

# AUDIT REPORT & FINANCIAL STATEMENTS

Internal Auditor's Report  
Independent Auditor's Report  
Financial Statements

## Internal Auditor's Report

I report the following audit result on accounting and business of the 37th fiscal year from January 1, 2007 to December 31, 2007 as an auditor of Paradise Co., Ltd.

### Outline of the Audit Method

#### [1] Audit on Accounting

I inspected the accounting book and the relevant documents and minutely investigated the financial statements and attached specifications; also, I reviewed internal accounting control system for the fiscal year 2007. I applied the contrast, actual inspection, session, inquiry and other proper audit procedures in case of need in executing the audit.

#### [2] 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 earnings is made out of under law and the Articles and did appropriately considering the financial condition and other conditions of the company.

March 3, 2008

Han Sung Roh | Auditor, Paradise Co., Ltd.



## Independent Auditor's Report

To the Board of Directors and Stockholders of  
PARADISE Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of PARADISE Co., Ltd. (the "Company") as of December 31, 2007 and 2006, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the years then ended, and the non-consolidated statement of changes in equity for the year ended December 31, 2007, expressed in Korean Won. These non-consolidated 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 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 applied 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 the Company as of December 31, 2007 and 2006, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended, and changes in equity for the year ended December 31, 2007, in conformity with financial accounting principles generally accepted in the Republic of Korea.

DASAN 茶山 ACCOUNTANTS

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Without qualifying our opinion, as discussed in Note 18 to the non-consolidated financial statements, the Company has provided payment guarantees and collateral up to ₩17,911 million to its related parties for their borrowings as of December 31, 2007.

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 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 non-consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the non-consolidated accompanying financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

Seoul, Korea  
February 11, 2008

*Dasan Accounting Corporation*

**Notice to Readers** - This report is effective as of February 11, 2008, 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.

## Balance Sheets

As of December 31, 2007 and 2006

(Unit: KRW)

Accounts	2007FY	2006FY
<b>Assets</b>		
I. Current Assets	<b>176,124,033,756</b>	<b>165,659,449,724</b>
(1) Quick Assets	<b>175,882,284,781</b>	<b>165,442,708,827</b>
1. Cash and Cash Equivalent	83,425,429,819	51,843,179,438
2. Short-term Investment Assets	80,193,020,003	100,422,477,701
3. Trade Receivables	11,796,586,974	10,521,199,864
Allowance for Doubtful Accounts for Trade Receivables	(3,990,753,515)	(4,260,410,538)
4. Other Receivables	656,561,466	3,415,434,694
5. Accrued Income	2,673,169,683	2,098,460,816
6. Advance Payments	338,410,825	712,612,857
7. Prepaid Expenses	284,724,090	165,706,139
8. Deferred Income Taxes Assets (Current)	505,135,436	524,047,856
(2) Inventories	<b>241,748,975</b>	<b>216,740,897</b>
1. Raw Materials	117,333,527	130,461,647
2. Supplies	124,415,448	86,279,250
II. Non-Current Assets	<b>287,426,184,996</b>	<b>288,386,509,205</b>
(1) Investment Assets	<b>184,508,968,570</b>	<b>178,532,187,719</b>
1. Long-term Financial Instruments for Investment Assets	7,283,919,000	9,738,999,000
2. Long-term Investment in Securities	70,702,907,468	71,945,493,087
3. Equity Method Securities	98,122,403,171	95,269,625,232
4. Long-term Loans	9,803,140,614	1,578,070,400
Present Value Discount for Long-term Loans	(1,403,401,683)	-
(2) Property, Plant and Equipment	<b>86,567,335,226</b>	<b>91,745,357,704</b>
1. Land	48,141,975,564	48,141,975,564
2. Plant and Equipment Assets	70,353,918,448	69,551,689,537
Accumulated Depreciation for Plant and Equipment Assets	(34,291,897,586)	(28,037,007,397)
3. Construction in Progress	2,363,338,800	2,088,700,000
(3) Intangible Assets	<b>1,516,067,932</b>	<b>1,768,283,275</b>
1. Other Intangible Assets	1,516,067,932	1,768,283,275
(4) Other Non-Current Assets	<b>14,833,813,268</b>	<b>16,340,680,507</b>
1. Deposits Provided	14,833,813,268	16,340,680,507
<b>Total Assets</b>	<b>463,550,218,752</b>	<b>454,045,958,929</b>

(continued)

## Balance Sheets

As of December 31, 2007 and 2006

(Unit: KRW)

