

Lotte Shopping Business
Management (Hong Kong) Limited
樂天購物(香港)商務管理有限公司

31 December 2014

Report of the directors

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2014.

Principal place of business

Lotte Shopping Business Management (Hong Kong) Limited (“the company”) is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Room 1808, 18F, Tower II, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

Principal activities

The principal activity of the company is to provide finance to its sole shareholder.

Financial statements

The loss of the company for the year ended 31 December 2014 and the state of the company’s affairs as at that date are set out in the financial statements on pages 5 to 26.

Transfer to reserves

Losses attributable to shareholder of RMB 48,037 (2013: loss of RMB 152,111) have been transferred to reserves. There were no other movements in reserves during the year.

Share capital

Details of the movements in share capital of the company during the year are set out in note 12(b) to the financial statements.

Directors

The directors during the financial year were:

CHANG, Ho Joo (appointed on 14 March 2014)

CHO, Young Je (appointed on 14 March 2014)

There being no provision in the company's articles of association in connection with the retirement of directors, all existing directors continue in office for the following year.

At no time during the year was the company, or any of its holding companies or fellow subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

No contract of significance to which the company, or any of its holding companies or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Director

Republic of Korea

Independent auditor's report to the shareholders of Lotte Shopping Business Management (Hong Kong) Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Lotte Shopping Business Management (Hong Kong) Limited ("the company") set out on pages 5 to 26, which comprise the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

Independent auditor's report to the shareholders of
Lotte Shopping Business Management (Hong Kong)
Limited (continued)
(Incorporated in Hong Kong with limited liability)

Auditor's responsibility (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Statement of profit or loss and other comprehensive income for the year ended 31 December 2014

(Expressed in Renminbi Yuan)

	Note	2014 RMB	2013 RMB
Interest income	2(a)	35,901,354	35,895,868
Interest expense	2(b)	<u>(32,048,021)</u>	<u>(32,156,734)</u>
Net interest income		3,853,333	3,739,134
Fee and commission expense	3(a)	<u>(3,750,000)</u>	<u>(3,750,000)</u>
Profit/(loss) from operations		103,333	(10,866)
Other operating expenses	3(b)	<u>(151,370)</u>	<u>(141,245)</u>
Loss before taxation		(48,037)	(152,111)
Income tax	4(a)	<u>-</u>	<u>-</u>
Loss and total comprehensive income for the year		<u><u>(48,037)</u></u>	<u><u>(152,111)</u></u>

The notes on pages 10 to 26 form part of these financial statements.

Statement of financial position at 31 December 2014

(Expressed in Renminbi Yuan)

	Note	2014 RMB	2013 RMB
Non-current assets			
Loan to shareholder	6	-	743,000,000
Current assets			
Loan to shareholder	6	743,000,000	-
Other receivables and accrued income	7	13,961,574	14,158,222
Prepaid expense		-	8,065
Cash and cash equivalents	8	6,089,750	4,127,058
		763,051,324	18,293,345
Current liabilities			
Other payables and accrued expenses	9	13,240,543	13,443,050
Interest-bearing borrowings	10	749,762,780	-
Current taxation	11	-	39,768
		763,003,323	13,482,818
Net current assets		48,001	4,810,527
Total assets less current liabilities		48,001	747,810,527
Non-current liabilities			
Interest-bearing borrowings	10	-	747,714,489
NET ASSETS		48,001	96,038

Statement of financial position at 31 December 2014
(continued)
(Expressed in Renminbi Yuan)

	Note	2014 RMB	2013 RMB
CAPITAL AND RESERVES			
Share capital: nominal value	12(b)	-	63,205
Other statutory capital reserves		<u>-</u>	<u>-</u>
Share capital and other statutory reserves	12(b)	63,205	63,205
Other reserves		<u>(15,204)</u>	<u>32,833</u>
TOTAL EQUITY		<u><u>48,001</u></u>	<u><u>96,038</u></u>

Approved and authorised for issue by the board of directors on

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The notes on pages 10 to 26 form part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2014
(Expressed in Renminbi Yuan)

	Note	Share capital RMB	Retained profits RMB	Total RMB
Balance at 1 January 2013		<u>63,205</u>	<u>184,944</u>	<u>248,149</u>
Changes in equity for 2013:				
Loss for the year		<u>-</u>	<u>(152,111)</u>	<u>(152,111)</u>
Balance at 31 December 2013 and 1 January 2014		<u>63,205</u>	<u>32,833</u>	<u>96,038</u>
Changes in equity for 2014:				
Loss for the year		<u>-</u>	<u>(48,037)</u>	<u>(48,037)</u>
Balance at 31 December 2014		<u>63,205</u>	<u>(15,204)</u>	<u>48,001</u>

The notes on pages 10 to 26 form part of these financial statements.

