



Management's Discussion & Analysis

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Overview

Paradise Co., Ltd. is currently managing casino business operation through Walker-Hill Casino and restaurant business operations including SamcheongGak and spa & hotel business operation after M&A with Paradise Hotel Dogo Co., Ltd. Total sales in 2008 recorded 280.9 billion won, an 14.6% growth from the previous year while operating income rose 11.3%, recording 18.0 billion won.

Casino operation is the main business activity of Paradise Co., Ltd., accounting for about 97.1% of the company's total sales in 2008. Despite of the growing competition, the casino operation's sales grew by 14.3% in 2008 while operating income grew 11.9%, recording 19.2 billion won. Until the first half of 2008, the casino unit recorded operating loss, but due to weak won after the third quarter, the casino unit was able to make profit, recording over 20.9 billion won in operating income for only the second half.

Sales for the restaurant business, representing approximately 2.5% of Paradise Co., Ltd.'s total sales, grew 10.2% and recorded 7 billion won thanks to the growth of SamcheongGak sales. The restaurant unit recorded 1.0 billion won operating loss in 2007, but was able to record profit in 2008. Especially, SamcheongGak operation recorded 0.6 billion won in operating income, a sign that the business is stabilizing.

Spa & hotel related sales totaled 1.0 billion won, representing about 0.4% of total sales. However, this unit recorded operating loss of 1.3 billion won. M&A with the subsidiary company, Paradise Hotel Dogo Ltd., was done in November 2008 to satisfy needs of our guests for well-being life and to gain new business ground in spa & hotel businesses. We believe that spa & hotel business will be our new growth engine for future. The sales from the spa & hotel unit are between November and December of 2008, accounting for two months.

Casino Market Environment

Business condition in Macau, the world largest casino market, is deteriorating since the Beijing Olympic. Residents of mainland China are being restricted of entrance to Macau casinos, and the global economic crisis all resulted in toughened business condition. Macau sales grew rapidly beginning from 2002, and the sales for 2008 grew 31% year-on-year. However, on a quarterly basis, the sales declined after recording 29.8 billion MOP (Macanese Pataca) in the first quarter. In addition, there are other signs of worsening business conditions such as lower demand for casino. In response, Las Vegas investments to Macau are being reduced including the investments done to Venetian Casino by Sands Group.

However, there are signs of casino expansion in the Asian market, including in Singapore and in Southeast Asia. The foreigners-only casino market of Korea is benefitting from physical accessibility, weak won, and differentiated marketing capabilities, thereby meeting demands of Asian casino guests.

Changes in Market

The foreigners-only casino market in Seoul represents 72% of total casino market of Korea. Beginning from 2006, Paradise Casino and 7 Luck Casino have entered a phase of fierce competition. Total casino market size grew by 57% in three years period, from 480.5 billion won in 2006 to 755.5 billion won in 2008, a credit due to weak won, competitor's physical accessibility, and synergy from the multiple casino operations in Seoul. Paradise Co., Ltd. maintains the leadership in Korean casino market through differentiated marketing capabilities, despite of having only single casino unit.

Changes in Regulation

The establishment and total sales of casinos in Korea has thus far been controlled by regulations including the Tourism Promotion Act and the National Gaming Control Commission Act. As only foreigners are allowed to enter these casinos, new Acts are currently being established to accommodate difference between the foreigners-only casino and the gambling facilities where local Koreans can enter such as horse racing and domestic casino.

On the other hand, new individual consumption tax, being introduced in 2008, poses risk to Paradise Co., Ltd.'s business and our shareholders. With cooperation from other casino enterprises, the tax rate was cut and is being delayed to 2012.

Finally, Walker-Hill hotel sued Paradise Co., Ltd. for operational sight relocation. The judgment on January 2009 ruled that Paradise Co., Ltd. has the right to the operation but not a right for relocation. Therefore, Paradise Co., Ltd. appealed a suit and the second trial is in progress. The Ministry of Culture, Sports, and Tourism's position is that it cannot allow relocation while the trial is in progress, but Paradise Co., Ltd. has a firm stand on this issue.

Customer Demand

Generally, demand of casino customers depends on customers' 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 customer's needs and marketing capabilities.

