

L G Electronics UK Ltd

Directors' report and financial statements

31 December 1997

Registered number 2143888



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

Principal activities

The principal activity of the company continues to be the import and distribution of electronics and domestic electrical appliances.

Review of business and future developments

In 1997 our overall business increased dramatically. Specifically, our OEM business increased by 126% and our I.T. brand business by 35%.

Our focus on I.T. products during 1997 resulted in our achieving brand leadership in CD Rom and established us as a major player in Computer Monitors.

LG branded products entered into the market during the second half of the year following our first TV advertising campaign for seven years; establishing LG as a prominent brand in both Consumer and I.T. product groups. Taking this into consideration we intend to continue with the same level of growth in 1998.

In 1997 we achieved our objective of obtaining ISO 9002 registration, demonstrating our commitment to offer the best possible service to our customers.

Proposed dividend and transfer to reserves

The profit for the financial year amounted to £ 25,606 (1996: £17,609) and is to be transferred to reserves.

The directors do not recommend the payment of a dividend (1996: £nil).

Directors and directors' interests

The directors who held office during the year were as follows:

Mr BJ Willmore
Mr OS Kong
Mr YH Kim

None of the directors at any time during the year had a beneficial interest, as defined by the Companies Act 1985, in the share capital of the company.

Directors' report *(continued)*

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

YH Kim
Director



LG House
264 Bath Road
Slough
Berkshire
SL1 4DT



8 Salisbury Square
London
EC4Y 8BB

Report of the auditors to the members of L G Electronics UK Ltd

We have audited the financial statements on pages 4 to 15.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 of the accounts concerning the uncertainty as to the continued availability of support from the company's parent undertaking, LG Electronics Inc, a company incorporated in Korea. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

31 March 1998

Profit and loss account

for the year ended 31 December 1997

	<i>Note</i>	Continuing operations 1997 £	Continuing operations 1996 £
Turnover	<i>1b, 2</i>	119,473,969	86,531,015
Cost of sales		(114,277,023)	(82,605,832)
		<hr/>	<hr/>
Gross profit		5,196,946	3,925,183
Net operating expenses	<i>3</i>	(4,818,922)	(3,468,464)
		<hr/>	<hr/>
Operating profit	<i>4</i>	378,024	456,719
Interest receivable and similar income	<i>7</i>	155,033	137,598
Interest payable and similar charges	<i>8</i>	(507,451)	(576,708)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		25,606	17,609
Tax on profit on ordinary activities	<i>9</i>	-	-
		<hr/>	<hr/>
Profit for the financial year	<i>15</i>	25,606	17,609
		<hr/> <hr/>	<hr/> <hr/>

The company has no recognised gains and losses other than those included in the profit and loss account above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year above, and their historical cost equivalents.

Balance sheet

at 31 December 1997

	Notes	1997 £	1996 £
Fixed assets			
Tangible assets	10	360,087	489,680
Current assets			
Stocks	11	25,978,840	20,302,521
Debtors	12	27,763,682	17,505,047
Cash at bank and in hand		5,222,478	4,863,945
		<hr/>	<hr/>
		58,965,000	42,671,513
Creditors: amounts falling due within one year	13	(54,126,123)	(41,787,835)
		<hr/>	<hr/>
Net current assets		4,838,877	883,678
Net assets		5,198,964	1,373,358
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	14	7,600,000	3,800,000
Profit and loss account	15	(2,401,036)	(2,426,642)
		<hr/>	<hr/>
Total shareholders' funds	16	5,198,964	1,373,358
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 26.3.98 and were signed on its behalf by:

BJ Willmore

Director



Cash flow statement

for the year ended 31 December 1997

	<i>Notes</i>	1997 £	1996 £
Cash flow from operating activities	19	1,725,312	1,194,361
Returns on investments and servicing of finance			
Interest received		155,033	137,598
Interest paid		(507,451)	(563,723)
Capital Expenditure			
Payments to acquire tangible fixed assets		(17,802)	(286,358)
Receipts from sales of tangible fixed assets		-	60
		<hr/>	<hr/>
Cash inflow before financing		1,355,092	481,938
Financing			
Repayment of bank loan		(3,100,000)	-
Issue of Ordinary Share Capital		3,800,000	-
		<hr/>	<hr/>
Increase in cash in the period	20, 21	2,055,092	481,938
		<hr/> <hr/>	<hr/> <hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

a) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and under the historical cost accounting rules.