Cash flow statement
for the year ended 31 December 2014
(Expressed in Renminbi Yuan)

	Note	2014 RMB	2013 RMB
Operating activities			
Cash generated from operations	8(b)	<u>1,962,692</u>	<u>1,937,701</u>
Net cash generated from operating activities		<u>1,962,692</u>	<u>1,937,701</u>
Net increase in cash and cash equivalents		1,962,692	1,937,701
Cash and cash equivalents at 1 January 2014 and 1 December 2013	8(a)	<u>4,127,058</u>	<u>2,189,357</u>
Cash and cash equivalents at 31 December	8(a)	<u><u>6,089,750</u></u>	<u><u>4,127,058</u></u>

The notes on pages 10 to 26 form part of these financial statements.

Notes to the financial statements

(Expressed in Renminbi Yuan unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. A summary of the significant accounting policies adopted by the company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1 Significant accounting policies (continued)

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the company. None of these are relevant to the company's financial statements. The company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Other receivables

Other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Impairment losses for bad and doubtful debts are recognized when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the company about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Impairment losses for debtors and bills receivable included within other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the company is satisfied that recovery is remote, the amount considered irrecoverable is written off against debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

(e) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

1 Significant accounting policies (continued)

(f) Other payables

Other payables are initially recognized at fair value. Other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(h) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized.

1 Significant accounting policies (continued)

(i) Provisions and contingent liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(j) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the company and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Interest income

Interest income is recognized as it accrues using the effective interest method.

(k) Translation of foreign currencies

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

1 Significant accounting policies (continued)

(l) Related parties

- (a) A person, or a close member of that person's family, is related to the company if that person:
 - (i) has control or joint control over the company;
 - (ii) has significant influence over the company; or
 - (iii) is a member of the key management personnel of the company or the company's parent.
- (b) An entity is related to the company if any of the following conditions applies:
 - (i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 Interest income and interest expense

The principle activity of the company is to provide finance to its sole shareholder. The amounts of interest income and interest expense during the period were as follows:

	2014 RMB	2013 RMB
(a) Interest income:		
Interest income on bank deposits	14,207	8,974
Interest income on loan to shareholder	35,887,147	35,886,894
	<u>35,901,354</u>	<u>35,895,868</u>
(b) Interest expense:		
Interest expense on interest-bearing borrowings	<u>32,048,021</u>	<u>32,156,734</u>

3 Fee and commission expense and other operating expenses

	2014 RMB	2013 RMB
(a) Fee and commission expense		
Guarantee fee paid to ultimate holding company in respect of interest-bearing borrowings	<u>3,750,000</u>	<u>3,750,000</u>
(b) Other operating expenses		
Legal and secretarial fee	63,645	41,484
Auditors' remuneration - audit services	97,329	98,013
Bank charges	2,156	2,240
Gain on foreign exchange translation	(2,829)	(492)
Net miscellaneous income	<u>(8,931)</u>	<u>-</u>
	<u>151,370</u>	<u>141,245</u>

4 Income tax in the statement of profit or loss and other comprehensive income

(a) Taxation charged to profit or loss:

	2014 RMB	2013 RMB
Current tax - Hong Kong Profits Tax		
Provision for the year	-	-

No provision for Hong Kong Profit Tax has been made as the company did not generate any income assessable under Hong Kong Profit Tax during the year. The provision for Hong Kong Profits Tax for 2014 was calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the period.

(b) Reconciliation between tax charged to profit or loss and accounting (loss)/profit at applicable tax rates:

	2014 RMB	2013 RMB
Loss before taxation	(48,037)	(152,111)
Notional tax on loss before taxation at 16.5% (2013: 16.5%)	(7,926)	(25,098)
Tax effect of non-taxable income	(2,344)	(1,481)
Tax effect of unrecognised tax losses	10,270	26,579
Actual tax expense charged to profit or loss	-	-

There were no significant unrecognized deferred tax assets or liabilities as at 31 December 2014 and 2013.

5 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is Nil (2013: Nil).