Since early 2007, our company has provided Rebates on Loss for VIP customers. In 2008 we introduced Junket system which is popular in Macau casino market. This introduction was done not only to meet the demands of Chinese VIPs, but to integrate Junket marketing with our unique personal marketing which we've been pursuing for the past 40 years. With successful joint marketing, we can advance into Asian casino market and gain ground. Beginning from the second half of 2007, we've strengthened marketing capabilities towards Japanese customers. Paradise Co., Ltd. is solidifying its marketing network to secure new customers from China and maintain popularity with Japanese customers.

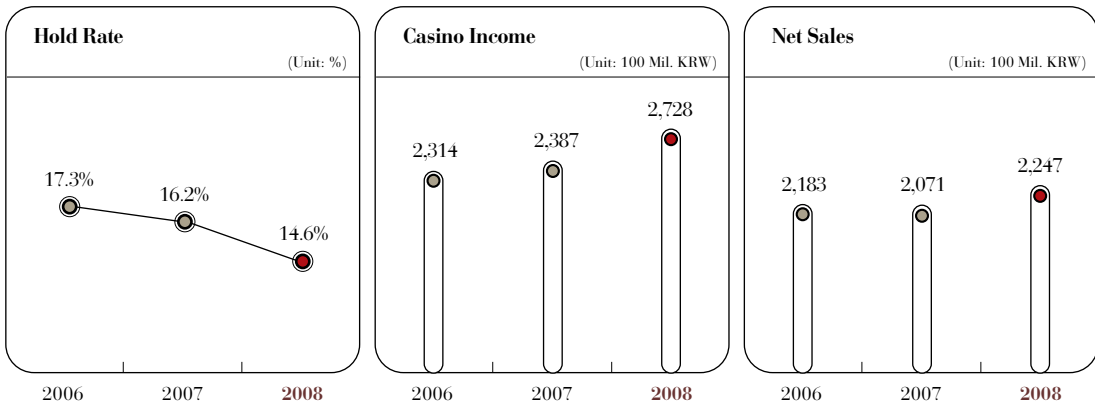
Results of Operation

(FY 2008 compared with FY 2007)

Revenues

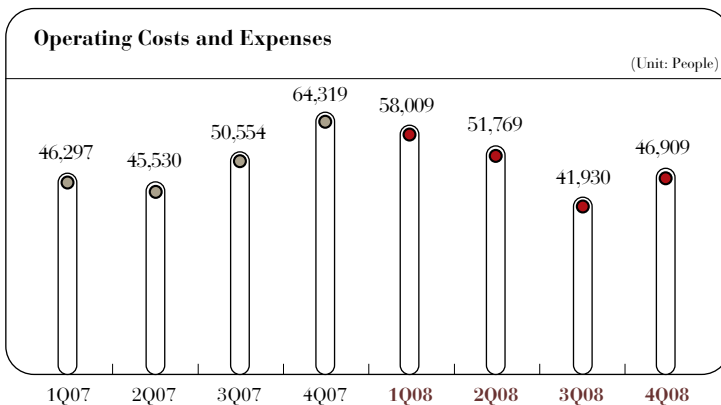
Hold Breakdown & Casino Net Sales

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 2008 fell 1.6%p from 2007 to 14.6%, and net sales (sales-casino losses) grew marginal 8.5%.



Visitors

Visitors in 2008 totaled 198,617 people, down 3.9% from the figure recorded in 2007. 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.



