

LOTTE SHOPPING CO., LTD.

Non-Consolidated Financial Statements

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

Based on a report originally issued in Korean

To the Stockholders and Board of Directors
Lotte Shopping Co., Ltd.;

We have audited the accompanying non-consolidated balance sheets of Lotte Shopping Co., Ltd. (the "Company") as of December 31, 2007 and 2006, and the related non-consolidated statements of income, appropriation of retained earnings and cash flows for the years then ended and of changes in equity for the year ended December 31, 2007. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit.

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 used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lotte Shopping Co., Ltd. as of December 31, 2007 and 2006, the results of its operations, the appropriation of its retained earnings, and its cash flows for the year then ended, and the changes in equity for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the Republic of Korea.

The accompanying non-consolidated financial statements as of and for the year ended December 31, 2007 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the non-consolidated financial statements expressed in Korean Won have been translated into dollars on the basis set forth in note 2 to the non-consolidated financial statements.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 1(b) to the non-consolidated financial statements, 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 financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable in Korean accounting principles and auditing standards and their application in practice.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 14, 2008

This report is effective as of February 14, 2008, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LOTTE SHOPPING CO., LTD.

Non-Consolidated Balance Sheets

December 31, 2007 and 2006

<u>Assets</u>	<u>Korean Won (millions)</u>		<u>U.S. dollars</u> <u>(thousands)</u> <u>(note 2)</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Current assets:			
Cash and cash equivalents (note 9)	₩ 467,026	747,586	\$ 497,789
Short-term financial instruments (notes 3, 12 and 13)	318,985	1,426,527	339,996
Trade accounts receivable, net of allowance for doubtful accounts of ₩2,838 million in 2007 and ₩2,802 million in 2006 (note 8)	247,543	230,172	263,849
Other accounts receivable, net of allowance for doubtful accounts of ₩1,164 million in 2007 and ₩1,719 million in 2006 (note 8)	55,515	41,641	59,172
Advance payments, net of allowance for doubtful accounts of ₩379 million in 2007 and ₩369 million in 2006 (note 8)	11,585	36,638	12,348
Inventories (notes 4 and 8)	1,017,880	946,137	1,084,929
Other current assets (note 6)	34,754	36,405	37,044
Total current assets	2,153,288	3,465,106	2,295,127
Non-current assets:			
Available-for-sale securities (notes 5 and 12)	102,965	115,342	109,748
Equity method investment securities (note 5)	2,112,201	1,433,835	2,251,334
Other investment assets (note 11)	16,602	129,133	17,695
Property, plant and equipment, net of accumulated depreciation of ₩1,611,546 million in 2007 and ₩1,321,278 million in 2006 (notes 8, 9 and 35)	6,740,876	6,111,108	7,184,903
Intangible assets (notes 10, 32 and 35)	112,524	35,592	119,936
Long-term prepaid expenses	161,226	142,086	171,846
Long-term advance payments	98,418	83,686	104,901
Guarantee deposits (notes 8 and 17)	459,555	356,426	489,826
Total non-current assets	9,804,367	8,407,208	10,450,189
Total assets	₩ 11,957,655	11,872,314	\$ 12,745,316

LOTTE SHOPPING CO., LTD.

Non-Consolidated Balance Sheets, Continued

December 31, 2007 and 2006

<u>Liabilities and Stockholders' Equity</u>	<u>Korean Won (millions)</u>		<u>U.S. dollars</u> <u>(thousands)</u> <u>(note 2)</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Current liabilities:			
Trade accounts payable (notes 8 and 13)	₩ 1,613,779	1,548,170	\$ 1,720,080
Other accounts payable (notes 8 and 13)	381,357	439,953	406,476
Advances from customers (note 8)	14,435	18,462	15,386
Accrued expenses (notes 8 and 13)	120,816	116,667	128,774
Accrual for gift certificates	322,108	301,326	343,326
Current portion of debentures, net of discount on debentures of ₩442 million in 2007 and ₩1,167 million in 2006 (notes 13 and 16)	549,558	656,721	585,758
Current portion of long-term borrowings (notes 13 and 15)	-	65,072	-
Income taxes payable (note 26)	195,873	124,296	208,776
Accrual for bonus cards (note 19)	29,362	23,284	31,296
Current derivative liabilities	-	25,375	-
Other current liabilities (note 14)	65,323	58,646	69,626
Total current liabilities	3,292,611	3,377,972	3,509,498
Long-term liabilities:			
Debentures, net of discount of ₩1,685 million in 2006 (note 16)	-	548,315	-
Leasehold deposits (note 17)	246,011	252,801	262,215
Accrual for retirement and severance benefits, net (note 18)	43,265	45,431	46,116
Deferred income tax liabilities (note 26)	192,215	131,942	204,876
Total long-term liabilities	481,491	978,489	513,207
Total liabilities	3,774,102	4,356,461	4,022,705
Stockholders' equity:			
Common stock of ₩5,000 par value (note 20) Authorized - 60,000,000 shares Issued and outstanding - 29,043,374 shares	145,217	145,217	154,782
Capital surplus (note 20)	4,650,895	4,650,895	4,957,254
Accumulated other comprehensive income (note 21)	98,892	84,349	105,406
Retained earnings (note 22)	3,288,549	2,635,392	3,505,169
Total stockholders' equity	8,183,553	7,515,853	8,722,611
Commitments and contingencies (note 28)			
Total liabilities and stockholders' equity	₩ 11,957,655	11,872,314	\$ 12,745,316

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

Non-Consolidated Statements of Income

Years ended December 31, 2007 and 2006

	Korean Won (millions, except for earnings per share)		U.S. dollars (thousands, except for earnings per share)
	2007	2006	2006
Sales (notes 8, 17, 23, 24, 28 and 35)	₩ 9,768,132	9,055,880	\$ 10,411,567
Cost of sales (notes 8, 23 and 24)	<u>6,844,893</u>	<u>6,383,540</u>	<u>7,295,772</u>
Gross profit	2,923,239	2,672,340	3,115,795
Selling and administrative expenses (notes 8 and 25)	<u>2,166,568</u>	<u>1,922,968</u>	<u>2,309,282</u>
Operating income (note 35)	<u>756,671</u>	<u>749,372</u>	<u>806,513</u>
Non-operating income:			
Interest income	66,149	111,275	70,506
Dividend income	1,881	1,795	2,005
Gain on foreign currency transactions	4,910	3,282	5,234
Unrealized gain on foreign currency translation	-	8,363	-
Equity in income of affiliates (note 5)	209,129	234,609	222,904
Unrealized gain on reclassification of available-for-sale securities	-	39,821	-
Others	<u>22,679</u>	<u>31,732</u>	<u>24,173</u>
	<u>304,748</u>	<u>430,877</u>	<u>324,822</u>
Non-operating expenses:			
Interest expense	36,524	87,318	38,930
Loss on foreign currency transactions	161	16,297	171
Unrealized loss on foreign currency translation	5	25,781	5
Equity in losses of affiliates (note 5)	38,746	6,246	41,298
Unrealized loss on valuation of derivative instruments	-	8,340	-
Loss on derivative instruments transactions	190	17	203
Loss on disposition of property, plant and equipment	642	19,216	685
Others	<u>30,398</u>	<u>31,091</u>	<u>32,400</u>
	<u>106,666</u>	<u>194,306</u>	<u>113,692</u>
Income before income taxes	954,753	985,943	1,017,643
Income taxes (note 26)	<u>265,292</u>	<u>246,099</u>	<u>282,767</u>
Net income	₩ <u>689,461</u>	<u>739,844</u>	\$ <u>734,876</u>
Basic earnings per share in Won and U.S. dollars (note 27)	₩ <u>23,739</u>	<u>26,399</u>	\$ <u>25.30</u>

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

Non-Consolidated Statements of Appropriation of Retained Earnings

Years ended December 31, 2007 and 2006

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Unappropriated retained earnings:			
Balance at beginning of year	₩ 13,328	9,878	\$ 14,207
Changes of equity in retained earnings of equity method investees	-	3,541	-
Net income	<u>689,461</u>	<u>739,844</u>	<u>734,876</u>
Balance at end of year before appropriation (note 22)	702,789	753,263	749,083
Transfer from voluntary reserves:			
Reserve for finance structure improvement	<u>5</u>	<u>-</u>	<u>6</u>
Unappropriated retained earnings available for appropriation	<u>702,794</u>	<u>753,263</u>	<u>749,089</u>
Appropriation of retained earnings:			
Legal reserve	3,630	3,630	3,870
Voluntary reserve	650,000	700,000	692,816
Cash dividends (note 29)	<u>36,304</u>	<u>36,304</u>	<u>38,696</u>
	<u>689,934</u>	<u>739,934</u>	<u>735,382</u>
Unappropriated retained earnings to be carried over to subsequent year	₩ <u><u>12,860</u></u>	<u><u>13,329</u></u>	\$ <u><u>13,707</u></u>

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

Non-Consolidated Statement of Changes in Shareholders' Equity

Years ended December 31, 2007

	Korean Won (millions)					U.S. dollars (thousands) (note 2)
	Capital stock	Capital surplus	Accumulated other comprehensive income	Retained earnings	Total equity	Total equity
Balance at January 1, 2007	₩ 145,217	4,650,895	84,349	2,635,392	7,515,853	\$ 8,010,929
Net income	-	-	-	689,461	689,461	734,876
Payment of cash dividends	-	-	-	(36,304)	(36,304)	(38,696)
Unrealized gain on valuation of available-for-sale securities	-	-	11,746	-	11,746	12,520
Unrealized loss on valuation of equity method investments	-	-	3,040	-	3,040	3,241
Unrealized loss on valuation of derivative instruments	-	-	(243)	-	(243)	(259)
Balance at December 31, 2007	₩ <u>145,217</u>	<u>4,650,895</u>	<u>98,892</u>	<u>3,288,549</u>	<u>8,183,553</u>	\$ <u>8,722,611</u>

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

Non-Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Cash flows from operating activities:			
Net income	₩ 689,461	739,844	\$ 734,876
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	305,028	265,336	325,121
Amortization of intangibles	27,350	15,838	29,151
Bad debt expense	506	297	539
Provision for retirement and severance benefits	38,045	31,267	40,551
Loss on inventory shrinkage	9,032	7,445	9,627
Loss on valuation of inventory	4,320	1,436	4,604
Amortization of discount on debentures	2,410	8,134	2,569
Loss on valuation of equity method investment securities	38,746	6,246	41,298
Loss on valuation of derivative instruments	-	8,340	-
Loss on disposition of property, plant and equipment	642	19,216	685
Loss on foreign currency translation	5	25,781	5
Gain on foreign currency translation	-	(8,363)	-
Gain on valuation of equity method investment securities	(209,129)	(234,609)	(222,904)
Unrealized gain on valuation of associate's share to exercise significant influence	-	(39,821)	-
Others	709	(3,482)	757
Changes in operating assets and liabilities:			
Trade accounts receivable	(17,515)	(51,003)	(18,669)
Other accounts receivable	(11,038)	79,978	(11,766)
Accrued interest income	(4,540)	(7,855)	(4,839)
Advance payments	8,858	(14,361)	9,441
Inventories	(85,096)	(133,581)	(90,701)
Other current assets	5,232	(9,147)	5,576
Long-term prepaid expenses	(18,946)	(30,537)	(20,194)
Trade accounts payable	65,606	173,263	69,928
Other accounts payable	(50,044)	148,295	(53,340)
Advances from customers	(4,027)	(3,325)	(4,292)
Accrued expenses	4,222	849	4,500
Income taxes payable	71,577	20,713	76,292
Accrual for gift certificates	20,783	30,149	22,151
Accrual for mileage	6,078	1,933	6,478
Other current liabilities	6,678	11,857	7,117
Decrease in the National Pension Fund	(2)	29	(2)
Payment of retirement and severance benefits	(26,355)	(11,531)	(28,091)
Decrease in severance benefit deposit	(16,912)	(12,040)	(18,026)
Others	55,318	50,133	58,964
Net cash provided by operating activities	917,002	1,086,724	977,406

LOTTE SHOPPING CO., LTD.