Accounts	2007FY	2006FY
<b>Liabilities</b>		
I. Current Liabilities	<b>38,020,128,481</b>	<b>40,427,352,205</b>
1. Trade Payables	128,689,158	131,020,731
2. Other Payables	318,274,020	343,294,627
3. Advance for Customers	11,255,890	84,623,350
4. Withholdings	2,453,491,716	2,583,550,943
5. Accrued Expenses	30,799,739,689	35,395,107,394
6. Income Taxes Payables	4,308,678,008	1,889,755,160
II. Non-Current Liabilities	<b>19,617,523,384</b>	<b>18,928,396,099</b>
1. Provisions for Retirement and Severance Benefits	29,971,167,140	28,241,938,570
Transfer to National Pension Fund	(280,071,900)	(321,180,300)
Plan Assets	(5,331,399,041)	-
Deposits for Retirement and Severance Benefits (Long-term Liabilities)	(13,741,189,654)	(16,585,792,744)
2. Leasehold Deposits Received	4,120,764,000	3,957,534,000
3. Deferred Income Taxes Liabilities (Non-Current)	4,878,252,839	3,635,896,573
<b>Total Liabilities</b>	<b>57,637,651,865</b>	<b>59,355,748,304</b>
<b>Stockholders' Equity</b>		
I. Capital Stock	<b>47,032,355,000</b>	<b>47,032,355,000</b>
1. Common Stock	47,032,355,000	47,032,355,000
II. Capital Surplus	<b>69,780,038,471</b>	<b>69,817,400,315</b>
1. Additional Paid-in Capital	68,731,905,697	68,731,905,697
2. Other Capital Surplus	1,048,132,774	1,085,494,618
III. Capital Adjustments	<b>(18,589,669,508)</b>	<b>(10,538,675,341)</b>
1. Treasury Stock in Capital Adjustments	(18,600,518,671)	(10,549,524,504)
2. Stock Options in Other Capital Adjustments	10,849,163	10,849,163
IV. Accumulated Other Comprehensive Income	<b>9,588,151,766</b>	<b>6,413,283,929</b>
1. Gains on Valuation of Available for Sales Securities in Capital Adjustments	2,046,317,116	1,768,198,114
2. Gains on Valuation of Equity Method Securities	17,392,652,714	14,598,152,990
3. Losses on Valuation of Equity Method Securities	(9,837,162,138)	(9,927,425,406)
4. Losses on Cumulative Effect of Foreign Currency Translation	(13,655,926)	(25,641,769)
V. Retained Earnings or Accumulated Deficit	<b>298,101,691,158</b>	<b>281,965,846,722</b>
1. Appropriated Retained Earnings for Statutory Reserve	60,004,269,570	59,343,476,970
2. Appropriated Retained Earnings for Voluntary Reserves	215,331,464,864	211,131,464,864
3. Retained Earnings Before Appropriations or Accumulated Deficit Before Disposition on Balance Sheet	22,765,956,724	11,490,904,888
<b>Total Stockholders' Equity</b>	<b>405,912,566,887</b>	<b>394,690,210,625</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>463,550,218,752</b>	<b>454,045,958,929</b>

## Income Statements

For the Years Ended December 31, 2007 and 2006

(Unit: KRW)

Accounts	2007FY	2006FY
<b>I. Sales</b>	<b>245,074,401,243</b>	<b>236,559,205,789</b>
1. Casino sales	238,698,050,660	231,404,372,200
2. Other sales	6,376,350,583	5,154,833,589
<b>II. Cost of sales</b>	<b>204,430,503,292</b>	<b>190,358,194,695</b>
1. Cost from casino operation	197,211,247,249	183,802,054,683
2. Cost from others	7,219,256,043	6,556,140,012
<b>III. Gross Profit</b>	<b>40,643,897,951</b>	<b>46,201,011,094</b>
<b>IV. Selling and administrative Expenses</b>	<b>24,503,901,317</b>	<b>31,316,835,229</b>
1. Payroll	10,655,308,990	10,999,899,260
2. Severance Benefits	916,961,410	2,055,428,660
3. Welfare	541,108,674	601,882,715
4. Travel and Transportation	359,927,474	470,419,115
5. Communication	57,109,768	62,846,308
6. Utilities	463,997,394	463,364,713
7. Taxes and Dues	1,190,997,379	2,506,932,743
8. Rental	272,351,721	325,689,217
9. Depreciation	857,643,851	976,675,568
10. Management and Maintenance	815,197,912	844,189,332
11. Event	76,689,287	103,401,578
12. Insurance Premiums	175,726,125	207,551,008
13. Entertainment	815,956,119	989,330,822
14. Advertising	4,166,835,243	4,373,263,934
15. Vehicles Maintenance	254,414,411	240,642,010
16. Service Fees	1,511,965,451	2,503,170,518
17. Supplies	96,508,006	134,836,723
18. Book and Publication	141,501,859	162,454,124
19. Training	30,014,385	19,503,340
20. Bad Debt Expenses	1,046,502,977	3,172,197,753
21. Amortization	55,503,231	83,515,971
22. Others	1,679,650	19,639,817
<b>V. Operating Income</b>	<b>16,139,996,634</b>	<b>14,884,175,865</b>

