

Registered No 02143888

LG Electronics U.K. Limited

**Annual report for the year ended
31 December 2006**

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LG Electronics U.K. Limited

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Annual Report for the year ended 31 December 2006

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Directors' report for the year ended 31 December 2006

The directors' present their report and the audited financial statements for the year ended 31 December 2006

Principal activities

The principal activity of the company during the year was the import and distribution of electronic products and domestic electrical appliances

Review of business and future developments

The profit and loss account for the year is set out on page 6

The directors were pleased with the performance of the company during the year

Underlying sales grew by over 50% to £458,390k (2005 £301,182k) fuelled by strong consumer demand for new products, and increased brand awareness

An increase in the level of sales allowances offered to customers contributed to a reduction of 1.3% in the overall gross profit margin, which reduced to 9.3% (2005 10.6%)

The company continued to invest heavily in marketing activities. During the year over 20 innovative activities were launched aimed at achieving sales growth and increasing brand awareness

As a result of increased sales activity, the underlying profitability of the company improved. Profit before tax was £1,282k (2005 loss of £1,688k)

The directors consider the company to be well placed to achieve further progress in the coming year through new product introductions and further marketing initiatives. Further efficiency improvements are expected in the coming year. To accomplish the goal of being a global top 3 player in 2010, the company will continue to place the utmost emphasis on developing and promoting core product lines

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk and interest rate risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs. The company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

Price risk

The company is exposed to commodity price risk as a result of its operations. The company has a policy of passing on to its customers' exposures to commodity price risks in negotiating terms of sale.

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. Sales are usually underwritten by credit insurance. Where debt finance is utilised, this is subject to pre-approval by the board of directors.

Directors' report for the year ended 31 December 2006 (continued)

Financial risk management (continued)

Liquidity risk

The company actively utilises short-term debt finance as required that is designed to ensure the company has sufficient funds for operations

Interest rate cash flow risk

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets comprise only cash balances, which earn interest at fixed and floating rates. Interest bearing liabilities comprise debt at fixed and floating rates. There were no interest bearing liabilities at the year end.

Dividends and transfers to reserves

The retained profit for the financial year of £1,336k (2005 retained loss of £1,792k) will be transferred to reserves.

The directors do not recommend the payment of a dividend in respect of the year (2005 £nil).

Directors and their interests

The directors of the company at 31 December 2006, all of whom held office throughout the whole of the year then ended, unless otherwise stated are listed below.

Y B Na
Y H Shin
M K Kim

None of the directors has any beneficial interest in the shares of the company.

Donations

During the year the company made donations for charitable purposes totalling £13k (2005 £13k).

Employment policy

Issues affecting employees are communicated via the management structure to enable employees to be aware of the company's performance etc. This same method is also used to communicate to employees issues which are likely to affect their interests and where possible a full explanation will be given as to the reasons for the actions that are planned and the likely effect on the employees.

The company has a recruitment policy in which equal consideration is given to disabled applicants. Full consideration will be afforded to disabled applicants and where applicable expert advice and guidance will be sought to enable a disabled applicant to take up a position within their capabilities.

**Directors' report for the year ended
31 December 2006 (continued)**

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently in the preparation of the financial statements. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2006 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

Each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the board

M K Kim
Director



Independent auditor's report to the members of LG Electronics U.K. Limited

We have audited the financial statements of LG Electronics U.K. Ltd for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

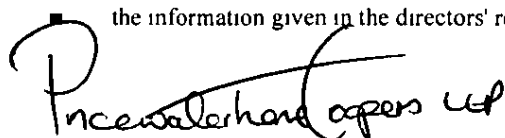
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

Cardiff

11 May 2007

Profit and loss account for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Turnover	3	458,390	301,182
Cost of sales		(415,668)	(269,042)
Gross profit		42,722	32,140
Net operating expenses	4	(40,806)	(32,995)
Operating profit / (loss)	5	1,916	(855)
Interest receivable and similar income		839	208
Interest payable and similar charges	8	(1,473)	(1,041)
Profit / (loss) on ordinary activities before taxation		1,282	(1,688)
Tax on profit / (loss) on ordinary activities	9	54	(104)
Profit / (loss) for the financial year	16	1,336	(1,792)