Non-Consolidated Statements of Cash Flows, Continued

Years ended December 31, 2007 and 2006

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Cash flows from investing activities:			
Cash inflows from investing activities:			
Withdrawal of short-term financial instruments	₩ 2,546,806	2,582,903	\$ 2,714,567
Refund of guarantee deposits	11,653	26,976	12,421
Proceeds from disposition of property, plant and equipment	21,090	27,010	22,481
Others	4,544	4,105	4,841
	<u>2,584,093</u>	<u>2,640,994</u>	<u>2,754,310</u>
Cash outflows from investing activities:			
Purchase of short-term financial instruments	(1,439,264)	(4,023,027)	(1,534,069)
Purchase of available-for-sale securities	(10,944)	(47,691)	(11,665)
Purchase of equity method investment securities	(342,129)	(14,452)	(364,666)
Payment of guarantee deposits	(78,729)	(75,232)	(83,914)
Purchase of property, plant and equipment	(1,002,121)	(940,523)	(1,068,132)
Additions to intangible assets	(47,246)	(13,478)	(50,358)
Others	(69,458)	(186,990)	(74,034)
	<u>(2,989,891)</u>	<u>(5,301,393)</u>	<u>(3,186,838)</u>
Net cash used in investing activities	<u>(405,798)</u>	<u>(2,660,399)</u>	<u>(432,528)</u>
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from short-term borrowings	252	45,276	269
Proceeds from issuance of common stock, net	-	3,549,434	-
Receipt of leasehold deposits	18,821	66,806	20,060
	<u>19,073</u>	<u>3,661,516</u>	<u>20,329</u>
Cash outflows from financing activities:			
Repayment of short-term borrowings	(252)	(629,307)	(269)
Redemption of debentures	(683,598)	(700,000)	(728,627)
Repayment of long-term borrowings	(65,072)	-	(69,358)
Repayment of leasehold deposits received	(25,611)	(33,482)	(27,298)
Dividends paid	(36,304)	(15,000)	(38,696)
	<u>(810,837)</u>	<u>(1,377,789)</u>	<u>(864,248)</u>
Net cash provided by (used in) financing activities	<u>(791,764)</u>	<u>2,283,727</u>	<u>(843,919)</u>
Net increase (decrease) in cash and cash equivalents	(280,560)	710,052	(299,041)
Cash and cash equivalents at beginning of year	<u>747,586</u>	<u>37,534</u>	<u>796,830</u>
Cash and cash equivalents at end of year	₩ <u>467,026</u>	<u>747,586</u>	\$ <u>497,789</u>

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements

(a) Organization and Description of Business

Lotte Shopping Co., Ltd. (the "Company") was established on July 2, 1970 in the Republic of Korea to engage in retail operations through department stores, discount stores and supermarkets. In addition to the retail operations, the Company's businesses include, among other things, a chain of multiplex movie theaters operating under the brand name Lotte Cinema, and a food manufacturing division. The Company was listed on the Korea Exchange and London Stock Exchange through an initial public offering in February 2006.

The stockholders of the Company as of December 31, 2007 are as follows:

<u>Stockholder</u>	<u>Number of shares</u>	<u>Ownership (%)</u>
Shin Dong Bin	4,237,627	14.6%
Shin Dong Ju	4,235,883	14.6%
Shin Kyuk Ho	353,577	1.2%
Shin Young Ja	228,962	0.8%
Hotel Lotte Co., Ltd.	2,697,201	9.3%
Korea Fuji Film Co., Ltd.	2,474,543	8.5%
Lotte Confectionery Co., Ltd.	2,474,543	8.5%
Lotte Data Communication Company	1,515,653	5.2%
Lotte Chilsung Beverage Co., Ltd.	1,237,272	4.3%
Lotte Engineering & Construction Co., Ltd.	300,019	1.0%
Hotel Lotte Pusan Co., Ltd.	246,720	0.8%
Others	<u>9,041,374</u>	<u>31.2%</u>
Total	<u>29,043,374</u>	<u>100.0%</u>

(b) Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea (Korean GAAP). Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these non-consolidated financial statements are intended solely for use by only those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. Certain information included in the Korean language non-consolidated financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(b) Basis of Presenting Financial Statements, Continued

The accompanying non-consolidated financial statements include only the accounts of the Company, and do not consolidate the accounts of any of its subsidiaries. Instead, these subsidiaries are accounted for under the equity method of accounting (note 5).

Effective January 1, 2007, the Company adopted Statements of Korea Accounting Standards ("SKAS") No. 11 (*Discontinued Operations*), No. 21 (*Preparation and Presentation of Financial Statements*), No. 22 (*Share-based Payment*), and No. 23 (*Earnings per Share*). The adoption of these standards did not have a significant impact on the accompanying non-consolidated financial statements. Certain accounts of prior year's non-consolidated financial statements have been reclassified to conform to the current year's presentation. These reclassifications have not resulted in any change to reported net income or stockholders' equity.

(c) Changes in Presentation of Financial Statements

According to SKAS No. 21, *Preparation and Presentation of Financial Statements*, a statement of changes in equity has been included in the financial statements and the capital adjustment account has been split into capital adjustments and accumulated other comprehensive income. Only the current year's statement of changes in equity is required to be presented in the financial statements in the year of adoption of the standard. In addition, a statement of comprehensive income has been included in the notes to the financial statements.

(d) Revenue Recognition

The Company recognizes revenue from the sale of goods when the goods are delivered. Revenues from the sale of apartments in lots are recognized using the percentage-of-completion method, measured principally by the percentage of costs incurred to total estimated contract costs. Revenue other than the sale of goods and apartments in lots is recognized when the Company's revenue-earning activities have been substantially completed, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company.

According to SKAS No. 4, *Revenue Recognition*, the Company recognizes sales of merchandise for which the Company bears the overall risk for inventories, such as purchase contracts containing the condition that the merchandise may only be returned for a full refund prior to the end of the relevant season (for seasonal merchandise) or within 90 days from delivery (for non-seasonal merchandise) and others, on a gross basis and records relevant inventories and accounts payable in the accompanying non-consolidated balance sheets.

The Company recognizes sales of merchandise which is supplied on condition that they may be returned at any time on a net basis, after deducting the cost of such merchandise, which is not included in cost of sales.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(e) Allowance for Doubtful Accounts

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection. However, when the principal of trade accounts and notes receivable, interest rate or repayment period are changed unfavorably for the creditor by a court imposition, such as on commencement of reorganization, or by mutual agreements and the difference between nominal value and present value is material, the difference is recognized as bad debt expense.

(f) Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs. The costs of inventories are determined as follows:

	Retail business segment (excluding Mart Division)	Retail business segment (Mart Division)	Food manufacturing and apartments sale business segment
Merchandise and finished goods	Retail method	Gross average method	Gross average method
Materials-in-transit	Specific identification method	Specific identification method	Specific Identification method
Others	First-in, first-out method	First-in, first-out method	Gross average method

The amounts of any write-down of inventories to net realizable value due to obsolescence or excess inventory and other losses of inventories occurring in the normal course of business are recognized as cost of goods sold and such valuation losses are deducted from the inventories as allowance for valuation losses.

The Company recognizes interest costs and other financial charges on borrowings associated with inventories that require a long period in the acquisition, construction or production as an expense in the period in which they are incurred.

The Company changed its method of valuation of inventories from the retail method to the gross average method for merchandise and finished goods of the Mart Division from January 1, 2007. The cumulative effect of this change on net income cannot be determined with reasonable accuracy and, accordingly, the effect of the change has not been accounted for retroactively. The effect of this change in the valuation of inventory on assets as of December 31, 2007 and cost of sales for the year ended December 31, 2007, was a decrease and an increase, respectively, by ₩1,153 million. Net income and retained earnings for the year ended December 31, 2007, net of the effect of income taxes, each decreased by ₩836 million.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(g) Investments in Securities (excluding investments in associates, subsidiaries and joint ventures)(i) Classification

Upon acquisition, the Company classifies debt and equity securities (excluding investments in subsidiaries, associates and joint ventures) into the following categories: held-to-maturity, available-for-sale or trading securities. This classification is reassessed at each balance sheet date.

Investments in debt securities where the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are acquired principally for the purpose of selling in the short term are classified as trading securities. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

(ii) Initial recognition

Investments in securities (excluding investments in subsidiaries, associates and joint ventures) are initially recognized at cost.

(iii) Subsequent measurement and income recognition

Trading securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of trading securities are included in the income statement in the period in which they arise. Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized as accumulated other comprehensive income, net of tax, directly in equity. Investments in available-for-sale securities that do not have readily determinable fair values are recognized at cost less impairment, if any. Held-to-maturity investments are carried at amortized cost with interest income and expense recognized in the income statement using the effective interest method.

(iv) Fair value information

The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable debt securities are fair valued by discounting cash flows using the prevailing market rates for debt with a similar credit risk and remaining maturity. Credit risk is determined using the Company's credit rating as announced by accredited credit rating agencies in Korea. The fair value of investments in money market funds is determined by investment management companies.

(v) Presentation

Trading securities are presented as current assets. Available-for-sale securities, which mature within one year from the balance sheet date or where the likelihood of disposal within one year from the balance sheet date is probable, are presented as current assets. Held-to-maturity securities, which mature within one year from the balance sheet date, are presented as current assets. All other available-for-sale securities and held-to-maturity securities are presented as non-current assets.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(g) Investments in Securities (excluding investments in associates, subsidiaries and joint ventures), Continued(vi) Impairment

The Company reviews investments in securities whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Impairment losses are recognized when the reasonably estimated recoverable amounts are less than the carrying amount and it is not obviously evidenced that impairment is unnecessary.

(h) Investments in Associates and Subsidiaries

Associates are all entities over which the Company has the ability to significantly influence the financial and operating policies and procedures, generally accompanying a shareholding of over 20 per cent of the voting rights. Subsidiaries are entities controlled by the Company.

Investments in associates and subsidiaries are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's investments in associates and subsidiaries include goodwill identified on acquisition (net of any accumulated impairment loss). Goodwill is calculated as the excess of the acquisition cost of an investment in an associate or subsidiary over the Company's share of the fair value of the identifiable net assets acquired. Goodwill is amortized using the straight-line method over its estimated useful life. Amortization of goodwill is recorded together with equity income (losses).

When events or circumstances indicate that the carrying value of goodwill may not be recoverable, the Company reviews goodwill for impairment and records any impairment loss immediately in the statement of income.

The Company's share of its post-acquisition profits or losses in investments in associates and subsidiaries is recognized in the income statement, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of each investment. Changes in the carrying amount of an investment resulting from dividends by an associate or subsidiary are recognized when the associate or subsidiary declares the dividend. When the Company's share of losses in an associate or subsidiary equals or exceeds its interest in the associate or subsidiary, including preferred stock or other long term loans and receivables issued by the associate or subsidiary, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or subsidiary. Unrealized gains on transactions between the Company and its associates or subsidiaries are eliminated to the extent of the Company's interest in each associate or subsidiary.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(i) Joint Venture Investments

Joint ventures are those entities or assets over whose activities the Company has joint control.

In respect to jointly controlled operations, the Company includes, in its non-consolidated financial statements, the assets that it controls and the liabilities and expenses it has incurred, plus its share of the income from the joint operation. For its interest in jointly controlled assets, the Company recognizes, in the non-consolidated financial statements, its share of the assets it jointly controls, the liabilities jointly incurred and net income, plus the liabilities and expenses it has solely incurred, if any. In addition, the Company accounts for its interest in a jointly controlled entity using the equity method of accounting.