(continued)

## Income Statements

For the Years Ended December 31, 2007 and 2006

(Unit: KRW)

Accounts	2007FY	2006FY
<b>VI, Non-Operating Income</b>	<b>26,235,348,836</b>	<b>25,851,043,389</b>
1. Interest Income	11,035,056,428	13,679,018,581
2. Dividend Income	1,765,130,461	788,891,151
3. Rental Income	1,796,270,072	1,985,727,716
4. Gain on Foreign Currency Transaction	1,456,552,596	1,323,191,999
5. Gain on Foreign Currency Translation	90,362,932	119,000,773
6. Gain on valuation of Short-term Investment Securities	-	73,862,883
7. Gain on Disposal of Long-term Investment Securities	188,413,454	-
8. Recovery of Impairment Loss on Long-term Investment Securities	3,162,269,908	-
9. Gain on Valuation of Equity Method Investments	1,080,165,425	2,191,251,507
10. Gain on Disposal of Investments	850,520,000	11,200,000
11. Gain on Disposal of Property, Plant, and Equipment	20,106,853	10,244,455
12. Foreign exchange Gain	3,785,392,033	4,783,925,791
13. Gain on Assets Contributed	155,070,000	-
14. Other Gain	850,038,674	677,827,891
15. Gain on Prior Period Error Correction	-	206,900,642
<b>VII, Non-Operating Expenses</b>	<b>9,014,465,789</b>	<b>16,858,195,249</b>
1. Loss on Foreign Currency Transaction	1,327,595,950	1,386,873,931
2. Loss on Foreign Currency Translation	-	5,949,151
3. Donations	3,717,903,600	2,889,559,596
4. Loss on Disposal of Short-term Investments	56,692,190	75,826,001
5. Impairment Loss on Long-term Investment Securities	-	6,000,845,995
6. Loss on Disposal of Long-term Investment Securities	1,471,389,059	2,019,712
7. Loss on Valuation of Equity Method Investments	2,425,838,393	2,089,143,431
8. Loss on Disposal of Investments	10,300,000	1,660,000
9. Loss on Disposal of Property, Plant, and Equipment	2,180,833	135,172,838
10. Fees on Foreign Currency Deposits	-	48,719,640
11. Early Retirement Payment	-	4,203,252,600
12. Other Loss	2,565,764	19,172,354
<b>VIII, Income Before Income Taxes</b>	<b>33,360,879,681</b>	<b>23,877,024,005</b>
<b>IX, Income Taxes Expense</b>	<b>10,257,899,478</b>	<b>12,435,724,914</b>
<b>X, Net Income</b>	<b>23,102,980,203</b>	<b>11,441,299,091</b>
<b>XI, Per Share Data</b>		
1. Ordinary Income & Net Income Per Share	267	128

## Statements of Appropriations of Retained Earnings

Years Ended December 31, 2007 and 2006

(Date of appropriations : March 21, 2008 and March 16, 2007 For the years ended December 31, 2007 and 2006, respectively)

(Unit: KRW)

Accounts	2007FY	2006FY
<b>I, Retained Earnings Before Appropriations or Accumulated Deficit Before Disposition</b>	<b>22,765,956,724</b>	<b>11,490,904,888</b>
1. Unappropriated Retained Earnings or Undisposed Accumulated Deficit form Beginning Year	22,186,363	49,605,797
2. Decrease in Retained Earnings from Equity Method Securities	(359,209,842)	-
3. Net Income or Loss	23,102,980,203	11,441,299,091
<b>II, Appropriations of Retained Earnings</b>	<b>22,705,789,475</b>	<b>11,468,718,525</b>
1. Legal Reserves in Statement of Appropriation Retained Earnings	1,073,253,600	660,792,600
2. Dividends	10,732,535,875	6,607,925,925
(Dividend per common stock) : 2007 : 125 Won (25%) 2006 : 75 Won (15%)		
3. Voluntary Reserves in Statement of Appropriation Retained Earnings	10,900,000,000	4,200,000,000
<b>III, Unappropriated Retained Earnings or Undisposed Accumulated Deficit Carried over to Subsequent Year</b>	<b>60,167,249</b>	<b>22,186,363</b>