The accounts are prepared on a going concern basis which the directors believe to be appropriate for the following reasons. The company meets its day to day working capital requirements through credit terms it negotiates with group companies in respect of purchases, together with a bank facility which is repayable on demand. The directors have prepared projected cash flow information for the period ending nine months from the date of their approval of these accounts and the parent company has confirmed to the directors that it will continue to support the company for the foreseeable future so as to enable it to meet its obligations as and when they fall due.

However, the operations of the parent company, which is incorporated in Korea and trades throughout South East Asia, have been affected and will continue to be affected for the foreseeable future by the unstable Korean economy caused by the currency volatility in the Asia Pacific region. The ultimate outcome of this matter cannot presently be determined. Accordingly, the ability of the parent company to provide such support as and when required is uncertain. However, the directors are confident that support will be available as required and therefore believe it to be appropriate to prepare these accounts on a going concern basis.

The accounts do not include any adjustments that would result from a withdrawal of the support of the parent company.

b) Turnover

Turnover comprises of sales of electrical appliances (together with related accessories), net of trade and promotional discounts and exclusive of value added tax.

c) Tangible fixed assets

Depreciation is provided so as to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Short leasehold buildings	- over the lease period
Fixtures, fittings and office furniture	- 20% to 33% per annum
Plant, machinery, tools and equipment	- 20% to 33% per annum
Motor vehicles	- 33% per annum

d) Leases

Rental charges on operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

The company leases a building to a third party on an operating lease basis. Rent receivable from this lease is credited to the profit and loss account on an accruals basis.

e) Stocks

Stocks and goods in transit are stated at the lower of cost or net realisable value.

Notes (continued)

1 Accounting policies (continued)

f) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability will crystallise.

g) Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate of the exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at rates ruling at the balance sheet date or at actual rates booked with forward contracts where applicable.

2 Turnover

The turnover and profit of the company for the year derives from the same class of business as noted in the directors' report.

The analysis of turnover by geographical area is set out below:

	1997 £	1996 £
Great Britain	110,637,488	63,749,149
Ireland	8,836,481	22,781,866
	<hr/>	<hr/>
	119,473,969	86,531,015
	<hr/> <hr/>	<hr/> <hr/>

3 Net operating expenses

	1997 £	1996 £
Distribution costs	3,867,686	3,676,303
Administrative costs	1,390,152	1,948,577
	<hr/>	<hr/>
	5,257,838	5,624,880
Less:		
Other operating income	(438,916)	(2,156,416)
	<hr/>	<hr/>
	4,818,922	3,468,464
	<hr/> <hr/>	<hr/> <hr/>

Other operating income includes various reimbursements of ongoing costs from the parent company.

Notes *(continued)*

4 Operating profit

Operating profit is stated after charging/(crediting):

	1997 £	1996 £
Depreciation of tangible fixed assets owned	147,395	150,296
Hire of plant and machinery - operating leases	131,642	143,374
Hire of other assets - operating leases	514,500	510,000
Auditors remuneration - audit	20,000	16,000
- other	2,700	12,000
Operating lease rentals receivable	(160,000)	(6,575)
	<u> </u>	<u> </u>

5 Remuneration of directors

Directors' emoluments

Staff costs include the following emoluments in respect of directors of the company:

	1997 £	1996 £
Directors' emoluments	196,575	184,477
Company contributions to personal pension schemes	10,942	10,767
	<u> </u>	<u> </u>
	207,517	195,244
	<u> </u>	<u> </u>

Emoluments paid to the highest paid director were £ 98,600 (1996: £96,643). Company contributions to the personal pension scheme of the highest paid director were £10,942 (1996 £10,767).