Operating Costs and Expenses

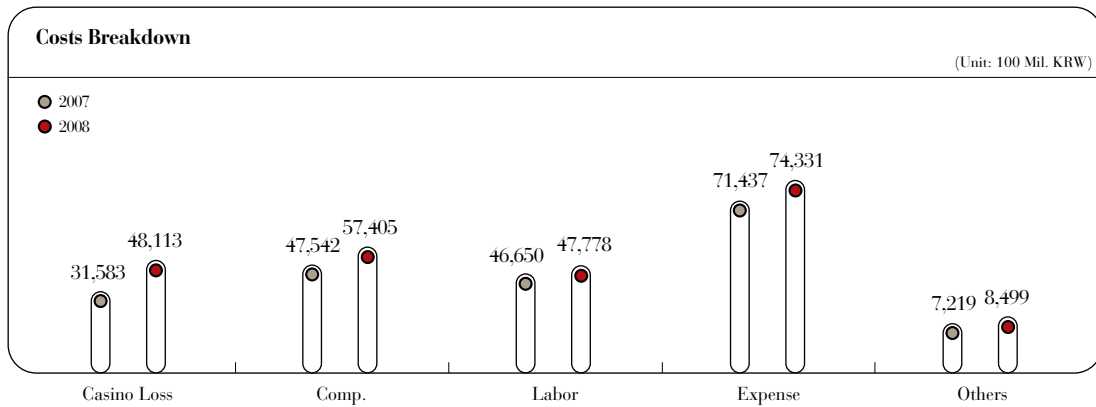
Costs Breakdown

The aforementioned casino loss is a major component of casino costs along with comp (compliment). In 2008, the casino loss recorded 48.1 billion won, up 52% from 31.6 billion won in 2007. The comp also increased by 21% year-on-year, and total casino costs increased 33.4% recording 105.5 billion won from the previous year's 79.1 billion won,

Results of Operation (Continued)

(FY 2008 compared with FY 2007)

accounting for 38.7% of total casino sales. This was a 5.6%p increase from 33.1% in the last year. The reasons for increase in comp are mainly due to increased number of game customers, higher oil price and strong Yen resulting in higher ticket price from Japan. Labor costs in 2008 grew by a modest annual rate of 2.4% while expense was up by 4.1%, recording 74.3 billion won. Other costs rose by 17.7% and totaled 8.5 billion won, which mainly came from M&A with Hotel Dogo.

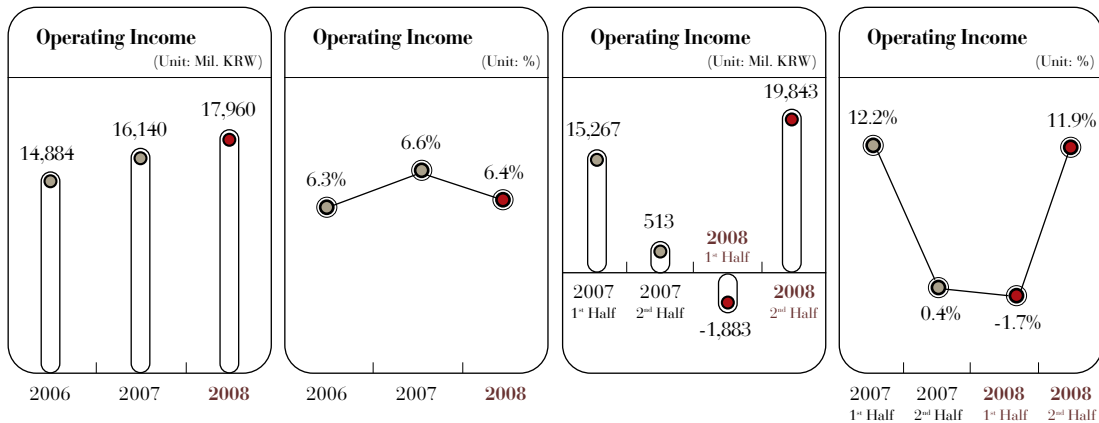


SG&A Breakdown

Due to higher sales, the company recorded higher gross profit of 44.8 billion won. SG&A expense was up by 2.3 billion won, recording 26.8 billion won in total. Wage paid out was down by 0.7% from restructuring, but in comparison, tax and advertising expense rose year-on-year.

Operating Income

Operating income rose 11.3% in 2008 over a previous year to 18.0 billion won, with the operating income margin declining 0.2%p from 6.6% to 6.4% over the same period. Sales for the first half of 2008 declined over the same period and as a result, operating income turned negative. But with a 43.3% increase in sales for the second half, the operating income rose by 19.3 billion won over the same period. If the sales growth is maintained benefiting from weak won, operating income and the margin are expected to record even higher.



Other Income and Expenses

Other income and expenses for 2008 totaled 40.0 billion won, increasing from 26.2 billion won in 2007. Other expenses rose from 9.0 billion won in 2007 to 27.4 billion won in 2008. For other income, gain on foreign currency and gains on valuation of equity method investments rose 5.6 billion won and 4.8 billion won year-on-year. As for the other expenses, loss on foreign currency and loss on valuation of equity method investments rose 5.8 billion won and 6.3 billion won year-on-year. Also, there was a retirement payment of 4.3 billion won due to restructuring.

Interests & Dividends

For interest income, Paradise Co., Ltd. recorded 13.3 billion won in 2008, 2.3 billion increase from 11.0 billion won of 2007. Dividend income rose from 1.8 billion won in 2007 to 3.7 billion won in 2008.