All operations are continuing

The company has no recognised gains and losses other than those identified in the profits / (losses) above, and therefore no separate statement of total recognised gains and losses has been prepared

There is no difference between the profit / (loss) on ordinary activities before taxation and the retained profit / (loss) for the year stated above, and their historical cost equivalents

Balance sheet
As at 31 December 2006

	Notes	2006 £'000	2005 £ 000
Fixed assets			
Tangible assets	10	1,572	1,851
Current assets			
Stocks	11	41,054	36,809
Debtors	12	112,264	61,074
Cash at bank and in hand		12,585	24,471
		<u>165,903</u>	<u>122,354</u>
Creditors amounts falling due within one year	13	(161,298)	(119,150)
Net current assets		<u>4,605</u>	<u>3,204</u>
Total assets less current liabilities		<u>6,177</u>	<u>5,055</u>
Provisions for liabilities and charges	14	(1,514)	(1,728)
Net assets		<u>4,663</u>	<u>3,327</u>
Capital and reserves			
Called up share capital	15	19,200	19,200
Profit and loss account	16	(14,537)	(15,873)
Equity shareholders' funds	17	<u>4,663</u>	<u>3,327</u>

The financial statements on pages 6 to 16 were approved by the board of directors on 11 May 2007 and were signed on its behalf by

M K Kim
Director



Notes to the financial statements for the year ended 31 December 2006

1 Accounting policies

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. The principal accounting policies are set out below.

Basis of preparation

The company is dependent on receiving all necessary support from its parent, LG Electronics Inc to allow it to continue trading. LG Electronics Inc, has indicated its willingness to support the company for the foreseeable future. As a result of this support the directors have determined that it is appropriate to prepare the financial statements on a going concern basis.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The estimated useful economic lives are as follows:

Short leasehold building improvements	Over the lease period
Fixtures, fittings and office furniture	20% to 33%
Plant, machinery, tools and equipment	20% to 33%

The directors undertake reviews of the carrying value of fixed assets when trigger events occur and make such provisions for impairment as they consider necessary.

Stocks

Stocks are stated at the lower of cost or net realisable value. In general, cost is determined using the weighted average method and includes transport and handling costs. Where necessary, provision is made for obsolete and slow moving stocks.

Turnover

Turnover is recognised when goods are invoiced, which corresponds to the date that goods are despatched to customers.

Turnover, net of trade discounts, credit notes and value added tax, represents the invoiced value of goods supplied.

Turnover also includes commissions received where the company acts as agent in transactions.

Operating leases

Rentals due under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

**Notes to the financial statements for the year ended
31 December 2006 (continued)****1 Principal accounting policies (continued)****Foreign currencies**

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered into. Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Exchange gains or losses are included in arriving at operating profit.

Warranties

The company provides warranties on products sold for periods of between one and three years. These warranties are matched by warranties from the manufacturers and no provision is made for claims made against the company, as they will be matched by claims made against the manufacturers.

The company has entered into arrangements with certain customers for brought out guarantees and extended warranties. Provision is made for the expected cost of meeting claims in respect of these arrangements on products sold.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions, or events that result in an obligation to pay more tax in future, or a right to pay less tax in the future, have occurred at the balance sheet date.

Timing differences are temporary differences between profit as computed for taxation purposes and profit as stated in the financial statements, which arise because certain items of income and expenditure in the financial statements are dealt with in different periods for taxation purposes.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal on the underlying timing differences can be deducted.

Pension costs

The company operates a defined contribution pension scheme. Pension costs are charged against profit in the year in which they are incurred.

2 Cash flow statement and related party disclosures

The company is a wholly owned subsidiary of LG Electronics Inc and is included in the consolidated financial statements of LG Electronics Inc which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1. The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the LG Electronics Inc group or investees of the LG Electronics Inc group.

