



# Independent Auditor's Report

> To the Board of Directors and Shareholders of  
LG Chem, Ltd.

We have audited the accompanying non-consolidated balance sheets of LG Chem, Ltd. ("the Company") as of December 31, 2002 and 2001, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the year ended December 31, 2002 and the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 LG Chem Ltd. as of December 31, 2002 and 2001, and the results of its operations, the changes in its retained earnings and its cash flows for the year ended December 31, 2002 and the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001, in conformity with financial accounting standards generally accepted in the Republic of Korea. without qualifying our opinion we draw attention to the following matters.

As discussed in Notes 1 and 21 to the non-consolidated financial statements, the Company was spun off from LG Chem Investment Ltd. (formerly, LG Chemical Ltd.) on April 1, 2001 and completed the registration process for new companies on April 3, 2001. Transactions incurred after the spin off are recorded by the Company. The Company took over the business of petrochemicals, performance polymers, industrial and building materials, and information and electronic materials from LG Chem Investment Ltd. The Company's paid-in capital, including preferred stock was ₩365,432 million as of April 1, 2001. The Company was listed on the Korean Stock Exchange on April 25, 2001.

As discussed in Note 17 to the non-consolidated financial statements, the Company sells its products to and purchases certain materials from related companies, including LG Petrochemical Co., Ltd. During the year ended December 31, 2002 and the nine-month period ended December 31, 2001, total sales to related companies amounted to ₩913,351 million and ₩492,498 million, respectively, and total purchases from related companies amounted to ₩1,125,435 million and ₩782,450 million, respectively. As of December 31, 2002 and 2001, related accounts receivable amounted to ₩91,011 million and ₩65,825 million, respectively, and related accounts payable amounted to ₩154,747 million and ₩133,529 million, respectively.

Further, the Company has guaranteed the payment of various obligations of affiliated companies. The outstanding balances of such guarantees as of December 31, 2002 and 2001 approximated ₩227,106 million (related outstanding bank borrowings: ₩128,485 million) and 251,516 million (related outstanding bank borrowings : ₩159,375 million), respectively. As of December 31, 2002, short-term financial instruments of ₩5,522 million are deposited in connection with borrowings of related parties.

As discussed in Note 7 to the non-consolidated financial statements, upon a resolution of the Board of Directors on April 24, 2002, the Company disposed of its investment in LG Investments and Securities Co., Ltd. of 5,265,650 shares (per share ₩19,000) for ₩100,047 million and recognized a gain on disposal of investment amounting to ₩37,669 million on April 25, 2002. In addition, the Company acquired 6,320,000 common shares of LG Petrochemical Co., Ltd. in the amount of ₩94,990 million (per share ₩15,030)

As discussed in Note 20 to the non-consolidated financial statements, on May 8, 2002, the Company disposed of its epoxy polymers segment to Bakelite Korea, a subsidiary of Bakelite Co., Ltd. at ₩22,402 million and realized a gain on the disposal of the segment amounting to ₩3,807 million.

On May 31, 2001, the Company disposed of its powder segment to LG Lucoat Powder Coatings Ltd. (formerly, LG Ferro Powder Coatings Ltd.) of which the Company owns 28.33% and realized a gain on the disposal of the segment amounting to ₩1,313 million. Furthermore, on August 31, 2001, the Company invested ₩43,203 million (US\$ 33,700 thousand) for a 49.00% ownership of M. Dohmen GmbH, and disposed of its dyestuff assets and shares of Tianjin LG Specialty Chemical Co., Ltd. to M. Dohmen Holding S.A., an affiliated company of M. Dohmen GmbH and realized a gain on the disposal of the segment amounting to ₩9,788 million.

As discussed in Note 2 to the non-consolidated financial statements, the Company implemented the ERP (Enterprise Resources Planning) system as of July 1, 2002 and changed its method of inventory valuation from the weighted-average method to the moving-average method. The Company believes that the moving-average method results in a closer matching of costs and revenue, during the period of fluctuating prices, there by reflecting a more realistic picture of the Company's financial position. The change increased (decreased) inventory by ₩2,710 million and (2,283) million, and net income by ₩4,993 million and ₩(2,283) million for the year ended December 31, 2002 and the nine-month period from April 1, 2001 to December 31, 2001, respectively.

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 conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used 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 who are knowledgeable about Korean accounting principles or auditing standards and their application in practice.



Seoul, Korea  
January 29, 2003

This report is effective as of January 29, 2003, 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 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.