Directors' loans

On appointment as director on 24 April 1995, Mr YH Kim received a non interest bearing loan of £12,533. The maximum amount outstanding during the year was £6,926. The loan is repayable over 47 months. At 31 December 1997, £3,723 was still outstanding, being repayable over the next year.

Notes (continued)

6 Staff numbers and costs

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

	1997 Number	1996 Number
Sales and marketing	24	24
Service	21	23
Distribution	6	6
Administration and Finance	12	12
	<hr/> 63 <hr/>	<hr/> 65 <hr/>

Staff costs during the year including directors' emoluments were as follows:

	1997 £	1996 £
Wages and salaries	1,563,150	1,481,162
Social security costs	143,311	134,606
Other pension costs	60,374	65,894
	<hr/> 1,766,835 <hr/>	<hr/> 1,681,662 <hr/>

7 Interest receivable and similar income

	1997 £	1996 £
Bank interest	155,033	137,598
	<hr/> 155,033 <hr/>	<hr/> 137,598 <hr/>

8 Interest payable and similar charges

	1997 £	1996 £
On bank loans and overdrafts	507,451	576,708
	<hr/> 507,451 <hr/>	<hr/> 576,708 <hr/>

Notes (continued)

9 Taxation

There was no taxation charge during the year due to the availability of tax losses brought forward.

10 Tangible fixed assets

	Short leasehold buildings £	Fixtures, fittings, and office furniture £	Plant machinery tools and equipment £	Motor vehicles £	Total £
<i>Cost</i>					
At 1 January 1997	269,272	649,376	182,980	44,984	1,146,612
Additions	-	17,802	-	-	17,802
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1997	269,272	667,178	182,980	44,984	1,164,414
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At 1 January 1997	124,379	382,127	124,845	25,581	656,932
Charge for year	24,558	92,255	18,136	12,446	147,395
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1997	148,937	474,382	142,981	38,027	804,327
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 1997	120,335	192,796	39,999	6,957	360,087
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1996	144,893	267,249	58,135	19,403	489,680
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

11 Stocks

	1997	1996
Finished goods and goods for resale	14,814,418	10,149,208
Goods in transit	11,164,422	10,153,313
	<hr/>	<hr/>
	25,978,840	20,302,521
	<hr/>	<hr/>

Notes *(continued)*

12 Debtors

	1997 £	1996 £
Amounts falling due within one year:		
Trade debtors	22,160,777	13,375,896
Amounts owed by group undertakings	5,158,815	3,755,955
Prepayments and accrued income	324,675	290,715
Other debtors	119,415	74,140
	<hr/>	<hr/>
	27,763,682	17,496,706
Amounts falling due after more than one year:		
Other debtors	-	8,341
	<hr/>	<hr/>
	27,763,682	17,505,047
	<hr/> <hr/>	<hr/> <hr/>

13 Creditors: amounts falling due within one year

	1997 £	1996 £
Bank loans and overdrafts (a)	3,900,000	8,696,560
Trade creditors	1,546,310	1,110,566
Owed to parent and fellow subsidiaries (b)	42,758,177	29,198,378
Other taxation and social security payable	3,058,086	1,007,870
Accruals and deferred income	2,863,550	1,774,461
	<hr/>	<hr/>
	54,126,123	41,787,835
	<hr/> <hr/>	<hr/> <hr/>

- a) The company has arranged composite facilities of £13,000,000 with its bankers, guaranteed by LG Electronics Inc. The facilities cover short-term advances, overdrafts and a guarantee by the bank of payments under a duty deferment bond to the extent of £3,000,000. The guarantee has been counter-indemnified by the company.
- b) Amounts owed to group undertakings include amounts which are payable under documentary credits relating to trade purchases which have been accepted by the company's banker.