6 Loan to shareholder

	<i>2014</i> RMB	<i>2013</i> RMB
Loan to shareholder	<u>743,000,000</u>	<u>743,000,000</u>

The loan was unsecured, bore interest rate of 4.83% per annum and repaid on 9 February 2015.

7 Other receivables and accrued income

	<i>2014</i> RMB	<i>2013</i> RMB
Accrued interest income on loan to shareholder	<u>13,961,574</u>	<u>14,158,222</u>

8 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	<i>2014</i> RMB	<i>2013</i> RMB
Cash at bank and in hand	<u>6,089,750</u>	<u>4,127,058</u>
Cash and cash equivalents in the cash flow statement	<u>6,089,750</u>	<u>4,127,058</u>

8 Cash and cash equivalents (continued)

(b) Reconciliation of loss before taxation to cash generated from operations:

	2014 RMB	2013 RMB
Loss before taxation	(48,037)	(152,111)
Adjustments for:		
Net finance income	2,048,291	2,156,867
Changes in working capital		
Decrease in other receivables and accrued income	196,648	6
Decrease/(increase) in prepaid expense	8,065	(8,065)
Decrease in other payables and accrued expenses	(242,275)	(58,996)
Cash generated from operations	<u>1,962,692</u>	<u>1,937,701</u>

9 Other payables and accrued expenses

	2014 RMB	2013 RMB
Accrued interest expense	11,671,113	11,835,633
Accrued guarantee expense due to ultimate holding company	1,458,904	1,479,452
Other payables	<u>110,526</u>	<u>127,965</u>
	<u>13,240,543</u>	<u>13,443,050</u>

All of other payables and accrued expenses are expected to be settled within one year.

The amount due to ultimate holding company is unsecured, bears no interest and payable on demand.

10 Interest-bearing borrowings

The analysis of the carrying amount of interest-bearing borrowings is as follows:

	<i>2014</i> RMB	<i>2013</i> RMB
RMB denominated bond	<u>749,762,780</u>	<u>747,714,489</u>

The interest-bearing borrowings are carried at amortized cost. The interest-bearing borrowings was settled on 9 February 2015.

Terms and conditions of the bond as follows:

	<i>Currency</i>	<i>Nominal interest rate</i>	<i>Year of maturity</i>	<i>Face value</i>	<i>Carrying amount</i>
Bond, secured	RMB	<u>4.00%</u>	2015	<u>750,000,000</u>	<u>749,762,780</u>

At 31 December 2014 and 2013, the bond was guaranteed by the ultimate holding company. The proceeds from the bond issued was used to furnish the loan to the shareholder (refer to note 6).

11 Income tax in the statement of financial position

Current taxation in the statement of financial position represents:

	<i>2014</i> RMB	<i>2013</i> RMB
Provision for Hong Kong Profits Tax	<u>-</u>	<u>39,768</u>

12 Capital, reserves and dividends

(a) Components of the company's capital and reserves

The opening and closing balances of each component of the company's equity and reconciliation between these amounts are set out in the statement of change in equity.

(b) Share capital

	2014		2013	
	No. of shares	US\$	No. of shares	US\$
Authorised: (note 1)				
Ordinary shares of US\$1 each (note 2)	=	=	10,000	10,000
	2014		2013	
	No. of shares	RMB	No. of shares	RMB
Ordinary shares, issued and fully paid				
At 1 January and 31 December	10,000	63,205	10,000	63,205

Note 1: Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorized share capital no longer exists.

Note 2: In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

12 Capital, reserves and dividends (continued)

(c) Capital management

The company's primary objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns to shareholder and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position and makes adjustments to the capital structure in light of changes in economic conditions.

The company is not subject to externally imposed capital requirements.

13 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the company's business.

(a) Credit risk

The company's credit risk is primarily attributable to loan to shareholder and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The company has a certain concentration of credit risk as 100% of the total loan to shareholder and other receivables that was due from a related party as at 31 December 2014 and 2013.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset at the balance sheet after deducting impairment allowance. The company does not provide any guarantees which would expose the company or the company to credit risk.

Further quantitative disclosures in respect of the company's exposure to credit risk arising from loan to share holder and other receivables are set out in note 6 and 7.