(j) Property, Plant and Equipment

Property, plant and equipment are stated at cost, except in the case of revaluations made in accordance with the Asset Revaluation Law which allowed for asset revaluation prior to the Law being revoked. Assets acquired through investment in kind or donation, are recorded at their fair value upon acquisition. For assets acquired in exchange for a non-monetary asset, the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

Significant additions or improvements extending useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

Depreciation is computed by the straight-line method for buildings, structures and machinery of the retail business segment over their respective estimated useful lives and by the declining-balance method for machinery of the other business segment, vehicles, equipment decorations and other equipment using rates based on useful lives as follows:

	<u>Useful lives (years)</u>
Buildings	10 – 30
Structures	10 – 30
Machinery	4 – 30
Vehicles	4
Decorating equipment	4
Other equipment	4

The Company recognizes interest costs and other financial charges on borrowings associated with the production, acquisition, construction of property, plant and equipment as an expense in the period in which they are incurred.

The Company reviews the property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the expected estimated undiscounted future net cash flows from the use of the asset and its eventual disposal are less than its carrying amount.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(k) Intangible Assets

Intangible assets are stated at cost, net of accumulated amortization. Subsequent expenditures on intangible assets after their purchases or completion, which enable the assets to generate future economic benefits and which can be measured and attributed to the assets reliably, are treated as additions to intangible assets.

The copyright on a film is the production cost paid to a film producing company and the importing cost of a foreign film. The copyright on a film is stated at cost for the period of related revenue recognition. In addition, impairment loss on intangible assets is recognized when the realization of the revenue is uncertain.

The Company accounts for acquisitions of businesses assuming that the transaction occurs as of the date closest to the most recent quarter end (the deemed acquisition date). Goodwill, which represents the excess of the acquisition cost over the fair value of net identifiable assets acquired, is amortized on a straight-line basis over the estimated useful life. The impairment loss on the goodwill is recognized when the goodwill's recoverable amount declines below its carrying amount and its amount is material.

Amortization is computed using the straight-line method over the estimated useful lives as follows:

	<u>Useful lives (years)</u>
Goodwill	10
Industrial property rights	5
Rights to use a water supply facility	10
Rights to use an electricity supply facility	10
Rights to use a gas supply facility	10
Rights to use a facility	20
License	5~10
Copyrights	Duration of related revenue to be realized
Others	5

When the recoverable amount of the intangible assets is substantially below the carrying amount of the assets due to obsolescence or a sharp decline in their market value and others, the Company reduces the carrying amount to the recoverable amount and the amount impaired is recognized as an impairment loss.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(l) Leases

The Company accounts for and classifies its lease transactions as either an operating or capital lease, depending on the terms of the lease under Korean Lease Accounting Standards.

If a lease meets one or more of the criteria listed below, the present value of future minimum lease payments is reflected as an obligation under capital lease. Otherwise, it is classified as an operating lease with lease payments expensed as incurred.

- Ownership of the leased property will be transferred to the lessee at the end of the lease term.
- The lease has a bargain purchase option which is reasonably certain to be exercised, at the inception of the lease.
- The lease term is equal to 75% or more of the estimated economic useful life of the leased property.
- The present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the fair value of the leased property.

In addition, if the leased property is specialized to the extent that only the lessee can use it without any major modification, it would be considered a capital lease.

Where the Company is a lessee under a capital lease, the present value of future minimum lease payments is capitalized and a corresponding liability is recognized. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(m) Discount on Debentures

Discount on debentures issued, which represents the difference between the face value and issuance price of debentures, is amortized using the effective interest method over the life of the debentures. The amount amortized is included in interest expense.

(n) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on current salary rates and length of service when they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying non-consolidated balance sheets. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying non-consolidated balance sheets as a reduction of the liability for retirement and severance benefits.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(o) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains or losses recognized in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩938.2 to US\$1, the rate of exchange on December 31, 2007 that is permitted by the Financial Accounting Standards. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate on the date of the transaction.

Foreign currency assets and liabilities of foreign-based operations and companies accounted for using the equity method are translated at the rate of exchange at the balance sheet date. Foreign currency amounts in the statement of income are translated using an average rate and foreign currency balances in the capital account are translated using the historical rate. Translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based operations are recorded net as accumulated other comprehensive income. These gains and losses are subsequently recognized as income in the year the foreign operations or the companies are liquidated or sold.

(p) Derivatives

All derivative instruments are accounted for at fair value as an asset or liability according to derivative contracts. If the derivative instrument is not part of a qualified hedge transaction, the adjustment to the fair value is reflected in current operations. Accounting for derivative transactions that are part of a qualified hedge, based both on the purpose of the transactions and on meeting the specified criteria for hedge accounting, differs depending on whether the transaction is a fair value hedge or a cash flow hedge.

Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset, a liability, or a firm commitment, (hedged item), that is attributable to a particular risk. The unrealized gain or loss on valuation of derivative is recognized in current operations.

Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the cash flows of a forecasted transaction. The hedge-effective portion of the derivative's gain or loss is deferred as a capital adjustment, a component of stockholder's equity. The deferred gain or loss will be adjusted to the related asset or liability resulted from the forecasted transaction, or adjusted to income when the forecasted transaction affects the income statement. The ineffective portion of the gain or loss is charged or credited to current results of operations.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(q) Provisions and Contingent Liabilities

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is recorded at the present value of the expenditures expected to be required to settle the obligation.

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The expense relating to a provision is presented net of the amount recognized for a reimbursement.

(r) Liability for Gift Certificates

Gift certificates are recognized as liabilities when they are sold and as sales when they are redeemed.

(s) Income Taxes

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference for those with no related asset or liability such as loss carryforwards and tax credit carryforwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

(t) Earnings Per Share

Earnings per common share are calculated by dividing net income by the weighted-average number of shares of common stock outstanding during each period.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(u) Use of Estimates

The preparation of non-consolidated financial statements in accordance with Korean GAAP requires management to make estimates and assumptions that affect the amounts reported in the non-consolidated financial statements and related notes to non-consolidated financial statements. Actual results could differ from those estimates.

(2) Basis of Translating the Non-Consolidated Financial Statements

The non-consolidated financial statements are expressed in Korean Won and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ₩938.2 to US\$1, the basic exchange rate on December 31, 2007. This translation should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

(3) Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2007 and 2006 are as follows:

<u>Account</u>	<u>Depository</u>	<u>Korean Won (millions)</u>		<u>U.S. dollars</u>
		<u>2007</u>	<u>2006</u>	<u>(thousands)</u> <u>(note 2)</u> <u>2007</u>
Short-term financial instruments:				
Guarantee deposits of contracts	Busan Bank	₩ 1,985	1,806	\$ 2,115
Long-term financial instruments:				
Guarantee deposits for checking accounts	Shinhan Bank and others	31	33	33
Total		₩ <u>2,016</u>	<u>1,839</u>	\$ <u>2,148</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(4) Inventories

(a) Inventories as of December 31, 2007 and 2006 are as follows:

Description	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Merchandise	₩ 979,499	906,761	\$ 1,044,019
Finished goods	3,974	1,867	4,236
Raw materials	2,935	2,569	3,129
Supplies	942	937	1,004
Materials-in-transit	811	1,310	864
Plots of land	22,804	30,418	24,306
Unfinished housing units	6,915	2,275	7,371
Total	₩ 1,017,880	946,137	\$ 1,084,929

(b) Loss on inventory shrinkage and loss on valuation of inventory for the year ended December 31, 2007 are ₩9,032 million and ₩4,320 million, respectively.

(5) Investment in Securities

Investments in securities as of December 31, 2007 and 2006 are as follows:

(a) Available-for-sale securities

(i) Equity securities

Description	Owned shares	Korean Won (millions)			
		2007	2006	2007	2006
		Cost	Fair value	Book value	Book value
Marketable securities (*1):					
Busan Bank (*2)	3,892,318	₩ 18,041	61,109	61,109	45,151
Shinhan Financial Group	271,662	1,584	14,534	14,534	12,904
Eyesvision Corporation	16,880	491	73	73	53
Korea Investment Corporation	10,869	100	16	16	32
Subtotal		20,216	75,732	75,732	58,140

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(5) Investment in Securities, Continued(a) Available-for-sale securities, continued

Description	Owned shares	Korean Won (millions)		
		2007		2006
		Cost	Book value	Book value
Non-marketable securities (*3):				
Lotte Giants (*4)	6,000	₩ 30	30	30
Korea Foods Industry Association	-	5	5	5
Hankyung Economic Daily	1,722	31	31	31
Agentrics	4,768,731	865	865	865
I Venture Media Investment Union	14	700	700	700
So Big 5 Contents Investment Union	18	1,800	1,800	1,800
M-ciety Development Co., Ltd.	441,000	2,205	2,205	1,960
M-ciety Co., Ltd.	2,940	15	15	15
Corona Development (formerly Incheon PF)	172,000	860	860	100
Lakepark AMC (*4)	14,340	72	72	72
Zara Retail Korea Co., Ltd.	2,600	130	130	-
STX Construction Industrial Co., Ltd	139	1	1	-
Woori Home Shopping & Television	-	-	-	28,600
Lotteshopping RUS	-	-	-	7,137
Lotte Vietnam Shopping Co., Ltd.	-	-	-	3,749
Herald Media Inc.	12,000	60	-	-
V Bank Consulting	2,500	13	-	-
Incheon United Football Club	400	2	-	-
Subtotal		6,789	6,714	45,064
Total		₩ 27,005	82,446	103,204

(*1) The equity securities above are stated at fair value and the differences between acquisition cost and market value are recorded as unrealized gains on valuation of available-for-sale securities in other comprehensive income.

(*2) As of December 31, 2007, the Company has pledged 1,030,000 shares of equity securities of Busan Bank to Gyeongsangnam-do Province as a performance guarantee for the construction of a large retail complex. The Company has also pledged 1,313,827 shares of equity securities of Busan Bank to Busan Metropolitan City as a construction performance guarantee.

(*3) The equity securities above are stated at acquisition cost since their fair values are not available or readily determinable.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(5) Investment in Securities, Continued(a) Available-for-sale securities, continued

(*4) As described in note 1(h), investments in affiliates in which the Company owns 20% or more of the voting stock are stated at amounts as determined using the equity method. However, if the difference between the amount evaluated using the equity method and cost is considered to be immaterial, the Company may record the investment at cost.

(ii) Debt securities

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Current assets:			
Government and public bonds (note 6)	₩ 32	2	\$ 34
Non-current assets:			
Government and public bonds	20,519	12,138	21,870
Total	₩ 20,551	12,140	\$ 21,904

(iii) Changes in unrealized holding gains (losses)

Changes in unrealized gains (losses) for the years ended December 31, 2007 and 2006 are summarized as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Balance at beginning of period	₩ 26,732	30,863	\$ 28,493
Unrealized gains (losses) on valuation of securities, net of tax	11,746	(4,131)	12,520
Balance at end of period	₩ 38,478	26,732	\$ 41,013

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(5) Investment in Securities, Continued(b) Equity method accounted investments

(i) Investments in companies accounted for using the equity method as of December 31, 2007 and 2006 are as follows:

Affiliate	Owned shares	Percentage of ownership	2007		
			Cost	Net asset value	Balance at December 31, 2007
Lotte Station Building Co., Ltd.	900,000	25.00%	₩ 4,500	126,488	126,488
Daehong Communications Co., Ltd.	12,006	30.02%	6,280	58,389	58,390
Lotte.Com Inc.	1,600,000	34.39%	8,000	8,121	8,153
Lotte Boulangerie Co., Ltd.	3,920,222	93.33%	19,601	13,143	13,143
Foodstar Inc.	5,582,896	39.76%	33,994	4,523	4,523
Lotte Midopa Co., Ltd. (*2)	51,475,843	79.01%	257,379	419,703	453,376
Lotte Card Co., Ltd.	69,995,159	92.54%	432,907	729,682	754,270
Lotte Capital Co., Ltd.	6,434,128	20.55%	67,573	44,926	44,926
FRL Korea Co., Ltd.	2,352,000	49.00%	11,760	13,165	13,165
Woori Home Shopping & Television Co., Ltd.	4,046,796	50.58%	445,148	76,827	425,800
Lakepark Co, Ltd.	621,400	23.90%	3,107	2,714	2,714
Nexus Media Contents Investment Union	20	20.00%	2,000	948	948
KTB Media Investment Union	15	30.00%	1,500	960	960
Isu Entertainment Investment Union	30	37.50%	3,000	2,028	2,028
Lotte RUS Ltd. (*1)	64,457	17.69%	13,154	12,585	13,497
Lotte Engineering & Machinery Manufacturing Co., Ltd. (*1)	393,283	13.71%	2,069	13,744	13,745
Lotte Trading Co., Ltd. (*1)	53,393	8.77%	1,981	22,816	42,303
Lotte Aluminium Co., Ltd. (*1)	48,391	5.08%	23,038	29,321	34,218
Lotteria Co., Ltd. (*1)	74,000	19.94%	39,719	49,874	56,449
Lotteshopping RUS	-	100.00%	22,394	14,818	14,818
Lotte Vietnam Shopping Co., Ltd.	-	85.96%	8,641	6,360	6,360
Lotte Asset Development Co., Ltd.	3,600,000	60.00%	18,000	17,856	17,856
Lotte Logistics Co., Ltd.	66,308	4.64%	4,000	4,987	4,071
Total			₩ 1,429,745	1,673,978	2,112,201

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(5) Investment in Securities, Continued(b) Equity method accounted investments, continued

Affiliate	Owned shares	Percentage of ownership	2006		
			Cost	Net asset value	Balance at December 31, 2006
Lotte Station Building Co., Ltd.	900,000	25.00%	₩ 4,500	110,429	110,429
Daehong Communications Co., Ltd.	12,000	30.00%	6,277	49,905	49,909
Lotte.Com Inc.	1,600,000	34.39%	8,000	5,324	5,400
Lotte Boulangerie Co., Ltd.	3,920,222	93.33%	19,601	7,120	7,120
Foodstar Inc.	5,582,896	39.76%	33,994	9,438	9,438
Lotte Midopa Co., Ltd. (*2)	51,475,843	79.01%	257,379	298,511	338,918
Lotte Card Co., Ltd.	69,995,159	92.54%	432,907	683,483	713,057
Lotte Capital Co., Ltd.	6,434,128	20.55%	67,573	34,325	34,325
FRL Korea Co., Ltd.	1,176,000	49.00%	5,880	5,333	5,333
Lakepark Co, Ltd.	382,400	23.90%	1,912	1,893	1,893
Nexus Media Contents Investment Union	20	20.00%	2,000	1,856	1,856
KTB Media Investment Union	15	30.00%	1,500	1,160	1,160
Isu Entertainment Investment Union	30	37.50%	3,000	2,903	2,903
Lotte RUS Ltd. (*1)	64,457	17.69%	13,154	10,478	11,556
Lotte Engineering & Machinery Manufacturing Co., Ltd. (*1)	393,283	13.71%	2,069	11,241	11,241
Lotte Trading Co., Ltd. (formerly Lotte Industry Co., Ltd.) (*1)	53,393	8.77%	1,981	30,458	43,777
Lotte Aluminium Co., Ltd. (*1)	48,391	5.08%	23,038	27,323	33,200
Lotteria Co., Ltd. (*1)	74,000	19.94%	39,720	44,101	52,320
Total			₩ 924,485	1,335,281	1,433,835

(*1) The ownership percentages of Lotte Engineering & Machinery Manufacturing Co., Ltd., Lotte RUS Co., Ltd., Lotte Trading Co., Ltd. (formerly, Lotte Industry Co., Ltd.), Lotte Aluminium Co., Ltd., Lotteria Co., Ltd. and Lotte Logistics Co., Ltd. are under 20%; however, since the Company is able to exercise significant influence over their operations, the Company applies the equity method of accounting to these investments.

(*2) The quoted market values of Lotte Midopa Co., Ltd., based on the closing price at the Korea Stock Exchange, are ₩640,874 million and ₩844,204 million as of December 31, 2007 and 2006, respectively.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(5) Investment in Securities, Continued(b) Equity method accounted investments, continued

(ii) Details of the difference between the acquisition cost and the Company's share of the investee's identifiable net assets as of December 31, 2007 and 2006 are as follows:

Affiliate	2007			Balance at December 31, 2007
	Beginning balance	Increase	Amortization	
	Korean Won (millions)			
Lotte Midopa Co., Ltd.	₩ 40,331	₩ -	₩ (6,725)	₩ 33,606
Lotte Card Co., Ltd.	28,865	-	(4,880)	23,985
Woori Home Shopping & Television Co., Ltd.	-	388,006	(39,042)	348,964
Lotte RUS Ltd.	1,078	-	(165)	913
Lotte Trading Co., Ltd.	13,319	6,206	(38)	19,487
Lotte Aluminium Co., Ltd.	5,877	-	(980)	4,897
Lotteria Co., Ltd.	8,218	-	(1,644)	6,574
Lotte Logistics Co., Ltd.	-	(1,001)	84	(917)
Total	₩ <u>97,688</u>	₩ <u>393,211</u>	₩ <u>(53,390)</u>	₩ <u>437,509</u>
	2006			
	Korean Won (millions)			
	Beginning balance	Increase	Amortization	Balance at December 31, 2006
Lotte Midopa Co., Ltd.	₩ 47,055	₩ -	₩ (6,724)	₩ 40,331
Lotte Card Co., Ltd.	33,744	-	(4,879)	28,865
Lotte RUS Ltd.	1,243	-	(165)	1,078
Lotte Trading Co., Ltd. (formerly Lotte Industry Co., Ltd.)	-	13,319	-	13,319
Lotte Aluminium Co., Ltd.	6,857	-	(980)	5,877
Lotteria Co., Ltd.	9,863	-	(1,646)	8,217
Total	₩ <u>98,762</u>	₩ <u>13,319</u>	₩ <u>(14,394)</u>	₩ <u>97,687</u>

(iii) Eliminated net unrealized losses from intercompany transactions as of December 31, 2007 and 2006 are ₩ 714 million and ₩ 867 million, respectively.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(5) Investment in Securities, Continued(b) Equity method accounted investments, continued

(iv) Details of changes in investments in companies accounted for using the equity method for the years ended December 31, 2007 and 2006 are as follows:

Affiliate	Percentage of ownership	2007					Balance at December 31, 2007
		Beginning balance	Korean Won (millions)			Other	
			Net income (loss)	Capital adjustment	Adjustment to		
Lotte Station Building Co., Ltd.	25.00%	₩ 110,429	16,956	3	(900)	126,488	
Daehong Communications Co., Ltd.	30.02%	49,909	3,910	4,574	(3)	58,390	
Lotte.Com Inc.	34.39%	5,400	2,753	-	-	8,153	
Lotte Boulangerie Co., Ltd.	93.33%	7,120	6,023	-	-	13,143	
Foodstar Inc.	39.76%	9,438	(4,926)	11	-	4,523	
Lotte Midopa Co., Ltd.	79.01%	338,918	114,183	275	-	453,376	
Lotte Card Co., Ltd.	92.54%	713,057	46,236	(5,023)	-	754,270	
Lotte Capital Co., Ltd.	20.55%	34,325	10,527	74	-	44,926	
FRL Korea Co., Ltd.	49.00%	5,333	1,984	(32)	5,880	13,165	
Woori Home Shopping & Television Co., Ltd.	50.58%	-	(19,135)	(213)	445,148	425,800	
Lakepark Co., Ltd.	23.90%	1,893	(368)	(6)	1,195	2,714	
Nexus Media Contents Investment Union	20.00%	1,856	(908)	-	-	948	
KTB Media Investment Union	30.00%	1,160	(200)	-	-	960	
Isu Entertainment Investment Union	37.50%	2,903	(875)	-	-	2,028	
Lotte RUS Ltd.	17.69%	11,556	1,035	906	-	13,497	
Lotte Engineering & Machinery Manufacturing Co., Ltd.	13.71%	11,241	2,497	7	-	13,745	
Lotte Trading Co., Ltd.	8.77%	43,777	(1,484)	10	-	42,303	
Lotte Aluminium Co., Ltd.	5.08%	33,200	1,057	(39)	-	34,218	
Lotteria Co., Ltd.	19.94%	52,321	1,897	2,231	-	56,449	
Lotteshopping RUS	100.00%	-	(8,458)	882	22,394	14,818	
Lotte Vietnam Shopping Co., Ltd.	85.96%	-	(2,248)	(33)	8,641	6,360	
Lotte Asset Development Co., Ltd.	60.00%	-	(144)	-	18,000	17,856	
Lotte Logistics Co., Ltd.	4.64%	-	71	-	4,000	4,071	
Total		₩ 1,433,836	170,383	3,627	504,355	2,112,201	

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(5) Investment in Securities, Continued(b) Equity method accounted investments, continued

Affiliate	Percentage of ownership	2006					Balance at December 31, 2006
		Korean Won (millions)					
		Beginning balance	Adjustment to			Other	
Net income (loss)	Capital adjustment						
Lotte Station Building Co., Ltd.	25.00%	₩ 97,268	13,979	(8)	(810)	110,429	
Daehong Communications Co., Ltd.	30.00%	38,321	11,526	67	(5)	49,909	
Lotte.Com Inc.	34.39%	2,075	3,325	-	-	5,400	
Lotte Boulangerie Co., Ltd.	93.33%	1,628	(4,062)	(46)	9,600	7,120	
Foodstar Inc.	39.76%	7,453	(1,225)	-	3,210	9,438	
Lotte Midopa Co., Ltd.	79.01%	296,823	42,095	-	-	338,918	
Lotte Card Co., Ltd.	92.54%	565,120	142,574	5,363	-	713,057	
Lotte Capital Co., Ltd.	20.55%	24,651	9,674	-	-	34,325	
FRL Korea Co., Ltd.	49.00%	-	(530)	(18)	5,880	5,332	
Lakepark Co., Ltd.	23.90%	-	(19)	-	1,912	1,893	
Nexus Media Contents Investment Union	20.00%	1,813	43	-	-	1,856	
KTB Media Investment Union	30.00%	1,470	(310)	-	-	1,160	
Isu Entertainment Investment Union	37.50%	3,003	(100)	-	-	2,903	
Lotte RUS Ltd.	17.69%	11,042	498	16	-	11,556	
Lotte Engineering & Machinery Manufacturing Co., Ltd.	13.71%	9,520	1,702	16	3	11,241	
Lotte Trading Co., Ltd. (formerly Lotte Industry Co., Ltd.) (*1 and *2)	8.77%	-	-	-	43,777	43,777	
Lotte Trading Co., Ltd. (*1)	6.75%	2,146	168	4	(2,318)	-	
Lotte Aluminium Co., Ltd.	5.08%	27,468	3,490	2,241	1	33,200	
Lotteria Co., Ltd.	19.94%	45,898	5,535	562	326	52,321	
Total		₩ 1,135,699	228,363	8,197	61,576	1,433,835	

(*1) As of November 30, 2006, Lotte Trading Co., Ltd. was merged into Lotte Industry Co., Ltd., which changed its name to Lotte Trading Co., Ltd.