FX Gains & Losses

As Korean Won currency (KRW) is used in casino operations, visitors exchange their foreign currencies for KRW, generating foreign exchange income. In 2008, foreign exchange gain totaled 5.3 billion won, a 39% increase from 3.8 billion won in 2007. On the other hand, total size of each gain & loss on foreign currency rose due to a large fluctuation in exchange rates, but because foreign currencies gained from operation are exchanged on a daily basis, there wasn't a big change in net gain & loss on foreign currency.

Gains & Losses on Equity Method Investment

Total gains & losses on equity method investment totaled -2.9 billion won, a bigger loss than -1.3 billion won in 2007. Paradise Jeju Co., Ltd. recorded 5.3 billion won in gains on equity method investment thanks to its hotel business asset transfer. On the other hand, losses on equity method investment for Paradise Hotel Busan Co., Ltd., Sidus FNH Benex Cinema Investment Fund I, and Paradise Hotel Dogo Co., Ltd. totaled 2.9 billion, 1.7 billion, and 3.4 billion won each. We expect gains & losses on equity method investment to improve based on 1) better performance put out by the casino unit of Paradise Jeju Co., Ltd. 2) better margins from cinema investment as recently opened movies, "Scandle Makers" & "A Frozen Flower", are popular 3) small sized M&A with Paradise Hotel Dogo Co., Ltd. in the end of 2008.

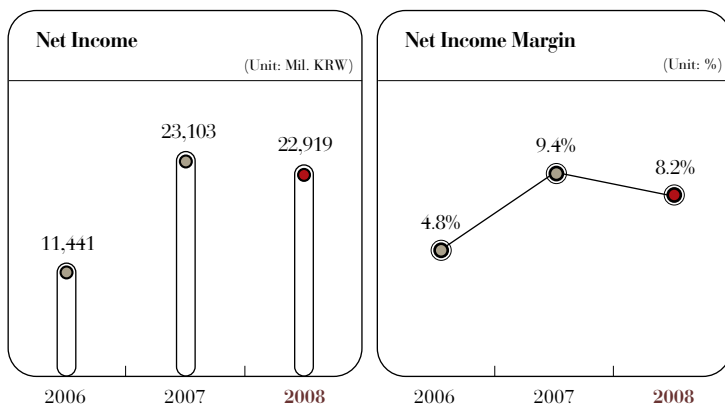
Gains & Losses on Equity Method Investment		
	(Unit: Mil. KRW)	
Invested company	2008	2007
Paradise Jeju Co., Ltd.	5,289	-
Paradise Hotel Busan Co., Ltd.	-2,916	332
Paradise Industry Co., Ltd.	279	345
Cymon, Inc.	-24	-12
Paradise Media Art Co., Ltd.	-	-601
Paradise International Co., Ltd.	214	181
Paradise Safari Park Ltd.	-648	222
Paradise Inv. & Dev. Kenya, Ltd.	-	-
Paradise Hotel Dogo Co., Ltd.	-3,417	-1,711
Paradise Planning Co., Ltd.	52	-7
Paradise T&L Co., Ltd.	-41	-32
Sidus FNH Benex Cinema Investment Fund I	-1,695	-63
Total	-2,906	-1,346

Results of Operation (Continued)

(FY 2008 compared with FY 2007)

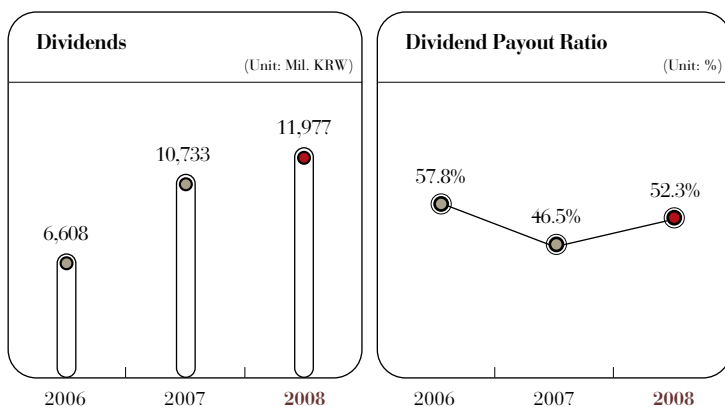
Net Income

Income before income taxes declined by 2.8 billion won from 33.3 billion won in 2007 to 30.5 billion won in 2008. Income tax expense declined by 2.7 billion won from 10.3 billion won in 2007 to 7.6 billion won in 2008. Tax rate dropped from 30.7% in 2007 to 24.9% in 2008 thanks to a decrease in deferred income tax liabilities. The deferred income tax liabilities decreased as subsidiary companies recorded smaller gains on equity method investment. Net income dropped by 0.2 billion won, recording 22.9 billion won compared to 23.1 billion won in 2007. Therefore, net income margin also dropped from 9.4% to 8.2%. However, net income per share increased from 267 won to 277 won.