# Balance Sheets

December 31, 2002 and 2001

	In Millions of Korean Won	
	2002	2001
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	₩ 143,761	₩ 89,977
Short-term financial instruments (Note 3)	5,789	4,880
Trade accounts and notes receivable, net (Notes 4, 5 and 17)	311,138	280,802
Other accounts receivable, net (Note 5)	54,815	28,857
Inventories (Note 6)	332,045	251,559
Accrued income	743	802
Advance payments	3,572	3,062
Prepaid expenses	8,595	11,118
Other current assets	2,277	640
<b>Total current assets</b>	<b>862,735</b>	<b>671,697</b>
Property, plant and equipment, net (Note 8)	2,259,795	2,356,414
Investment securities (Note 7)	508,435	448,394
Other investments	37,596	40,146
Long-term financial instruments (Note 3)	256	307
Long-term prepaid expenses	21,715	22,310
Long-term trade accounts and notes receivable, net (Note 4)	2,223	2,364
Long-term guarantee deposits	16,184	14,702
Deferred gain on derivative financial instruments	51	-
Intangible assets (Note 2)	137,152	77,708
<b>Total assets</b>	<b>₩ 3,846,142</b>	<b>₩ 3,634,042</b>

The accompanying notes are an integral part of these non-consolidated financial statements.

Continued;

# Balance Sheets

December 31, 2002 and 2001

	In Millions of Korean Won	
	2002	2001
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term borrowings (Note 9)	₩ 59,361	₩ 299,082
Current maturities of long-term debt (Note 9)	703,388	237,803
Trade accounts and notes payable (Note 17)	405,196	305,499
Other accounts payable	345,853	316,592
Accrued expenses	15,860	12,278
Income taxes payable (Note 14)	95,088	24,202
Dividends Payable (Note 16)	110,037	55,236
Others current liabilities	38,272	22,549
<b>Total current liabilities</b>	<b>1,773,055</b>	<b>1,273,241</b>
Long-term debt, net of current maturities(Note 10)	521,325	1,030,081
Accrued severance benefits, net(Note 2)	63,514	47,809
Deferred income tax liabilities (Note 14)	23,905	5,781
Other long-term liabilities	7,157	7,126
<b>Total liabilities</b>	<b>₩ 2,388,956</b>	<b>₩ 2,364,038</b>

The accompanying notes are an integral part of these non-consolidated financial statements.  
Continued;

# Balance Sheets

December 31, 2002 and 2001

	In Millions of Korean Won	
	2002	2001
Commitments and contingencies (Note 11)		
Shareholders' equity (Note 1)		
Capital stock, ₩5,000 par value; authorized 292,000,000 shares		
Common stock, issued : 64,425,064 shares	322,126	322,126
Preferred stock, issued : 8,661,251 shares	43,306	43,306
	<u>365,432</u>	<u>365,432</u>
Capital surplus (Note 12):		
Paid in capital in excess of par value	532,002	532,002
Asset revaluation surplus	206,769	206,769
	<u>738,771</u>	<u>738,771</u>
Retained earnings (Note 12)		
Legal reserve	16,526	5,523
Other reserve	284,751	71,690
Unappropriated retained earnings (Net income ₩345,277 million in 2002 and ₩130,176 million in 2001)	8	(2,273)
	<u>301,285</u>	<u>74,940</u>
Capital adjustment :		
Treasury stock (Note 13)	(438)	(178)
Gain on valuation of investment securities (Note 7)	52,136	91,039
	<u>51,698</u>	<u>90,861</u>
Total shareholders' equity	<u>1,457,186</u>	<u>1,270,004</u>
Total liabilities and shareholders' equity	<u>₩ 3,846,142</u>	<u>₩ 3,634,042</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

## Income Statements

For the year ended December 31, 2002 and the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001

	In Millions of Korean Won	
	2002	2001
Sales (Notes 17 and 19) :		
Domestic	₩ 3,101,857	₩ 2,092,399
Export	2,331,203	1,507,651
	<u>5,433,060</u>	<u>3,600,050</u>
Cost of sales (Note 17)	4,313,909	2,927,505
Gross profit	1,119,151	672,545
Selling expenses	393,512	289,143
Administrative expenses	209,253	116,143
Operating income (Note 19)	<u>516,386</u>	<u>267,259</u>
Non-operating income (expenses)		
Interest expenses, net	(87,503)	(95,028)
Foreign exchange gain, net	2,380	3,544
Gain on foreign currency translation, net	5,805	2,874
Gain (loss) on disposal of investment, net	37,513	(8,973)
Gain on valuation of investments using the equity method of accounting (Note 7)	42,291	16,116
Loss on disposal of property, plant and equipment, net	(16,289)	(7,127)
Impairment loss on inventory	(5,889)	-
Impairment loss on intangible asset	(4,185)	-
Others, net	(11,454)	8,939
	<u>(37,331)</u>	<u>(79,665)</u>
Income before income tax	479,055	187,604
Income tax expense (Note 14)	133,778	57,428
Net income	<u>₩ 345,277</u>	<u>₩ 130,176</u>
Basic and diluted ordinary income per share (Note 15)	<u>₩ 5,152</u>	<u>₩ 1,913</u>
Basic and diluted earning per share (Note 15)	<u>₩ 5,152</u>	<u>₩ 1,913</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