(*2) With the exercise of significant influence, beginning from December 29, 2006, the Company has accounted for its investment in this company using the equity method. An unrealized gain of ₩39,821 million on the fair-value valuation of the affiliate's shares held until the date on which the significant influence became exercisable, was included in 2006.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(5) Investment in Securities, Continued(b) Equity method accounted investments, continued

(v) Summarized financial information of equity-accounted investments which represents 100% of the entities' balances as of December 31, 2007 is as follows:

Affiliate	Korean Won (millions)			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Station Building Co., Ltd. ₩	722,838	216,887	627,380	67,823
Daehong Communications Co., Ltd.	308,108	142,709	106,892	5,110
Lotte.Com Inc.	64,674	41,064	69,393	8,131
Lotte Boulangerie Co., Ltd.	50,221	36,140	43,832	6,454
Foodstar Inc.	86,344	74,968	91,408	(12,214)
Lotte Midopa Co., Ltd.	658,483	127,303	322,835	153,034
Lotte Card Co., Ltd.	3,483,313	2,694,767	815,612	55,355
Lotte Capital Co., Ltd.	2,165,319	1,946,669	215,100	51,234
FRL Korea Co., Ltd.	40,042	13,173	44,653	4,049
Woori Home Shopping & Television Co., Ltd.	253,086	101,209	242,074	39,337
Lakepark Co., Ltd.	11,358	-	-	(1,538)
Nexus Media Contents Investment Union	4,740	-	129	(1,082)
KTB Media Investment Union	3,453	254	534	(669)
Isu Entertainment Investment Union	5,408	-	234	(2,332)
Lotte RUS Ltd.	314,518	243,382	10,158	6,788
Lotte Engineering & Machinery Manufacturing Co., Ltd.	360,740	261,756	447,131	18,107
Lotte Trading Co., Ltd.	910,205	655,696	802,481	(3,069)
Lotte Aluminium Co., Ltd.	904,387	385,029	611,575	(1,506)
Lotteria Co., Ltd.	303,767	115,700	240,414	9,647
Lotteshopping RUS	28,272	13,454	3,550	(7,347)
Lotte Vietnam Shopping Co., Ltd.	51,748	44,349	-	(2,596)
Lotte Asset Development Co., Ltd.	30,367	606	-	(135)
Lotte Logistics Co., Ltd.	159,876	52,404	28,421	(786)
Total	₩ 10,921,267	7,167,519	4,723,806	391,795

The Company used unaudited financial statements as of December 31, 2007 of the companies when applying the equity method of accounting.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(6) Other Current Assets

Other current assets as of December 31, 2007 and 2006 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Accrued interest income	₩ 12,721	8,181	\$ 13,559
Available-for-sale securities (note 5)	32	2	34
Short-term loans	396	1,386	422
Prepaid expenses	11,757	10,960	12,532
Current deferred income tax assets (note 26)	9,848	15,876	10,497
Total	₩ <u>34,754</u>	<u>36,405</u>	\$ <u>37,044</u>

(7) Joint Venture Investments

Details of joint venture investments as of December 31, 2007 are as follows:

<u>Joint venture investment</u>	<u>Ownership (%)</u>	<u>Equity holder</u>	<u>Principal business</u>
Lotte Academy	35.0%	Lotte Confectionery, etc.	Training service
Kookge Building	6.0%	Honam Petro Chemical, etc.	Building leasing services
Busan Underground Shopping Center	45.0%	Hotel Lotte Co., Ltd.	Building leasing services

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(8) Transactions and Balances with Related Companies

(a) Details of investor and subsidiary relationships with the Company as of December 31, 2007 are as follows:

<u>Investor company</u>	<u>Ownership (%)</u>	<u>Control relationship</u>
Hotel Lotte Co., Ltd.	9.3%	Affiliate of Lotte group
Korea Fuji Film Co., Ltd.	8.5%	Affiliate of Lotte group
Lotte Confectionery Co., Ltd.	8.5%	Affiliate of Lotte group
Lotte Data Communication Company	5.2%	Affiliate of Lotte group
Lotte Chilsung Beverage Co., Ltd.	4.3%	Affiliate of Lotte group
Lotte Engineering & Construction Co., Ltd.	1.0%	Affiliate of Lotte group
Hotel Lotte Pusan Co., Ltd.	0.8%	Affiliate of Lotte group

<u>Controlled subsidiary (*1)</u>	<u>Ownership (%)</u>	<u>Principal business</u>
Lotte Midopa Co., Ltd.	79.0%	Department stores
Lotte Boulangerie Co., Ltd.	93.3%	Bakery
Lotte.Com Inc.	34.4%	Internet shopping
Lotte Card Co., Ltd.	92.5%	Credit card and lending
Woori Home Shopping & Television Co., Ltd.	50.6%	TV home shopping
Lotteshopping Luth	100.0%	Department stores
Lotte Vietnam Shopping Co., Ltd.	86.0%	Discount stores
Lotte Asset Development Co., Ltd.	60.0%	Asset development
Daehong Communications Co., Ltd. (*2)	30.0%	Advertising service
Lotte Capital Co., Ltd. (*3)	20.6%	Finance service

(*1) Controlled subsidiaries represent majority-owned entities by the Company or a controlled subsidiary and other entities where the Company or its controlled subsidiary, collectively or individually, owns more than 30% of total outstanding common stock and is the largest shareholder.

(*2) This company is expected to be excluded from controlled subsidiaries because the Company has made an arrangement to dispose of a certain proportion of its ownership in Daehong Communications Co., Ltd. on February, 2008.

(*3) This company is expected to be excluded from controlled subsidiaries according to the Company's arrangement to dispose of a certain proportion of its ownership in Daehong Communications Co., Ltd., which owns an 8.4 percent interest in this company, as described in (*2) above.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(8) Transactions and Balances with Related Companies, Continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2007 and 2006 are summarized as follows:

Related company	2007				
	Korean Won (millions)				
	Revenue transactions	Expenses and other transactions			
	Sales and other revenue	Purchases of goods	Fees and commissions	Other	
Hotel Lotte Co., Ltd.	₩	14,773	3,243	58,872	1,419
Lotte Confectionery Co., Ltd.		26,813	54,418	364	-
Lotte Data Communication Company		995	13,138	34,170	21,492
Lotte Chilsung Beverage Co., Ltd.		11,741	26,210	286	178
Lotte Engineering & Construction Co., Ltd.		2,265	56	526	415,956
Hotel Lotte Pusan Co., Ltd.		5,187	75	14,296	-
Lotte Midopa Co., Ltd. (*)		7,197	2	7,206	-
Lotte.Com Inc.		211	271	27,898	771
Lotte Card Co., Ltd.		2,096	4,979	101,711	-
Daehong Communications Co., Ltd.		5,538	1,439	19,362	15
Lotte Station Building Co., Ltd. (*)		14,817	12	6,338	65
Lotte Aluminium Co., Ltd.		1,202	13,674	11,259	8,619
Lotte Engineering & Machinery Manufacturing Co., Ltd.		245	3,670	647	4,748
Lotteria Co., Ltd.		5,348	5	69	-
Lotte Trading Co., Ltd.		2,788	143,420	561	1,043
Lotte Samkang Co., Ltd.		5,173	6,516	1,580	-
Lotte Ham Co., Ltd.		4,220	30,470	23	-
Others		18,820	51,803	42,624	815
Total	₩	<u>129,429</u>	<u>353,401</u>	<u>327,792</u>	<u>455,121</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(8) Transactions and Balances with Related Companies, Continued

Related company	2006				
	Korean Won (millions)				
	Revenue transactions Sales and other revenue	Expenses and other transactions			
		Purchases of goods	Fees and commissions	Other	
Hotel Lotte Co., Ltd.	₩	10,493	2	61,462	253
Lotte Confectionery Co., Ltd.		24,136	46,211	434	-
Lotte Data Communication Company		688	-	43,652	9,983
Lotte Chilsung Beverage Co., Ltd.		7,579	18,335	534	-
Lotte Engineering & Construction Co., Ltd.		517	-	2,302	395,352
Hotel Lotte Pusan Co., Ltd.		9,289	-	15,140	-
Lotte Midopa Co., Ltd. (*)		7,017	92	7,288	-
Lotte.Com Inc.		237	-	21,391	172
Lotte Card Co., Ltd.		2,891	-	105,870	-
Lotte Station Building Co., Ltd. (*)		14,249	202	4,008	-
Daehong Communications Co., Ltd.		4,547	-	20,160	295
Lotte Aluminium Co., Ltd.		767	9,123	8,165	711
Lotte Engineering & Machinery Manufacturing Co., Ltd.		5	-	3,717	1,410
Lotteria Co., Ltd.		5,363	-	18	-
Lotte Trading Co., Ltd.		1,789	124,577	352	1,064
Lotte Samkang Co., Ltd.		6,443	9,872	2,509	-
Lotte Ham Co., Ltd.		6,171	43,013	670	-
Others		13,286	31,007	46,639	361
Total	₩	115,467	282,434	344,311	409,601

(*) As described in note 28(b), the Company has entered into contracts with Midopa Co., Ltd. and Lotte Station Building Co., Ltd., both Lotte Group affiliated companies, to provide management services.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(8) Transactions and Balances with Related Companies, Continued

(c) Account balances with related companies as of December 31, 2007 and 2006 are summarized as follows:

Related company	2007					
	Korean Won (millions)					
	Receivables			Payables		
	Trade accounts receivable	Other accounts receivable	Other	Trade accounts payable	Other accounts payable	Other
Hotel Lotte Co., Ltd.	₩ 159	1,965	23,953	-	1,664	9,548
Lotte Confectionery Co., Ltd.	1,302	706	-	9,239	127	415
Lotte Data Communication Company	-	204	-	4	7,276	1,804
Lotte Chilsung Beverage Co., Ltd.	2,204	319	-	2,696	107	4
Lotte Engineering & Construction Co., Ltd.	27	475	410	-	76,772	20
Hotel Lotte Pusan Co., Ltd.	95	66	300	16	422	956
Lotte Midopa Co., Ltd.	6,180	1,375	19,673	-	2,179	1
Lotte Card Co., Ltd.	63,979	1,206	-	-	59,293	6,455
Daehong Communications Co., Ltd.	298	221	-	-	207	14,752
Lotte Station Building Co., Ltd.	12,097	4,743	9,889	-	4,681	276
Lotteria Co., Ltd.	712	33	-	-	769	6,214
Lotte Trading Co., Ltd.	28	326	594	6,925	2,706	226
Lotte Ham Co., Ltd.	242	214	-	2,076	86	-
Others	11,402	3,736	1,314	6,241	14,956	7,485
Total	₩ 98,725	15,589	56,133	27,197	171,245	48,156

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(8) Transactions and Balances with Related Companies, Continued

Related company	2006					
	Korean Won (millions)					
	Receivables			Payables		
	Trade accounts receivable	Other accounts receivable	Other	Trade accounts payable	Other accounts payable	Other
Hotel Lotte Co., Ltd.	₩ 96	645	22,248	1	1,201	14,664
Lotte Confectionery Co., Ltd.	224	376	-	7,685	39	413
Lotte Data Communication Company	-	60	8,774	129	10,081	2,938
Lotte Chilsung Beverage Co., Ltd.	2,470	73	-	1,733	119	28
Lotte Engineering & Construction Co., Ltd.	117	1	410	-	101,144	-
Hotel Lotte Pusan Co., Ltd.	56	5,122	300	-	747	928
Lotte Midopa Co., Ltd.	6,040	1,688	19,674	-	3,635	382
Lotte Card Co., Ltd.	70,461	489	-	-	107,566	8,365
Lotte Station Building Co., Ltd.	11,458	5,677	4,889	-	10,074	-
Daehong Communications Co., Ltd.	-	240	-	2,011	527	8,051
Lotteria Co., Ltd.	501	40	-	-	572	6,041
Lotte Trading Co., Ltd.	-	-	-	8,863	1,447	-
Lotte Ham Co., Ltd.	789	215	-	3,795	90	230
Others	7,949	2,794	1,242	5,230	14,048	6,787
Total	₩ 100,161	17,420	57,537	29,447	251,290	48,827

(d) The remuneration and provision for retirement and severance benefits of directors for the years ended December 31, 2007 are ₩11,673 million and ₩5,586 million, respectively.

(e) As of December 31, 2007, the Company has provided to Citibank N.A. Hochiminh a guarantee for the borrowings of Lotte Vietnam Shopping Co., Ltd., a related company, amounting to US\$60,000 thousand and interest thereon.

(f) During the year ended December 31, 2007, the Company purchased plots of land for ₩2,052 million and ₩103,022 million from Shin Kyuk Ho, one of the largest stockholders, and Lotte Foundation, a related entity, respectively, to build a new distribution center.