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 2008, we decided on distributing total dividends of 12.0 billion won, equivalent to 52.3% of net income.



Outlook

The foreigners-only casino market of Korea in 2008 has total market size of 755.5 billion won, growing by 21% year-on-year. The same market size was 624.2 billion won in 2007, growing by 30% from 2006. The foreigners-only casino market of Korea is benefitting from the opening of multiple casino units in Seoul, launching of new casinos by Korean Tourism Organization and finally stronger marketing capabilities of casino companies through rebates and junket system.

As the foreigners-only casino market is based on the trade of foreign currency, the market benefitted from weak won in 2008 despite of the global economic crisis and slowdown. A 100 yen rated 839 won during the early 2008, but it is rated at around 1,500 won in 2009. Many export companies are benefitting from weak won, and the casino industry is among those that benefits most from the current exchange rate. As the value of won drops, more foreigners visit Korea, leading to more drops. The casino unit of Paradise Co., Ltd. relies upon VIPs, and therefore is less affected by the changes in the world economy. Many economists view that the exchange rate of 2009 is expected to be similar to that of 2008, allowing casino industry to benefit even further.

Based on our unparalleled knowhow and experience accumulated from casino operations, Paradise Co., Ltd. will redouble its efforts to solidify customer trust, enhance the level of VIP service, and provide 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. Earnings for the last year wasn't up to our expectation, but this initiative is considered essential to secure a foothold in the potentially enormous Chinese VIP market. For 2009, we will strengthen our relationship with other agents and gradually expand our business network, thereby elevating the reputation of Paradise Walker-Hill Casino over the mid- and long-term future and strengthening marketing capabilities.

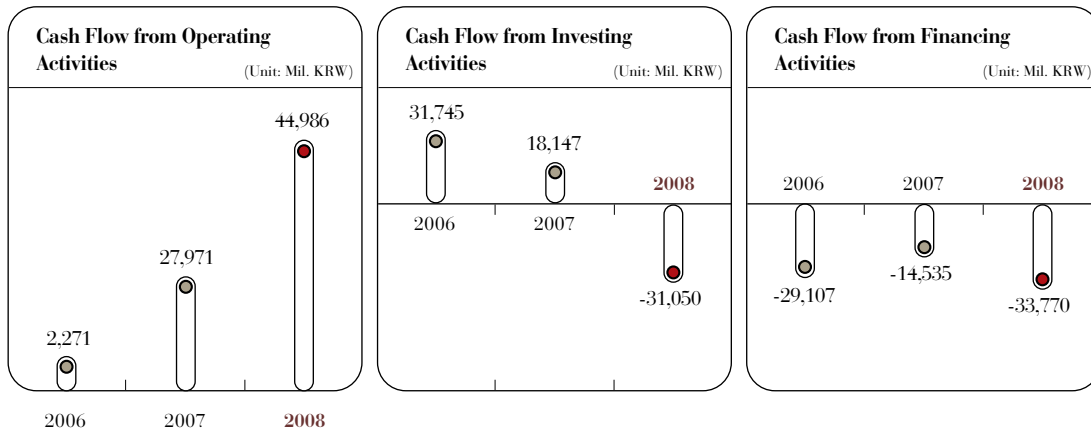
Finally, Paradise Co., Ltd. merged with a subsidiary company, Paradise Hotel Dogo. The M&A is expected to bring new growth into Paradise, and we've added well-being spa and hotel businesses to our business area. In addition, we are looking into real estates and theme based resort development. The business environment of 2009 is expected to be unstable, and Paradise Co., Ltd. will continue its effort in securing the competitiveness.

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.