## Statements of Changes in Equity

For the Years Ended December 31, 2007 and 2006

(Unit: KRW)

Accounts	Capital Stock	Capital Surplus	Capital Adjustments	Accumulated Other Comprehensive Income	Retained Earnings or Accumulated Deficit	Total
Beginning Balance (2007.01.01)	47,032,355,000	69,817,400,315	(10,538,675,341)	8,332,691,944	281,965,846,722	396,609,618,640
Accumulated Effect of Accounting Policy Change, Total	-	-	-	(1,919,408,015)	-	(1,919,408,015)
Retained Earnings After Prior Period Adjustments	47,032,355,000	69,817,400,315	(10,538,675,341)	6,413,283,929	281,965,846,722	394,690,210,625
Dividends	-	-	-	-	(6,607,925,925)	(6,607,925,925)
Retained Earnings after Appropriations	47,032,355,000	69,817,400,315	(10,538,675,341)	6,413,283,929	275,357,920,797	388,082,284,700
Net Income or Loss	-	-	-	-	23,102,980,203	23,102,980,203
Decrease in Retained Earnings from Equity Method Securities	-	-	-	-	(359,209,842)	(359,209,842)
Purchase of Treasury Stock	-	-	(8,607,827,745)	-	-	(8,607,827,745)
Disposal of Treasury Stock	-	(37,361,844)	556,833,578	-	-	519,471,734
Gains on Valuation of Available for Sale Securities	-	-	-	278,119,002	-	278,119,002
Gains on Valuation of Equity Method Securities	-	-	-	2,794,499,724	-	2,794,499,724
Losses on Valuation of Equity Method Securities	-	-	-	90,263,268	-	90,263,268
Losses on Cumulative Effect of Foreign Currency Translation	-	-	-	11,985,843	-	11,985,843
Ending Balance (2007.12.31)	47,032,355,000	69,780,038,471	(18,589,669,508)	9,588,151,766	298,101,691,158	405,912,566,887

## Statements of Cash Flows

For the Years Ended December 31, 2007 and 2006

(Unit: KRW)

Accounts	2007FY	2006FY
<b>I. Cash Flows from Operating Activities</b>	<b>27,970,707,781</b>	<b>2,271,033,514</b>
1. Net Income or Loss	23,102,980,203	11,441,299,091
2. Additions of Expenses of Non-Cash Transactions	17,458,382,928	29,188,252,686
Retirement and Severance Benefits	4,711,753,540	6,991,364,909
Depreciation	6,846,325,180	9,335,583,198
Amortization of Intangible Assets	754,186,686	1,143,688,988
Expenses of Allowance for Doubtful Accounts	1,046,502,977	3,172,197,753
Impairment Losses on Long-Term Investments	-	6,000,845,995
Reversal of Present Value on Premium	133,213,070	234,800,710
Losses on Foreign Currency Translation	-	5,949,151
Losses on Sale of Short-term Investment Assets	56,692,190	75,826,001
Losses on Sale of Long-Term Investment Securities	1,471,389,059	2,019,712
Losses on Valuation of Equity Method Securities	2,425,838,393	2,089,143,431
Losses on Disposition of Investment Assets	10,300,000	1,660,000
Losses on Sale of Property, Plant and Equipment	2,181,833	135,172,838
3. Deduction of Revenues of Non-Cash Transactions	(5,775,061,607)	(2,499,456,087)
Gains on Foreign Currency Translation	4,266,369	5,996,600
Gains on Valuation of Short-term Investment Assets	-	73,862,883
Gains on Sale of Long-Term Investment Securities	188,413,454	-
Recovery of Impairment Losses on Long-Term Investments	3,162,269,908	-
Gains on Valuation of Equity Method Securities	1,080,165,425	2,191,251,507
Gains on Sale of Investment Assets	850,520,000	11,200,000
Gains on Sale of Property, Plant and Equipment	20,106,853	10,244,455
Gains from Assets Contributed	155,070,000	-
Amortization of Present Value on Discount	314,249,598	-
Gains on Prior Period Adjustments	-	206,900,642
4. Changes in Assets and Liabilities from Operating Activities	(6,815,593,743)	(35,859,062,176)
Decrease or Increase in Trade Receivables	(2,591,547,110)	(5,321,529,342)
Decrease or Increase in Other Receivables	2,758,873,228	(2,917,667,727)
Decrease or Increase in Accrued Revenues	(574,708,867)	249,174,973
Decrease or Increase in Advance Payments	374,202,032	74,087,849
Decrease or Increase in Prepaid Expenses	(119,017,951)	31,451,596
Decrease or Increase in Inventories	(25,008,078)	(9,152,286)
Decrease or Increase in Deferred Income Taxes Assets	18,912,420	(207,352,453)
Increase or Decrease in Trade Payables	(2,331,573)	33,116,059
Increase or Decrease in Other Payables	(25,020,607)	(7,228,098,030)
Increase or Decrease in Advances from Customers	(73,367,460)	78,441,600
Increase or Decrease in Unearned Income	-	(145,397,260)
Increase or Decrease in Withholdings	(130,059,227)	(404,459,842)
Increase or Decrease in Accrued Expenses	(4,595,367,705)	(5,229,372,194)