(9) Property, Plant and Equipment

(a) The Company revalued its land and buildings in 1998 under the then Korean Assets Revaluation Law. As a result, the Company recorded a revaluation surplus of ₩1,028,713 million, net of asset revaluation tax, transfers to capital stock and offset against foreign currency translation loss carried over from prior years.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(9) Property, Plant and Equipment, Continued

(b) Changes in property, plant and equipment for the years ended December 31, 2007 and 2006 are as follows:

		2007					
		Korean Won (millions)					
		Book value as of January 1, 2007	Acquisitions	Disposals	Depreciation	Transfers (*)	Book value as of December 31, 2007
Land	₩	2,673,274	99,723	(122)	-	150,232	2,923,107
Buildings		2,480,615	29,465	(15,023)	(126,432)	393,607	2,762,232
Structures		117,616	1,843	(1,578)	(5,753)	33,372	145,500
Machinery		13,020	2,040	(1)	(4,900)	14,763	24,922
Vehicles		512	730	(4)	(529)	-	709
Furniture and equipment		11,556	8,516	(7)	(12,254)	9,313	17,124
Other		195,980	106,335	(4,591)	(155,160)	78,822	221,386
Construction- in-progress		618,535	753,469	-	-	(726,108)	645,896
Total	₩	<u>6,111,108</u>	<u>1,002,121</u>	<u>(21,326)</u>	<u>(305,028)</u>	<u>(45,999)</u>	<u>6,740,876</u>

(*) Long-term advance payments aggregating ₩19,935 million were transferred to tangible assets, and tangible assets of ₩65,934 million were, in a large measure, transferred to intangible assets or charged to expense.

		2006					
		Korean Won (millions)					
		Book value as of January 1, 2006	Acquisitions	Disposals	Depreciation	Transfers (*)	Book value as of December 31, 2006
Land	₩	2,587,174	120,868	(2,452)	-	(32,316)	2,673,274
Buildings		2,293,418	14,006	(24,822)	(112,284)	310,297	2,480,615
Structures		79,996	1,746	(851)	(3,784)	40,509	117,616
Machinery		11,606	1,505	(353)	(3,961)	4,223	13,020
Vehicles		429	427	(19)	(302)	(23)	512
Furniture and equipment		18,146	1,357	(238)	(11,920)	4,211	11,556
Other		172,802	83,440	(8,064)	(133,085)	80,887	195,980
Construction- in-progress		179,011	717,174	(3,883)	-	(273,767)	618,535
Total	₩	<u>5,342,582</u>	<u>940,523</u>	<u>(40,682)</u>	<u>(265,336)</u>	<u>134,021</u>	<u>6,111,108</u>

(*) An advance payment of ₩169,471 million was transferred to tangible assets, and tangible assets of ₩35,450 million were transferred to, among other accounts, plots of land, expenses and intangible assets.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(9) Property, Plant and Equipment, Continued

- (c) The officially declared value and book value of land as of December 31, 2007 are as follows:

	Korean Won (millions)	
	2007	
	Book value	Declared value
Land	₩ <u>2,923,107</u>	<u>4,016,102</u>

The officially declared value, which is used for government purposes, is not intended to represent fair value.

- (d) Details of coverage under major insurance policies carried by the Company as of December 31, 2007 and 2006 are as follows:

Type of insurance	Covered assets	Korean Won (millions)		U.S. dollars (thousands) (note 2)
		Amount covered		Amount covered
		2007	2006	2007
Burglary insurance	Cash	₩ 39,722	33,105	\$ 42,339
Fire insurance	Merchandise, buildings and tools	5,214,226	4,568,779	5,557,692
Engine and machinery insurance	Machinery and equipment	87,610	77,103	93,380
Business liability insurance	Facilities and products	421,644	367,716	449,418
Directors & officers liability insurance	-	50,000	50,000	53,293
Others	Other utilities	29,610	30,235	31,561
Total		₩ <u>5,842,812</u>	<u>5,126,938</u>	\$ <u>6,227,683</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(10) Intangible Assets

Changes in intangible assets for the years ended December 31, 2007 and 2006 are as follows:

		2007				
		Korean Won (millions)				
		Book value as of January 1, 2007	Acquisition	Amortization	Others	Book value as of December 31, 2007
Goodwill	₩	13,145	20,760	(2,688)	-	31,217
Industrial property rights		245	335	(136)	2	446
Rights to use of water supply facility		3,139	-	(446)	796	3,489
Rights to use of electricity supply facility		2,852	-	(430)	964	3,386
Rights to use of gas supply facility		1,438	-	(215)	1,045	2,268
Rights to use of facility		9,277	-	(3,565)	54,164	59,876
License		1,499	5,645	(900)	65	6,309
Copyrights		1,514	20,391	(18,105)	-	3,800
Others		2,483	115	(865)	-	1,733
Total	₩	35,592	47,246	(27,350)	57,036	112,524

		2006				
		Korean Won (millions)				
		Book value as of January 1, 2006	Acquisition	Amortization	Others	Book value as of December 31, 2006
Goodwill	₩	14,936	-	(1,791)	-	13,145
Industrial property rights		188	138	(81)	-	245
Rights to use of water supply facility		2,768	-	(375)	746	3,139
Rights to use of electricity supply facility		2,214	-	(327)	965	2,852
Rights to use of gas supply facility		1,130	3	(157)	462	1,438
Rights to use of facility		10,134	-	(857)	-	9,277
License		-	1,609	(110)	-	1,499
Copyrights		2,408	10,406	(11,300)	-	1,514
Others		3,069	1,322	(840)	(1,068)	2,483
Total	₩	36,847	13,478	(15,838)	1,105	35,592

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(11) Other Investment Assets

Other assets as of December 31, 2007 and 2006 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Long-term financial instruments	₩ 31	32	\$ 33
Long-term loans	8,245	1,931	8,788
Others	8,326	127,170	8,874
Total	₩ 16,602	129,133	\$ 17,695

(12) Pledged Assets and Guarantees

(a) The following assets are pledged as collateral for the Company's contract performance as of December 31, 2007:

Assets	Korean Won (millions)	U.S. dollars (thousands) (note 2)	Guarantee for
Short-term financial instruments	₩ 1,985	\$ 2,115	Performance of contract, etc.
Long-term financial instruments	31	33	Billing and settlement plan
Available-for-sale securities (note 5(a))	36,798	39,222	Performance of contract, etc.
Total	₩ 38,814	\$ 41,370	

(b) The guarantees provided by third parties for the Company as of December 31, 2007 are as follows:

Guarantor	Korean Won (millions)	U.S. dollars (thousands) (note 2)	Guarantee for
Seoul Guarantee Insurance Company	₩ 94,886	\$ 101,136	Performances of construction, etc.
Standard Chartered First Bank Korea Ltd.	100	107	E-commerce
Total	₩ 94,986	\$ 101,243	

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(13) Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2007 and 2006 are summarized as follows:

	2007		2006	
	Foreign currency (thousands)	Won equivalent (millions)	Foreign currency (thousands)	Won equivalent (millions)
Assets:				
Short-term financial instruments	US\$ 7	₩ 7	630,078	585,721
Total	US\$ 7	₩ 7	630,078	585,721
Liabilities:				
Trade accounts payable	US\$ 640	₩ 600	811	754
	EUR 23	32	58	70
	YEN 6,556	55	-	-
Other accounts payable	US\$ 277	260	579	539
Accrued expenses	US\$ 330	309	478	443
Current portion of long-term borrowings	US\$ -	-	70,000	65,072
Current portion of debentures	US\$ -	-	30,000	27,888
Total	US\$ 1,247	₩ 1,169	101,868	94,696
	EUR 23	32	58	70
	YEN 6,556	55	-	-

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(14) Other Current Liabilities

Other current liabilities as of December 31, 2007 and 2006 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Short-term borrowings	₩ 1	1	\$ 1
Unearned income	17	-	18
Withholdings	10,489	7,252	11,180
Value-added tax withholdings	40,054	38,317	42,693
Guaranty money received	3,146	2,597	3,353
Investment withholdings	<u>11,616</u>	<u>10,479</u>	<u>12,381</u>
Total	₩ <u>65,323</u>	<u>58,646</u>	\$ <u>69,626</u>

(15) Long-term Borrowings

Long-term borrowings as of December 31, 2007 and 2006 are summarized as follows:

<u>Lender</u>	<u>Maturity</u>	Annual interest rate (%)	<u>Foreign currency</u>	Korean Won (millions)	
				<u>2007</u>	<u>2006</u>
Kookmin Bank	Jun. 25, 2007	Libor+0.75	<u>USD 70,000,000</u>	₩ -	65,072
Less current portion				-	<u>(65,072)</u>
				₩ -	<u>-</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(16) Debentures

Debentures as of December 31, 2007 and 2006 are summarized as follows:

Description	Maturity	Interest rate (%)	Korean Won (millions)	
			2007	2006
39th placed	Jan. 29, 2007	5.00	₩ -	170,000
40th placed	Mar. 04, 2007	5.00	-	250,000
41st placed	Apr. 09, 2008	5.00	200,000	200,000
42nd placed	Jun. 23, 2007	4.00	-	210,000
43rd placed	Jun. 25, 2007	Libor+0.75	-	27,888
44th placed	May 03, 2008	3.95	250,000	250,000
45th placed	Sep. 12, 2008	4.71	100,000	100,000
Subtotal			550,000	1,207,888
Less:				
Discount on debentures issued			(442)	(2,852)
Total book value			549,558	1,205,036
Less:				
Current portion, net of discount			(549,558)	(656,721)
			₩ -	548,315

(17) Leases

(a) The Company leases facilities including stores and distribution centers from third parties. Under the terms of the lease arrangements, the Company generally is required to deposit a lump-sum amount as key money and pay a monthly rent for the duration of the lease, which typically ranges from one year to 20 years. Lump-sum amounts as of December 31, 2007 aggregate ₩432,656 million.

(b) Future minimum lease payments under operating leases as of December 31, 2007 are as follows:

Period	Korean Won (millions)	U.S. dollars (thousands) (note 2)
2008.1.1~2008.12.31	₩ 54,954	\$ 58,574
2009.1.1~2012.12.31	202,307	215,633
2013 and thereafter	298,865	318,551
Total	₩ 556,126	\$ 592,758

(c) The Company leases some land and buildings of the Company to third parties under the terms of the lease arrangements as of December 31, 2007. The Company received lump-sum rental deposits of ₩246,011 million and rental income of ₩312,654 million for the year ended December 31, 2007.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(18) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2007 and 2006 are summarized as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Estimated severance accrual at beginning of period	₩ 114,101	92,548	\$ 121,617
Provision	38,045	31,267	(28,091)
Payments	(26,355)	(11,531)	40,551
Transfer of severance benefits from affiliated companies	3,059	1,817	3,261
Estimated severance accrual at end of period	128,850	114,101	137,338
Transfer to National Pension Fund	(53)	(51)	(56)
Deposit for severance benefit trust	(85,532)	(68,619)	(91,166)
Net balance at end of period	₩ <u>43,265</u>	<u>45,431</u>	\$ <u>46,116</u>

The Company maintains severance benefit trust arrangements with Samsung Life Insurance Co., etc. Under the contracts, payments of the Company's retirement and severance benefit liability to employees are guaranteed to the extent of the aggregate deposit held by the insurance companies in trust. The aggregate deposit at the insurance companies is presented as a reduction of the retirement and severance benefits liability.