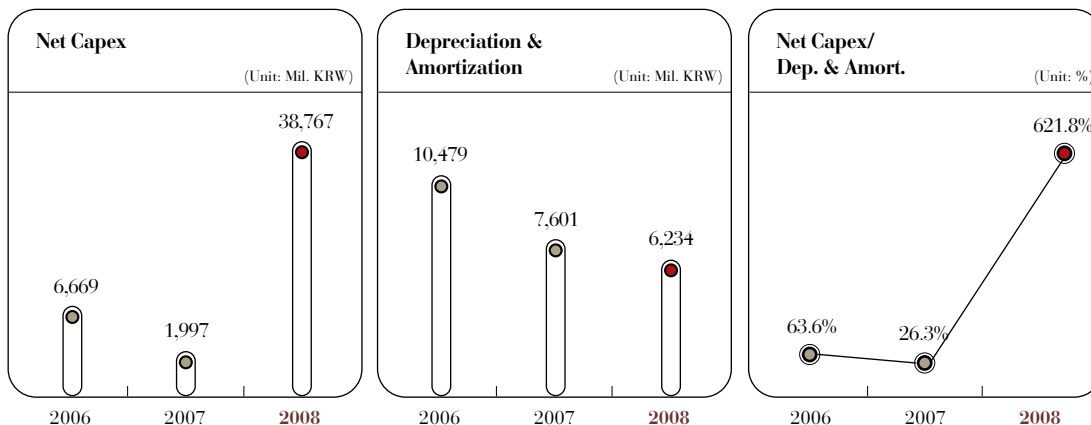
Cash Flow

Total net income amount was similar to that of the last year. However, cash & liquid assets declined by 19.8 billion won year-on-year. Cash flow from operating activities recorded 45.0 billion won, but cash flow from investing activities and cash flow from financing activities turned negative from purchases of new tangible assets, a stock buyback, payment of debts & dividends, leading to a decrease in cash & liquid assets.



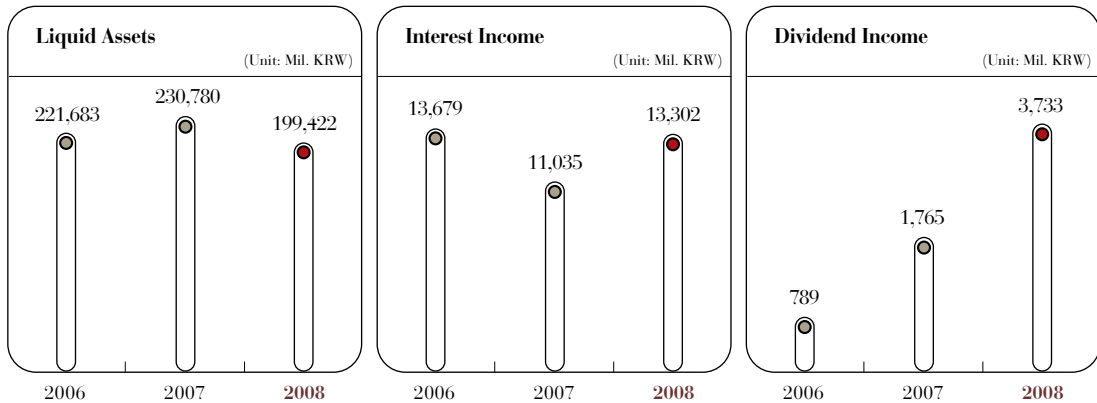
Capex and Depreciation

After launching a full scale facilities remodeling project in 2005, the capital expenditures for 2006 and 2007 were limited to maintenance expenses. But in 2008, Paradise's net CAPEX increased by a large amount due to M&A with Paradise Hotel Dogo Co., Ltd., acquiring new lands and buildings.



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 2008, liquid assets totaled 199.4 billion won, a 13.6% decrease from 230.8 billion won in 2007, marking a decline of 31.4 billion won. The company uses liquid assets to generate interest income and dividend income to maximize profits and to make new investments.



Assets / Liabilities / Shareholders' Equity

Total assets grew 29.7 billion won year-on-year, recording 493.2 billion won. At the same time, total liabilities grew by 36.0 billion won, recording 93.6 billion won. Transferred assets and liabilities from M&A with Paradise Hotel Dogo totaled 60.4 billion and 30.1 billion won, and stockholders' equity is not included among the transfers. The difference in transferred assets and liabilities are results of Paradise Hotel Dogo stock, book valued at 23.1 billion won, which Paradise owns and negative goodwill of 7.2 billion. Total stockholders' equity declined by 6.3 billion won, recording 399.6 billion won due to stock buyback, etc.