**Notes to the financial statements for the year ended
31 December 2006 (continued)**

3 Turnover

The company's activities consist solely of the importation and distribution of electronic products and domestic electrical appliances

The geographical analysis of turnover is as follows

	2006 £'000	2005 £ 000
United Kingdom	441,578	291,494
Rest of the European Union	13,305	9,060
Other	3,507	628
	<u>458,390</u>	<u>301,182</u>

The company acts as an agent on behalf of its parent LG Electronics Inc, to co-ordinate the sale and distribution of third generation (3G) mobile phones to certain customers in the UK. During the year the company managed mobile phone sales totalling £67,545,867 (2005 £91,104,980) on behalf of its parent. The commission receivable in respect of this activity amounted to £3,340,000 (2005 £4,236,091) and is included in the segmental analysis of UK turnover.

4 Net operating expenses

	2006 £'000	2005 £'000
Distribution costs	34,387	23,306
Administrative expenses	6,419	9,689
	<u>40,806</u>	<u>32,995</u>

5 Operating profit / (loss)

Operating profit / (loss) is stated after charging / (crediting)

	2006 £'000	2005 £'000
Depreciation of tangible fixed assets	437	290
Hire of plant and machinery - operating leases	367	114
Hire of other assets - operating leases	2,270	1,825
Loss on disposal of fixed assets	67	84
Exchange losses / (gains)	447	(165)
Services provided by the company's auditor		
Fees payable for the audit	65	50
Fees payable for other services – tax compliance	65	226
	<u></u>	<u></u>

**Notes to the financial statements for the year ended
31 December 2006 (continued)**

6 Employee information

The average monthly number persons (including executive directors) employed by the company during the year was

By activity	2006 Number	2005 Number
Selling and marketing	119	87
Service	38	38
Distribution	9	9
Administration and finance	80	80
	<u>246</u>	<u>214</u>

Employment costs of all employees included above

	2006 £'000	2005 £'000
Wages and salaries	10,377	8,384
Social security costs	807	825
Pension costs	261	197
	<u>11,445</u>	<u>9,406</u>

7 Directors' emoluments

	2006 £'000	2005 £'000
Aggregate emoluments	571	439
Pension costs	-	-

	2006 £'000	2005 £'000
Highest paid director		
Aggregate emoluments	244	198
Pension costs	-	-

8 Interest payable and similar charges

	2006 £'000	2005 £'000
Interest payable on bank loans and overdrafts	69	157
Discounts and charges arising from the securitisation of debtors	1,404	544
Interest payable to group undertakings	-	171
Other interest	-	169
	<u>1,473</u>	<u>1,041</u>

Notes to the financial statements for the year ended 31 December 2006 (continued)

9 Tax on profit / (loss) on ordinary activities

	2006 £'000	2005 £'000
Current tax		
UK corporation tax on profit / (loss) of the year	-	-
Adjustments in respect of previous periods	-	50
	<u>-</u>	<u>50</u>
Deferred taxation		
Origination and reversal of timing differences	(54)	41
Adjustments in respect of previous periods	-	13
	<u>(54)</u>	<u>54</u>
Tax on profit / (loss) on ordinary activities	<u>(54)</u>	<u>104</u>

The tax assessed for the year is lower (2005 higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below

	2006 £'000	2005 £'000
Profit / (loss) on ordinary activities before taxation	<u>1,282</u>	<u>(1,688)</u>
Profit / (loss) on ordinary activities multiplied by the standard rate in the UK 30% (2005 30%)	385	(506)
Effects of		
Expenses not deductible for tax purposes	1,022	1,126
Accelerated capital allowances and other timing differences	272	(41)
Group relief claimed at no cost	(1,679)	(579)
Adjustment to tax charge in respect of previous period	-	50
Current tax charge for the year	<u>-</u>	<u>50</u>

**Notes to the financial statements for the year ended
31 December 2006 (continued)**

10 Tangible fixed assets

	Short leasehold building Improvements	Fixtures, fittings and office furniture	Plant, machinery, tools and equipment	Motor Vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2006	735	1,636	114	-	2,485
Additions	4	123	9	89	225
Disposals	(10)	(144)	(10)	-	(164)
At 31 December 2006	729	1,615	113	89	2,546
Depreciation					
At 1 January 2006	245	328	61	-	634
Charge for year	94	312	19	12	437
Eliminated on disposals	(4)	(88)	(5)	-	(97)
At 31 December 2006	335	552	75	12	974
Net book value					
At 31 December 2006	394	1,063	38	77	1,572
At 31 December 2005	490	1,308	53	-	1,851