## Statements of Cash Flows

For the Years Ended December 31, 2007 and 2006

(Unit: KRW)

Accounts	2006FY	2006FY
Increase or Decrease in Income Taxes Payable	2,418,922,848	(6,974,835,673)
Increase or Decrease in Deferred Income Taxes Liabilities	1,178,136,828	(1,642,452,300)
Payment for Retirement and Severance Benefit	(2,982,524,970)	(5,895,244,899)
Increase or Decrease in National Pension Fund	41,108,400	77,825,900
Decrease or Increase Deposits for Retirement Severance Benefits	2,844,603,090	(427,598,147)
Increase or Decrease in Plan Assets	(5,331,399,041)	-
<b>II. Cash Flows from Investing Activities</b>	<b>18,146,780,427</b>	<b>31,745,444,573</b>
1. Cash Inflows from Investing Activities	42,968,030,408	71,873,255,719
Proceeds from Sale of Trading Securities	30,968,935,502	22,690,127,658
Proceeds from Sale of Long-term Financial Instruments	3,328,660,000	11,297,100,000
Proceeds from Sale of Long-term Investment Securities	5,079,208,301	35,856,487,011
Proceeds of Dividends from Equity Method Securities	60,000,000	84,000,000
Decrease in Long-term Loans	1,011,571,090	1,022,258,960
Decrease in Deposits Provided	-	738,303,852
Proceeds from Sale of Property, Plant and Equipment	96,015,907	184,978,238
Proceeds from Intangible Assets	28,550,697	-
Proceeds from Sale of Investment Assets	2,395,088,911	-
2. Cash Outflows from Investing Activities	(24,821,249,981)	(40,127,811,146)
Purchase of Short-term Investment Assets	7,000,000,000	22,418,073,521
Purchase of Long-term Financial Instruments	873,580,000	-
Purchase of Long-term Investment Securities	9,057,089,049	6,230,000
Purchase of Equity Method Securities	1,760,000,000	9,000,000,000
Increase in Long-term Loans	3,965,000,000	970,000,000
Increase in Deposits Provided	-	879,628,574
Purchase of Property, Plant and Equipment	1,591,323,589	6,809,729,051
Purchase of Intangible Assets	530,522,040	44,150,000
Purchase from Sale of Investment Assets	43,735,303	-
<b>III. Cash Flows from Financing Activities</b>	<b>(14,535,237,827)</b>	<b>(29,107,388,205)</b>
1. Cash Inflows from Financing Activities	680,515,843	100,700,000
Proceeds from Leasehold Deposits Received	175,215,843	100,700,000
Proceeds from Sale of Treasury Stock	505,300,000	-
2. Cash Outflows from Financing Activities	(15,215,753,670)	(29,208,088,205)
Payments in Dividends	6,607,925,925	19,314,810,375
Decrease in Leasehold Deposits Received	-	335,610,000
Purchase of Treasury Stock	8,607,827,745	9,557,667,830
<b>IV. Increase or Decrease in Cash and Cash Equivalents (I+II+III)</b>	<b>31,582,250,381</b>	<b>4,909,089,882</b>
<b>V. Cash and Cash Equivalent at Beginning</b>	<b>51,843,179,438</b>	<b>46,934,089,556</b>
<b>VI. Cash and Cash Equivalent at End</b>	<b>83,425,429,819</b>	<b>51,843,179,438</b>