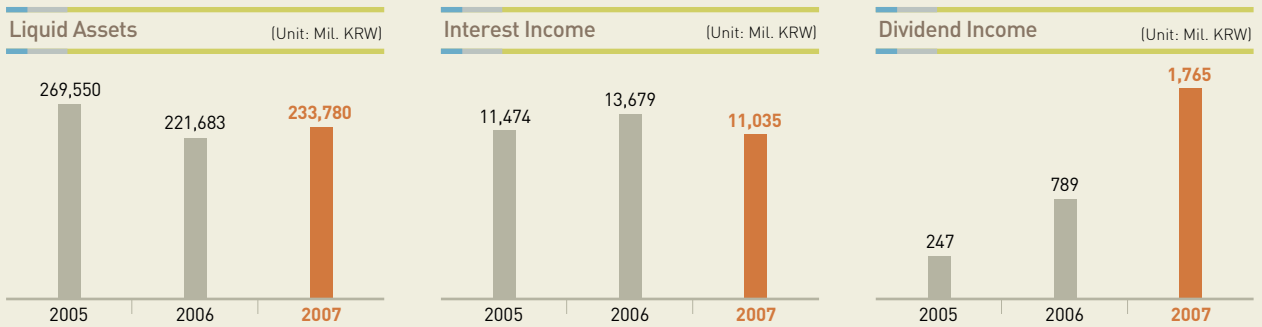


Net CAPEX/Dep.& Amort.



Liquid Assets

Paradise Co., Ltd. defines liquid assets as all cash & cash equivalents, time deposits, marketable debt securities and its investments in monetary trust funds, though excluding equity securities. In 2007, liquid assets registered a 5.5% increase from 221.7 billion won to 233.8 billion won, marking a gain of 12.1 billion won. The company uses liquid assets to generate interest income and dividend income to maximize profits and to make new investments.



Assets / Liabilities / Shareholder's Equity

Owing to the company's no-debt policy, it enjoys solid financial stability and maximizes shareholder returns. Total liabilities related to all operations stood at 57.6 billion won in 2007. Total shareholders' equity rose 2.8% from 394.7 billion won in 2006 to 405.9 billion won in 2007, while total assets edged up 2.1% year-on-year from 454.0 billion won to 463.6 billion won.