13 Financial risk management and fair values (continued)

(b) Liquidity risk

The company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the company's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the company and the company can be required to pay:

2014		<i>Contractual undiscounted cash outflow</i>			
	<i>Note</i>	<i>Within 1 year or on demand RMB</i>	<i>More than 2 years but less than 5 years RMB</i>	<i>Total RMB</i>	<i>Carrying amount at 31 December RMB</i>
Interest-bearing borrowings	10	750,000,000	-	750,000,000	749,762,780
Other payables and accrued expenses	9	13,240,543	-	13,240,543	13,240,543
2013		<i>Contractual undiscounted cash outflow</i>			
	<i>Note</i>	<i>Within 1 year or on demand RMB</i>	<i>More than 2 years but less than 5 years RMB</i>	<i>Total RMB</i>	<i>Carrying amount at 31 December RMB</i>
Interest-bearing borrowings	10	-	750,000,000	750,000,000	747,714,489
Other payables and accrued expenses	9	13,443,050	-	13,443,050	13,443,050

13 Financial risk management and fair values (continued)

(c) Interest rate risk

The company's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the company to cash flow interest rate risk and fair value interest rate risk respectively.

At 31 December 2014 and 2013, the company's all borrowings were fixed interest rate.

(i) Interest rate profile

The following table details the interest rate profile of the company's net borrowings at the end of the reporting period:

	<i>Effective interest rate %</i>	<i>2014 RMB</i>	<i>2013 RMB</i>
Net fixed rate borrowings:			
Bond issued, secured	4.28	750,000,000	750,000,000
Loan to shareholder	4.83	(743,000,000)	(743,000,000)
		7,000,000	7,000,000
Variable rate borrowings:		-	-
Total net borrowings		7,000,000	7,000,000
Net fixed rate borrowings as a percentage of total net borrowings		100%	100%

(d) Currency risk

The company's functional currency is Renminbi Yuan. The company is exposed to low currency risk given low ratio of transaction and balances that are denominated in currency other than the functional currency.

13 Financial risk management and fair values (continued)

(d) Currency risk (continued)

(i) Exposure to currency risk

The following table details the company's exposure at the end of the reporting period to currency risk arising from recognized assets or liabilities denominated in a currency other than the company's functional currency of Renminbi Yuan. For presentation purposes, the amounts of the exposure are expressed in Renminbi Yuan.

	2014 United States Dollars	2013 United States Dollars
Cash and cash equivalents	390	2,175
Net exposure to currency risk	390	2,175

(ii) Sensitivity analysis

The following table indicates the instantaneous change on the company's profit after tax and retained profits that would arise if foreign exchange rates to which the company has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

	Increase/ (decrease) in foreign exchange rates	2014 Effect on profit after tax and retained profits RMB	2013 Effect on profit after tax and retained profits RMB
United States Dollars	0.5% (0.5%)	2 (2)	11 (11)

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments which expose the company to foreign currency risk at the end of the reporting period.

13 Financial risk management and fair values (continued)

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2014 and 2013.

14 Material related party transactions

(a) Transactions with related parties

In addition to the directors' remuneration as disclosed in note 5, during the period, the company entered into the following material related party transactions:

	2014 RMB	2013 RMB
Interest income due from shareholder	35,887,147	35,886,894
Guarantee fee due to ultimate holding company	<u>3,750,000</u>	<u>3,750,000</u>

(b) Balances with related parties

The outstanding balances arising from transactions at the end of the reporting period are as follows:

	2014 RMB	2013 RMB
Loan to shareholder	743,000,000	743,000,000
Accrued interest income due from shareholder	13,961,574	14,158,222
Amounts due to ultimate holding company in respect of guarantee provided	<u>1,458,904</u>	<u>1,479,452</u>

15 Immediate and ultimate controlling party

At 31 December 2014, the directors consider the immediate holding company and ultimate controlling party of the company to be Lotte Shopping Holdings (Hong Kong) Co., Ltd and Lotte Shopping Co., Ltd respectively, which are incorporated in Hong Kong and Korea respectively. Lotte Shopping Co., Ltd produces financial statements available for public use.

16 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2014

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the company.

	Effective for accounting periods beginning on or after
<i>Annual improvements to HKFRSs 2010-2012 cycle</i>	1 July 2014
<i>Annual improvements to HKFRSs 2011-2013 cycle</i>	1 July 2014
<i>Annual improvements to HKFRSs 2012-2014 cycle</i>	1 January 2016
<i>Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation</i>	1 January 2016
<i>HKFRS 15, Revenue from contracts with customers</i>	1 January 2017
<i>HKFRS 9, Financial instruments</i>	1 January 2018

The company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's results of operations and financial position.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the company's first financial year commencing after 3 March 2014 (i.e. the company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The company is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the financial statements.