11 Stocks

	2006 £'000	2005 £'000
Finished goods and goods for resale	41,054	36,809

12 Debtors

	2006 £'000	2005 £'000
Trade debtors	32,531	20,104
Amounts owed by group undertakings	33,401	16,983
Other debtors	45,391	23,294
Prepayments and accrued income	941	693
	112,264	61,074

Notes to the financial statements for the year ended 31 December 2006 (continued)

13 Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Trade creditors	10,319	4,524
Amounts owed to group undertakings	97,061	80,412
Other creditors	17,850	11,889
Other taxation and social security	376	276
Accruals and deferred income	35,692	22,049
	<u>161,298</u>	<u>119,150</u>

14 Provisions for liabilities and charges

	Warranty provision £'000	Deferred Taxation £'000	Total £'000
At 1 January 2006	1,674	54	1,728
Charged to the profit and loss account	1,136	-	1,136
Credited to the profit and loss account	-	(54)	(54)
Utilised during the year	<u>(1,296)</u>	<u>-</u>	<u>(1,296)</u>
At 31 December 2006	<u>1,514</u>	<u>-</u>	<u>1,514</u>

The warranty provision relates to the expected cost of dealing with claims under brought out guarantees and extended warranties provided to certain customers

Deferred taxation

	2006 £'000	2005 £'000
Deferred tax provided in the financial statements comprises		
Accelerated capital allowances	-	(79)
Other timing differences	-	25
Trading losses carried forward	<u>-</u>	<u>-</u>
	<u>-</u>	<u>(54)</u>

At 31 December 2006, a deferred tax asset of £634k exists, this asset has not been recognised in the financial statements due to the uncertainties that are felt to exist concerning its recoverability. The composition of the deferred tax asset which has not been recognised in the financial statements is

	2006 £'000	2005 £'000
Un-provided deferred tax in the financial statements comprises		
Accelerated capital allowances	318	-
Other timing differences	299	-
Pension provision	<u>17</u>	<u>-</u>
	<u>634</u>	<u>-</u>

**Notes to the financial statements for the year ended
31 December 2006 (continued)**

15 Called up share capital

	2006 £'000	2005 £'000
Authorised		
200,000 ordinary shares of £100 each	20,000	20,000
Allotted, called up and fully paid		
192,000 ordinary shares of £100 each	19,200	19,200

16 Profit and loss account reserve

	£'000
At 1 January 2006	(15,873)
Retained profit for the financial year	1,336
At 31 December 2006	(14,537)

17 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 £'000
Opening shareholders' funds	3,327	5,119
Retained profit / (loss) for the financial year	1,336	(1,792)
Closing shareholders' funds	4,663	3,327

18 Financial commitments

At 31 December 2006 the company had annual commitments under non-cancellable operating leases expiring as follows

	2006 Land and buildings £'000	2006 Other £'000	2005 Land and buildings £'000	2005 Other £'000
Within one year	1,070	30	1,070	32
Within two to five years	592	394	-	335
In more than five years	608	-	1,200	-
	2,270	424	2,270	367

19 Pension scheme

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge for the year amounted to £261,000 (2005 £197,000). At the year-end, unpaid pension contributions amounted to £57,039 (2005 £Nil) and are included within accruals.

20 Intermediate parent undertaking

The intermediate parent undertaking is LG Electronics European Holding BV.

**Notes to the financial statements for the year ended
31 December 2006 (continued)**

21 Ultimate parent undertaking

The ultimate parent undertaking and controlling party is LG Electronics Inc, which is incorporated in the Republic of Korea. Copies of LG Electronic Inc's consolidated financial statements can be obtained from LG Electronics Inc, 20 Yeouido-dong, Yeongdeungpo-ku, Seoul 150-721, Korea