# Statements of Appropriation of Retained Earnings

For the year ended December 31, 2002 and the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001

Dates of appropriations: March 7, 2003 and March 8, 2002

For the year ended December 31, 2002 and the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001, respectively

	In Millions of Korean Won	
	2002	2001
Retained earnings before appropriations:		
Unappropriated retained earnings		
carried forward from prior year	₩ (2,273)	₩ -
Changes in retained earnings resulting from the use of the equity method on investments (Note 12)	(8,864)	-
Net income	345,277	130,176
	<u>334,140</u>	<u>130,176</u>
Appropriations :		
legal reserve	11,003	5,523
other reserves	213,060	71,690
Cash dividends (Note 16)	110,029	55,236
(common stock : 30% and 15% in 2002 and 2001, respectively preferred stock : 31% and 16% in 2002 and 2001, respectively)		
Loss on disposal of treasury stock	40	-
	<u>334,132</u>	<u>132,449</u>
Unappropriated retained earnings		
carried forward to the subsequent year	<u>₩ 8</u>	<u>₩ (2,273)</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

## Statements of Cash Flows

For the year ended December 31, 2002 and for nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001

	In Millions of Korean Won	
	2002	2001
Cash flows from operating activities :		
Net income	₩ 345,277	₩ 130,176
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	251,221	184,060
Impairment loss on intangible asset	4,185	-
Provision for doubtful accounts	15,571	17,054
Loss on valuation of inventory	5,889	-
Provision for severance benefits	46,630	35,185
Gain on foreign currency translation, net	(7,127)	(2,846)
Amortization of discounts	6,548	12,455
Loss on disposal of investment, net	10,238	2,292
Loss on disposal of property, plant and equipment, net	16,289	7,127
Loss (gain) on disposal of investment, net	(37,513)	8,973
Gain on valuation of investments using the equity method of accounting	(42,291)	(16,116)
Changes in operating assets and liabilities:		
Trade accounts receivable	(48,025)	132,738
Other accounts receivable	(26,379)	(9,689)
Accrued income	(1,012)	14,018
Inventories	(77,642)	75,636
Advance payments	(511)	1,362
Prepaid expenses	2,923	1,729
Other current assets	(1,486)	1,415
Trade accounts payable	99,783	9,794
Other accounts payable	29,251	2,080
Accrued expenses	3,582	5,622
Income taxes payable	70,886	24,202
Other liabilities	35,129	1,896
Payment of accrued severance benefits	(31,462)	(24,090)
Net cash provided by operating activities	₩ 669,954	₩ 615,073

The accompanying notes are an integral part of these non-consolidated financial statements.  
Continued;

# Statements of Cash Flows

For the year ended December 31, 2002 and the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001

In Millions of Korean Won

	2002	2001
Cash flows from investing activities :		
Decrease in long-term financial instrument, net	₩ 51	₩ 39,734
Increase in other investments, net	(1,194)	(3,578)
Increase (decrease) in long-term guarantee deposits, net	(1,482)	7,300
Disposal of property, plant and equipment	69,900	9,226
Dividend income	20,539	8,999
Increase in short-term financial instruments	(910)	(4,383)
Acquisition of investment securities, net	(48,542)	(56,941)
Acquisition of property, plant and equipment	(281,636)	(207,768)
Increase in intangible assets	(30,398)	(30,377)
Others	(2,269)	(319)
Net cash used in investing activities	(275,941)	(238,107)
Cash flows from financing activities :		
Decrease in short-term borrowings	(477,709)	(861,411)
Increase in long-term debt, net	192,978	547,774
Acquisition of treasury stock, net	(299)	(178)
Dividends payment	(55,228)	-
Others	29	616
Net cash used in financing activities	(340,229)	(313,199)
Net increase in cash and cash equivalents	53,784	63,767
Cash and cash equivalents as of January 1, 2002 and April 1, 2001	89,977	26,210
Cash and cash equivalents as of December 31, 2002 and 2001	₩ 143,761	₩ 89,977

The accompanying notes are an integral part of these non-consolidated financial statements.