(19) Accrual for Bonus Cards

The Company recognizes an accrual for bonus cards which provide free services for purchasers registered with Lotte Membership Card, which is a royalty program operated by many Lotte group companies. The changes in the accrual for bonus cards for the years ended December 31, 2007 and 2006 are summarized as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Beginning of period	₩ 23,284	21,351	\$ 24,818
Increase	45,695	7,806	48,705
Decrease	(39,617)	(5,873)	(42,227)
End of period	₩ <u>29,362</u>	<u>23,284</u>	\$ <u>31,296</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(20) Capital Stock and Capital Surplus

(a) Pursuant to its amended Articles of Incorporation, the Company's authorized capital stock is 60,000,000 shares, which consists of common shares and preferred shares each with a par value of ₩5,000 per share. The Company is authorized to issue non-voting preferred shares of up to one-fourth of the Company's total issued and outstanding capital stock. Holders of preferred shares may, upon a resolution of the board of directors at the time of the issuance of the preferred shares, be entitled to receive dividends prior to the holders of common shares. The preferred shares will be automatically converted to common shares at a maturity within ten years of issuance as determined by the Company's board of directors. However, if the holders of preferred shares do not receive the minimum dividends as prescribed, then the maturity will be extended to the time when all such dividend amount is paid to the holders of preferred shares. As of December 31, 2007, the Company has not issued any preferred stock and 29,043,374 shares of common stock were issued and outstanding.

(b) Capital surplus as of December 31, 2007 and 2006 consists of the following:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Paid-in capital in excess of par value	₩ 3,605,117	3,605,117	\$ 3,842,589
Gain on capital reduction	1,793	1,793	1,911
Other capital surplus	<u>1,043,985</u>	<u>1,043,985</u>	<u>1,112,754</u>
	<u>₩ 4,650,895</u>	<u>4,650,895</u>	<u>\$ 4,957,254</u>

(i) Gain on capital reduction

The Company retired 745,470 shares of treasury stock (₩1,934 million) in 1995, which were acquired as a result of its mergers with Lotte Foods Co., Ltd. and ChungBon Industry Co., Ltd. on December 31, 1994. As a result, capital stock decreased by ₩3,727 million and a gain on capital reduction amounting to ₩1,793 million was recorded as a capital surplus.

(ii) Gain on merger

In 1997, SongGok Trading Co., Ltd. was merged into the Company resulting in a gain on merger of ₩15,272 million which was recorded as a component of other capital surplus.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(20) Capital Stock and Capital Surplus, Continued(iii) Assets revaluation

The Company revalued its property, plant and equipment on July 1, 1998 in accordance with the then Assets Revaluation Law. Details of assets revaluation surplus included in stockholders' equity as revaluation surplus are as follows:

<u>Date of revaluation</u>	<u>Total revaluation surplus</u>	<u>Revaluation tax</u>	<u>Transfer to capital</u>	<u>Others</u>	<u>Net revaluation surplus</u>
July 1, 1998	₩ 1,122,229	(19,030)	(73,500)	(986)	1,028,713

(21) Other Comprehensive Income

Details of other comprehensive income as of December 31, 2007 and 2006 are as follows:

<u>Account</u>	<u>Korean Won (millions)</u>		<u>U.S. dollars (thousands) (note 2)</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Unrealized gain on valuation of available-for-sale securities	₩ 38,479	26,732	\$ 41,013
Unrealized gain on investments under equity method, net	60,413	57,374	64,393
Unrealized gain on valuation of derivative instruments	-	243	-
	₩ <u>98,892</u>	<u>84,349</u>	<u>\$ 105,406</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(22) Retained Earnings

Retained earnings as of December 31, 2007 and 2006 are summarized as follows:

Account	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Appropriated:			
Legal reserve	₩ 21,702	18,072	\$ 23,132
Reserve for business rationalization	10,552	10,552	11,247
Reserve for corporate development	134,000	134,000	142,827
Reserve for improvement of financial structure	5	5	6
Discretionary reserve	2,419,500	1,719,500	2,578,874
	<u>2,585,759</u>	<u>1,882,129</u>	<u>2,756,086</u>
Unappropriated	<u>702,790</u>	<u>753,263</u>	<u>749,083</u>
	₩ <u>3,288,549</u>	<u>2,635,392</u>	\$ <u>3,505,169</u>

(a) Legal reserve

The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. This reserve is not available for cash dividends but may be used to reduce any deficit or be transferred to capital stock.

(b) Reserve for business rationalization

Under the Special Tax Treatment Control Law, investment tax credit was allowed for certain investments. The Company was, however, required to appropriate from retained earnings the amount of tax benefits obtained and transfer such amount into a reserve for business rationalization.

Effective December 11, 2002, the Company is no longer required to establish a reserve for business rationalization despite tax benefits received for certain investments and, consequently, the existing balance is now regarded as a discretionary reserve.

(c) Reserve for corporate development

Under Korean Corporation Tax Law, the Company was required to appropriate into a reserve for corporate development. However, effective as of December 31, 2001, the Company is no longer required to establish a reserve for corporate development. This reserve is not available for the payment of dividends; however, it may be used for a specified purpose or continue to be reserved.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(23) Sale of Apartments

- (a) Lotting-out housing construction contracts as of and for the years ended December 31, 2007 and 2006 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Beginning of period	₩ 107,080	6,154	\$ 114,133
Increase	726	114,923	773
Revenue recognized in current year	27,027	13,997	28,807
End of period	₩ <u>80,779</u>	<u>107,080</u>	\$ <u>86,099</u>

- (b) Accumulated revenue and cost on lotting-out housing construction contracts as of December 31, 2007 are summarized as follows:

Project	Korean Won (millions)		U.S. dollars (thousands) (note 2)	
	Cumulative revenue	Cumulative cost	Cumulative revenue	Cumulative cost
Beome-dong project	₩ <u>35,734</u>	<u>28,668</u>	\$ <u>38,088</u>	<u>30,556</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(24) Sales and Cost of Sales

Details of sales and cost of sales for the years ended December 31, 2007 and 2006 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Sales			
Sales of merchandise	₩ 9,135,745	8,529,487	\$ 9,737,524
Specific sales	405,537	303,806	432,250
Sales of products	71,757	48,888	76,484
Sales of apartments	27,027	13,997	28,807
Ancillary property operating revenue	122,428	114,284	130,493
Other operating revenue	473,495	436,244	504,685
Deduction:			
Cost of specific sales	(317,005)	(238,303)	(337,886)
Sales allowance	(150,852)	(152,523)	(160,790)
	<u>9,768,132</u>	<u>9,055,880</u>	<u>10,411,567</u>
Cost of sales			
Cost of merchandise sold:			
Beginning inventory of merchandise	906,761	777,378	966,490
Purchases of merchandise for the year	6,796,632	6,411,017	7,244,331
Transfer to other accounts	-	(4)	-
Ending inventory of merchandise	(979,499)	(906,761)	(1,044,019)
	<u>6,723,894</u>	<u>6,281,630</u>	<u>7,166,802</u>
Cost of products sold:			
Beginning inventory of products	1,867	1,694	1,990
Cost of products manufactured for the year	42,286	32,245	45,071
Transfer to other accounts	(1,926)	(1,444)	(2,051)
Ending inventory of products	(3,974)	(1,867)	(4,236)
	<u>38,253</u>	<u>30,628</u>	<u>40,774</u>
Cost of sales - apartments	21,683	12,316	23,111
Ancillary property operating cost	61,063	58,966	65,085
	<u>82,746</u>	<u>71,282</u>	<u>88,196</u>
	<u>6,844,893</u>	<u>6,383,540</u>	<u>7,295,772</u>
Gross profit	₩ <u>2,923,239</u>	<u>2,672,340</u>	\$ <u>3,115,795</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(25) Selling and Administrative Expenses

Details of selling and administrative for the years ended December 31, 2007 and 2006 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Salaries	₩ 417,824	368,960	\$ 445,346
Provision for retirement and severance benefits	37,794	30,978	40,283
Other employee benefits	66,002	57,559	70,350
Education and training	5,282	4,426	5,630
Travel	11,945	10,403	12,732
Service contract expenses	281,015	238,039	299,526
Advertising	134,918	128,789	143,805
Sales promotion and commissions	232,597	230,569	247,918
Supplies	29,958	26,308	31,931
Communications	8,068	7,578	8,599
Utilities	111,692	98,148	119,049
Maintenance	19,326	16,263	20,600
Commissions and fees	253,571	228,375	270,274
Insurance	5,747	5,292	6,126
Transportation	2,670	3,116	2,846
Depreciation	301,923	262,735	321,811
Amortization of intangible assets	9,245	4,538	9,854
Taxes and dues	93,591	79,814	99,756
Rent	109,322	91,316	116,523
Others	34,078	29,762	36,323
	₩ <u>2,166,568</u>	<u>1,922,968</u>	\$ <u>2,309,282</u>

(26) Income Taxes

- (a) The Company is subject to a number of income taxes based on taxable income at the following normal tax rates:

<u>Taxable income</u>	<u>Tax rate</u>
Up to ₩100 million	14.3%
Over ₩100 million	27.5%

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(26) Income Taxes, Continued

The components of income tax expense for the years ended December 31, 2007 and 2006 are summarized as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Current income tax expense	₩ 203,945	202,650	\$ 217,379
Deferred income tax expense	66,300	43,130	70,667
Income taxes directly charged (credited) to equity	<u>(4,953)</u>	<u>319</u>	<u>(5,279)</u>
Income taxes	₩ <u>265,292</u>	<u>246,099</u>	\$ <u>282,767</u>

- (b) The provision for income taxes calculated using the normal tax rates differs from the actual charge for the years ended December 31, 2007 and 2006 for the following reasons:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2007	2006	2007
Provision for income taxes at normal tax rates	₩ 262,544	271,121	\$ 279,838
Tax effects of permanent differences, net	210	3,790	224
Investment tax credit	(6,343)	(1,150)	(6,761)
Increase (decrease) in deferred income tax liabilities of others, net	<u>8,881</u>	<u>(27,662)</u>	<u>9,466</u>
Actual charge for income taxes	₩ <u>265,292</u>	<u>246,099</u>	\$ <u>282,767</u>

The effective tax rates, after adjustments for certain differences between amounts reported for financial accounting and income tax purposes, were approximately 27.8% and 25.0% for the years ended December 31, 2007 and 2006, respectively.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(26) Income Taxes, Continued

- (c) The tax effects of temporary differences that result in significant portions of the deferred tax assets and liabilities as of December 31, 2007 and 2006 are presented below:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Deferred tax assets:			
Allowance for doubtful accounts	₩ 877	1,513	\$ 935
Impairment losses on available-for-sale securities	20	1,305	22
Accrued expenses (bonus cards)	8,075	6,403	8,607
Accrued expenses (bonuses)	3,207	3,135	3,418
Available-for-sale securities	24	24	26
Negative other comprehensive income due to use of equity method	13	-	14
Loss on valuation of derivative instruments	-	7,070	-
Others	2,368	980	2,524
Total deferred tax assets	<u>14,584</u>	<u>20,430</u>	<u>15,546</u>
Deferred tax liabilities:			
Depreciation	4,120	4,120	4,392
Accrued interest income	3,499	2,250	3,729
Disallowed financing costs capitalized	17,512	18,031	18,665
Land	1,111	1,111	1,184
Equity method securities	134,895	80,135	143,781
Loss on valuation of available-for-sale securities	14,595	10,140	15,557
Other comprehensive income due to use of equity method	21,219	20,617	22,617
Loss on valuation of derivative instruments	-	92	-
Total deferred tax liabilities	<u>196,951</u>	<u>136,496</u>	<u>209,925</u>
Net deferred tax liability	₩ <u>(182,367)</u>	<u>(116,066)</u>	\$ <u>(194,379)</u>

- (d) The Company did not recognize deferred tax assets in the amount of ₩3,537million and ₩24,997 million arising from the taxable temporary differences associated with the impairment losses on available-for-sale securities and equity method securities as of December 31, 2007, respectively, since the temporary differences are not expected to reverse in the foreseeable future. Also, the Company did not recognize deferred tax liabilities in the amount of ₩200,472 million arising from the taxable temporary differences associated with revaluation of land as of December 31, 2007, since it is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(26) Income Taxes, Continued

(e) As of December 31, 2007, details of aggregate deferred tax assets (liabilities) are as follows:

	Temporary differences at December 31, 2007	Korean Won (millions)	
		Deferred tax assets (liabilities)	
		Current	Non-current
Assets:			
Allowance for doubtful receivables	₩ 3,189	877	-
Impairment losses on investment securities	12,938	-	20
Accrued expenses (bonus cards)	29,362	8,075	-
Accrued expenses (bonuses)	11,662	3,207	-
Available-for-sale securities	87	-	24
Negative other comprehensive income due to use of equity method	791	-	13
Others	8,611	1,188	1,180
	<u>66,640</u>	<u>13,347</u>	<u>1,237</u>
Liabilities:			
Depreciation	(14,983)	-	(4,120)
Accrued interest income	(12,721)	(3,499)	-
Interest incurred during construction period	(63,679)	-	(17,512)
Land	(4,038)	-	(1,111)
Equity method investment securities	(600,837)	-	(134,895)
Land (reserve for advance depreciation)	(728,989)	-	-
Loss on valuation of available-for-sale securities	(53,074)	-	(14,595)
Other comprehensive income due to use of equity method	(82,410)	-	(21,219)
	<u>(1,560,731)</u>	<u>(3,499)</u>	<u>(193,452)</u>
Deferred income tax asset (liability)	₩ <u>(1,494,091)</u>	<u>9,848</u>	<u>(192,215)</u>

(f) The deferred tax liabilities that were directly credited to other comprehensive income as of December 31, 2007 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)	
	Temporary difference	Deferred tax liabilities	Temporary difference	Deferred tax liabilities
Unrealized gain on valuation of available-for-sale securities	₩ 53,075	(14,595)	\$ 56,571	(15,557)
Capital adjustment of equity securities	81,619	(21,206)	86,995	(22,603)
	<u>₩ 134,694</u>	<u>(35,801)</u>	<u>\$ 143,566</u>	<u>(38,160)</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(27) Earnings Per Share

Earnings per share for the years ended December 31, 2007 and 2006 are as follows:

	Korean Won (millions, except per share amount)		U.S. dollars (thousands, except per share amount) (note 2)
	2007	2006	2007
Net income	₩ 689,461	739,844	\$ 734,876
Weighted-average number of common shares outstanding	<u>29,043,374</u>	<u>28,025,851</u>	<u>29,043,374</u>
Earnings per share in Won and U.S. dollars	₩ <u>23,739</u>	<u>26,399</u>	\$ <u>25.30</u>

(28) Commitments and Contingencies

(a) As of December 31, 2007, the Company has various forms of credit facility with financial institutions as follows:

	Credit line		Amount used under credit facility	
	Korean Won (millions), U.S. dollars (thousands)		Korean Won (millions), U.S. dollars (thousands) (note 2)	
Overdraft	₩	65,000	₩	1
General loan	₩	200,000	₩	-
Buyer's credit	₩	1,220,000	₩	74,680
Letter of credit	US\$	16,000	US\$	2,871
	₩	1,485,000	₩	74,681
	US\$	<u>16,000</u>	US\$	<u>2,871</u>

(b) The Company has entered into contracts with Lotte Midopa Co., Ltd. and Lotte Station Building Co., Ltd., both related parties of the Company, for providing management services. The Company receives an annual management fee equal to 10 percent of ordinary income before depreciation expense of related companies.

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Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(28) Commitments and Contingencies, Continued

(c) The Company entered into contracts with Lotte Midopa Co., Ltd. and Lotte Station Building Co., Ltd. for the lease of its buildings. Details of those contracts as of December 31, 2007 are as follows:

Leaseholder	Location	Korean Won (millions)		Guarantee deposit amount	Monthly rent
		Beginning date	Expiration date		
Lotte Midopa Co., Ltd.	Namdaemun-ro, Jung-gu, Seoul	Nov. 18, 2003	Oct. 31, 2023	₩ 17,500	346
Lotte Station Building Co., Ltd.	Nammoon-ro, Sangdang-gu, Cheongju	Feb. 23, 2007	Feb. 22, 2027	5,000	251
				₩ 22,500	597

(d) As of December 31, 2007, the Company is the plaintiff in 12 lawsuits claiming damages totalling ₩5,707 million and the Company is the defendant in 11 lawsuits claiming damages totalling ₩6,770 million. Management believes that the ultimate resolution of these legal actions will not have a material adverse effect on the financial position or operations of the Company; accordingly, the Company has not accrued any liability for possible losses in the accompanying non-consolidated financial statements.

(29) Dividends

(a) Details of dividends for the years ended December 31, 2007 and 2006 are as follows:

		Korean Won (millions)		U.S. dollars (thousands) (note2)	
		2007	2006	2007	
Dividend amount (Cash dividends)	₩	36,304	36,304	\$	38,696
Net income	₩	689,461	739,844	\$	734,876
Dividends as a percentage of net income		5.27%	4.91%		5.27%
Par value	₩	145,217	145,217	\$	154,782
Dividends as a percentage of par value		25.0%	25.0%		25.0%

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(29) Dividends, Continued

(b) Dividend yield ratio for the years ended December 31, 2007 and 2006 are as follows:

	Korean Won		U.S. dollars
	2007	2006	(note2) 2007
Dividend per share	₩ 1,250	1,250	\$ 1.33
Market price as of year end	413,000	386,000	440
Dividend yield ratio	0.30%	0.32%	0.30%

(30) Added Value

The components of manufacturing costs and selling and general administrative expenses which are necessary in calculating added value at December 31, 2007 and 2006 are as follows:

	Korean Won (millions)		U.S. dollars
	2007	2006	(thousands) (note2) 2006
Salaries	₩ 422,124	372,766	\$ 449,929
Retirement allowance and severance benefits	38,045	31,267	40,551
Other employee benefits	66,534	58,018	70,916
Rent	109,495	91,490	116,708
Depreciation	305,028	265,336	325,121
Taxes and dues	93,672	79,860	99,843
	₩ <u>1,034,898</u>	<u>898,737</u>	\$ <u>1,103,068</u>

(31) Comprehensive Income

Comprehensive income for the years ended December 31, 2007 and 2006 was as follows:

	Korean Won (millions)		U.S. dollars
	2007	2006	(thousands) (note2) 2007
Net income	₩ 689,461	739,844	\$ 734,876
Change in unrealized gain on valuation of available-for-sale securities, net of tax effect of ₩4,456 million	11,746	(4,131)	12,520
Change in unrealized gain on valuation of equity method investments, net of tax effect of ₩589 million	3,040	6,774	3,241
Change in unrealized loss on valuation of derivative, net of tax effect of ₩92 million	(243)	(464)	(259)
Comprehensive income	₩ <u>704,004</u>	<u>742,023</u>	\$ <u>750,378</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(32) Acquisition of Business

The Company acquired 22 supermarkets in cash from Big Mart Co., Ltd., Nais Mart Co., Ltd. and other companies to enhance the efficiency and competitiveness of the Supermarket Division for the year ended December 31, 2007. The condensed financial information for the acquisitions is as follows:

Description	Korean Won (millions)	U.S. dollars (thousands) (note 2)
Assets:		
Current assets	₩ 284	\$ 303
Non-current assets	86,883	92,606
	<u>87,167</u>	<u>92,909</u>
Liabilities:		
Current liabilities	55	59
Long-term liabilities	1,739	1,853
	<u>1,794</u>	<u>1,912</u>
Net assets purchased	85,373	90,997
Acquisition cost	<u>106,133</u>	<u>113,126</u>
Goodwill	₩ <u>20,760</u>	\$ <u>22,129</u>

(33) Date of Authorization for Issue

The 2007 non-consolidated financial statements are expected to be authorized for issue on February 14, 2008, at the Board of Directors Meeting.

(34) Results of Operations for the Last Interim Period

The Company's results of operations for the last interim periods of the years ended December 31, 2007 and 2006 are summarized as follows:

Description	Korean Won (millions, except for earnings per share)		U.S. dollars (thousands, except for earnings per share) (note 2)
	2007 4th Quarter	2006 4th Quarter	2007 4th Quarter
Revenue	₩ 2,706,785	2,530,007	\$ 2,885,083
Operating income	213,207	216,520	227,251
Net income for the period	186,927	242,361	199,240
Earnings per share	6,436	8,345	6.86

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(35) Segment Information

- (a) The Company's major business segments consist of department stores (retail), marts (retail) and others (construction, foods manufacturing, movie theaters and supermarkets).
- (b) Financial information by business segment for the years ended December 31, 2007 and 2006 is summarized as follows:

	Korean Won (millions)					
	2007			2006		
	Department stores	Marts	Other	Department stores	Marts	Other
Sales	₩ 5,206,453	3,805,319	756,360	5,144,321	3,328,217	583,342
Operating income	645,727	104,721	6,223	643,668	97,826	7,878
Depreciation and amortization	141,970	131,154	59,254	134,848	101,929	44,397

	U.S. dollars (thousands) (note 2)					
	2007			2006		
	Department stores	Marts	Other	Department stores	Marts	Other
Sales	\$ 5,549,406	4,055,979	806,182	5,483,181	3,547,449	621,767
Operating income	688,262	111,619	6,632	686,066	104,270	8,398
Depreciation and amortization	151,322	139,793	63,157	143,730	108,643	47,322

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2007 and 2006

(35) Segment Information, Continued

- (c) The property, plant and equipment and intangible asset information for the major segments as of December 31, 2007 and 2006 is summarized as follows:

	Korean Won (millions)					
	2007			2006		
	Department stores	Marts	Other	Department stores	Marts	Other
Property, plant and equipment	₩ 3,498,658	2,913,052	329,166	3,427,789	2,469,883	213,436
Intangible assets	11,108	61,721	39,695	11,564	9,329	14,699
Total	₩ <u>3,509,766</u>	<u>2,974,773</u>	<u>368,861</u>	<u>3,439,353</u>	<u>2,479,212</u>	<u>228,135</u>

	U.S. dollars (thousands) (note 2)					
	2007			2006		
	Department stores	Marts	Other	Department stores	Marts	Other
Property, plant and equipment	\$ 3,729,117	3,104,937	350,849	3,723,025	2,682,614	231,819
Intangible assets	11,840	65,787	42,309	12,560	10,133	15,965
Total	\$ <u>3,740,957</u>	<u>3,170,724</u>	<u>393,158</u>	<u>3,735,585</u>	<u>2,692,747</u>	<u>247,784</u>

(36) Subsequent Events

- (a) On December 24, 2007, the Company made an arrangement with KTB Private Real Estate Investment 29th Fund to sell land and buildings of three stores of its Mart Division in order to hedge the risk of price fluctuation of real estate and to improve its financial structure. In accordance with this arrangement, the Company received a total of ₩220,000 million on January 31, 2008, and accounted for this transaction as a bona fide sale. At the same time the Company made an arrangement to leaseback the real estate sold for 14.5 years, for which the Company deposited ₩11,440 million as key money and will pay the monthly rent of ₩1,144 million.
- (b) The Company decided to acquire shares of CTA Makro Commercial Co., Ltd. that operates several discount stores in China. So the Company made arrangements to purchase 49 percent and 51 percent equity interests in CTA Makro Commercial Co., Ltd. from SHV Investment N.V. Co., Ltd. on December 17, 2007 and from China Trade Association Property Co., Ltd. on January 24, 2008, respectively, and will pay 57,619 thousand Euro and 637,500 thousand RMB, respectively.

Independent Accountants' Review Report on Internal Accounting Control System

English Translation of a Report Originally Issued in Korean

To the President of
Lotte Shopping Co., Ltd.;

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Lotte Shopping Co., Ltd. (the "Company") as of December 31, 2007. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2007, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2007 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2007. We did not review the Company's IACS subsequent to December 31, 2007. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

February 14, 2008

Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2007 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Report on the Operations of Internal Accounting Control System

To the Board of Directors and Internal Auditor (Audit Committee) of
Lotte Shopping Co., Ltd.;

I, as the Internal Accounting Control Officer ("IACO") of Lotte Shopping Co., Ltd. (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2007.

The Company's management including IACO is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS Framework for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2007, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

Hyun Soo, Kim, Internal Accounting Control Officer

Chul Woo, Lee, Chief Executive Officer or President

January 24, 2008