Notes (continued)

14 Called up share capital

	1997 £	1996 £
<i>Authorised</i>		
100,000 shares of £100 each	10,000,000	10,000,000
	<u> </u>	<u> </u>
<i>Allotted, called up and fully paid</i>		
76,000 shares of £100 each (1996: 38,000 shares of £100 each)	7,600,000	3,800,000
	<u> </u>	<u> </u>

38,000 shares of £100 each were issued to the company's parent company, LG Electronics Inc., on 21 July 1997. This issue was made in order to provide additional working capital for the company.

15 Profit and loss account

	1997 £	1996 £
At 1 January	(2,426,642)	(2,444,251)
Retained profit for the year	25,606	17,609
	<u> </u>	<u> </u>
At 31 December	(2,401,036)	(2,426,642)
	<u> </u>	<u> </u>

16 Reconciliation of Movements in Shareholders' Funds

	1997 £	1996 £
Opening shareholders' funds	1,373,358	1,355,749
New share capital subscribed	3,800,000	-
Profit for the financial year	25,606	17,609
	<u> </u>	<u> </u>
Closing shareholders' funds	5,198,964	1,373,358
	<u> </u>	<u> </u>

Shareholders' funds are wholly attributable to equity interests.

Notes (continued)

17 Financial commitments

The company has the following annual commitments under non-cancellable operating leases which expire:

	1997		1996	
	Land and buildings £	Other £	Land and buildings £	Other £
Within one year	-	77,154	-	90,149
Two to five years	528,000	102,304	250,000	42,649
Over five years	-	-	260,000	-
	<u>528,000</u>	<u>179,458</u>	<u>510,000</u>	<u>132,798</u>

18 Deferred taxation

	Amount provided		Full potential asset	
	1997 £	1996 £	1997 £'000	1996 £'000
Accelerated Capital Allowances	-	-	(11)	(1)
Short term timing differences	-	-	7	1
Losses	-	-	200	288
	<u>-</u>	<u>-</u>	<u>196</u>	<u>288</u>

19 Reconciliation of operating profit to net cash inflow from operating activities

	1997 £	1996 £
Operating profit	378,024	456,719
Depreciation charges	147,395	150,296
(Increase) in stock	(5,676,320)	(650,916)
(Increase)/decrease in debtors	(10,258,635)	11,577,689
Increase/(decrease) in creditors	17,134,848	(10,339,427)
Net cash inflow/(outflow) from operating activities	<u>1,725,312</u>	<u>1,194,361</u>

Notes *(continued)*

20 Analysis of changes in net debt

	At 1 January 1997 £	Cash Flows £	At 31 December 1997 £
Cash in hand and at bank	4,863,946	358,532	5,222,478
Bank overdrafts	(1,696,560)	1,696,560	-
	<hr/>	<hr/>	<hr/>
	3,167,386	2,055,092	5,222,478
Bank Loans	(7,000,000)	3,100,000	(3,900,000)
	<hr/>	<hr/>	<hr/>
Total	(3,832,614)	5,155,092	1,332,478
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

21 Reconciliation of net cash flow to movement in net debt

	1997 £	1996 £
Increase in cash in the period	2,055,092	481,938
Cash outflow from decrease in bank loan	3,100,000	-
	<hr/>	<hr/>
Change in net debt	5,155,092	481,938
Net debt at 1 January	(3,832,614)	(4,314,552)
	<hr/>	<hr/>
Net cash/(debt) at 31 December	1,332,478	(3,832,614)
	<hr/> <hr/>	<hr/> <hr/>

22 Holding Company and Related Parties

The company is controlled by its immediate parent company LG Electronics Inc., a company incorporated in Korea. The holding company has agreed to provide continuing financial support to the company to enable it to continue to trade for the foreseeable future. The company is exempt under FRS8 from disclosure of transactions with entities that are part of the group headed by LG Electronics Inc. on the grounds that more than 90% of its voting rights are controlled within the group. There are no other related party transactions to disclose.

The consolidated accounts of LG Electronics Inc. may be obtained from:

LG Electronics Inc.
 LG Twin Towers
 20 Yoido-dong
 Youngdungpo-gu
 Seoul 150-721
 Korea