# Notes to Financial Statements

December 31, 2002 and 2001

## Note 1

The Company:

As discussed in Note 21 to the financial statements, the Company was spun off from LG Chem Investment Ltd. (formerly, LG Chemical Ltd.) on April 1, 2001 and completed the registration process on April 3, 2001. The Company engages in the business of petrochemicals, performance polymers, industrial and building materials, and information and electronic materials. The Company has manufacturing facilities located in Yeosoo, Chungju, Ulsan, Naju, Onsan, Iksan and Daesan.

As of December 31, 2002 and 2001, the Company has outstanding capital stock of ₩365,432 million including preferred stock of ₩43,306 million. The Company was listed on the Korean Stock Exchange on April 25, 2001.

As of December 31, 2002 and 2001 the Company is authorized to issue 292,000,000 shares of common stock at ₩5,000 per share. The Company has issued 64,425,064 shares of common stock and 8,661,251 shares of preferred stock. Preferred stock is non-participating and has no voting rights. The holders of preferred stock are entitled to a non-cumulative preferred dividend at a rate of one percentage point over the common stock dividend.

## Note 2

Summary of Significant Accounting Policies:

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements in accordance with Financial Accounting Standards of the Republic of Korea are summarized below:

Basis of Financial Statement Presentation –

The Company maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with financial accounting standards generally accepted in the Republic of Korea. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. 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 financial statements are intended for use by those who are informed about Korean accounting principles and practices. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position and results of operations, is not presented in the accompanying financial statements.

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Spin off –

Upon a resolution of the stockholders of LG Chem Investment Ltd. (formerly, LG Chemical Ltd.) on December 28, 2000, the Company was spun off from LG Chem Investment Ltd. on April 1, 2001. The significant accounting policies followed by the Company in the spin off are as follows:

- Assets and liabilities are transferred using book value.
- Asset revaluation surplus and gain on valuation of investment securities, which are directly related to assets or liabilities transferred to the Company, are also transferred to the Company.
- The difference between the Company's net assets transferred from LG Chem Investment Ltd., and capital, after adjustment of capital surplus and capital adjustments, is credited to paid-in capital in excess of par value.
- Adjustments, which resulted from transactions incurred prior to the spin-off are settled by cash.

Asset-backed Securities –

In accordance with the Asset Securitization Law, on November 28 and 29, 2001, the Company transferred ₩199,841 million of trade receivables and ₩30,369 million of guarantee deposits as of September 30, 2001 to LG 1st and 2nd Special Purpose Companies, respectively (see Note 4). The Company recognizes interest and issuance expenses as losses on disposition of trade receivable and losses on disposition of investments, respectively.

Allowance for Doubtful Accounts –

The Company provides an allowance for doubtful accounts based on the aggregate estimated realizable value of the receivable.

Inventories –

Inventories are stated at the lower of cost or market value, with cost being determined by the moving average method except for materials in-transit for which cost is determined by the specific identification method. The Company recognized ₩5,889 million of impairment loss on inventory in 2002.

The Company implemented an ERP (Enterprise Resources Planning) system as of July 1, 2002 and changed its method of inventory valuation from the weighted-average method to the moving-average method. The Company believes that the moving-average method results in a closer matching of costs and revenue, during periods of fluctuating prices, thereby reflecting a more realistic picture of the Company's financial position. In compliance with financial accounting standards generally accepted in the Republic of Korea, the financial statements as of and for the nine-month period from April 1, 2001 (date of spin-off) to December 31, 2001, have been restated for the change in accounting method, which resulted in the decrease of ordinary income and net income for the nine-month period ended December 31, 2001 by ₩2,283 million.

The effects of the change in the inventory valuation method are summarized as follows (Millions of Won):

	2002			2001		
	Before	After	Effect	Before	After	Effect
	Change	Change		Change	Change	
Ordinary income	₩474,063	₩479,056	₩ 4,993	₩189,889	₩187,604	₩ (2,283)
Net income	₩340,284	₩345,277	₩ 4,993	₩132,459	₩130,176	₩ (2,283)
Ordinary income per share(Won)	₩ 5,110	₩ 5,152	₩ 42	₩ 1,949	₩ 1,913	₩ (36)
Earnings per share (Won)	₩ 5,110	₩ 5,152	₩ 42	₩ 1,949	₩ 1,913	₩ (36)

Investments –

All investments in equity and debt securities are initially carried at cost, including incidental expenses. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase. The following paragraphs describe the subsequent accounting for securities by each type of securities.

Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of stockholders' equity.

Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Company's

proportionate ownership of the underlying book value of the investee which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Investments in equity securities of companies over which the Company directly exerts significant influence on the investees' decision making through representation on the board of directors, share of managerial personnel, or material intercompany transactions or holds over 20% of total outstanding common shares of investees, directly or indirectly (controlled investees), are recorded using the equity method of accounting.

The difference between the purchase price and the Company's proportionate ownership of the net book value of invested companies are amortized over the relevant years not to exceed twenty years using the straight-line method.

Unrealized income included in inventories, property, plant and equipment and other assets as a result of intercompany transactions is eliminated based on the average gross profit ratio of the corresponding company. Unrealized income arising from sales by the Company to equity method companies is fully eliminated. Unrealized income arising from sales by equity method companies to the Company is charged to the equity of the Company to the extent of the Company's pro rata ownership.

Accounts and records of the overseas equity method companies are maintained in foreign currencies. The financial statements of the overseas equity method companies have been translated at exchange rates as of the balance sheet date for the balance sheets and the current period's average exchange rate for income statements. Resulting differences are accounted for as an overseas operation translation debit or credit in capital adjustments.

Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investments in debt securities, which the Company has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums.

Declines in fair value of investments which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes.

Property, Plant and Equipment and Related Depreciation –

Property, plant and equipment are recorded at cost, except for upward revaluations in accordance with the Korean Asset Revaluation Law. Such revaluations present production facilities and other buildings at their depreciated replacement cost and land at the prevailing market price as of the effective date of revaluation.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as described below.

	Useful Lives(in years)
Buildings and structures	25 - 50
Machinery and equipment	6 - 12
Vehicles	6
Tools	6
Furniture and fixtures	6

The Company capitalizes interest expense incurred on debt used to fund the purchase or construction of property, plant and equipment as part of the cost of major assets. For the year ended December 31, 2002 and the nine-month period ended December 31, 2001, capitalized interest expense amounts to ₩11,913 million and ₩12,822 million, respectively.

Routine maintenance and repairs are charged to expense as incurred. Expenditures, which enhance the value or extend the useful lives of the related assets, are capitalized.

The Company realized a loss on the disposal of non-operating fixed assets amounting to ₩19,923 million for the year ended December 31, 2002.

Intangible Assets –

Intangible assets as of December 31, 2002 and 2001 are as follows (Millions of Won):

	2002	2001
Intellectual proprietary rights	₩ 13,852	₩ 14,105
Exclusive facility use rights	364	427
Development costs	114,915	61,729
Others	8,021	1,447
	<u>₩ 137,152</u>	<u>₩ 77,708</u>

Intellectual proprietary rights and exclusive facility use rights are stated at cost, net of accumulated amortization. Amortization of these intangibles is computed using the straight-line method over a period of five to twenty five years.

Research costs are charged to operations as incurred. Costs incurred for new products or technologies, which can be clearly defined and measured and which have probable future economic benefits are accounted for as development costs. Other development costs are recognized in the period incurred as normal development expenses.

Capitalized development costs are amortized over their economic lives not to exceed 20 years using the straight-line method. The Company performs periodic assessments of the recoverability of development costs. Unrecoverable costs are charged to operations in the period that they are first identified. For the year ended December 31, 2002 and the nine-month period ended December 31, 2001, the Company capitalized ₩66,333 million and ₩25,231 million of development costs as intangible assets and recorded ₩34,440 million and ₩27,962 million of development costs as current expenses, respectively.

The details of the changes in development costs are as follows (Millions of Won):

	2002	2001
Beginning balance	₩ 61,729	₩ 41,233
Increase	66,333	25,231
Amortization	(8,962)	(4,735)
Impairment loss	(4,185)	-
Ending balance	<u>₩ 114,915</u>	<u>₩ 61,729</u>

Revaluation of Receivables –

Receivables, which are modified during the course of court receivership, court mediation or restructuring of customers, are revalued at the present value discounted by an adjusted interest rate. The difference between the book value and the present value is accounted for as bad debt expense.

Premiums or Discounts on Debentures –

The Company accounts for the difference between the face amount and issued amount of debentures as an addition to or deduction from debentures.

Premiums or discounts on debentures are amortized using the effective interest rate method over the terms of the debentures. The resulting amortization is recorded as interest expense.

Foreign Currency Translation –

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates in effect at the balance sheet date. Resulting translation gains and losses are recognized currently.

Monetary assets and liabilities denominated in foreign currency, excluding the items referred to in Notes 9 and 10 as of December 31, 2002 and 2001, comprise the following:

	Foreign Currency (In Thousands)				Millions of Won	
		2002	2001	2002	2001	
Cash and cash equivalents	USD	9,369	USD 1,367	₩ 11,246	₩ 1,812	
Trade accounts and notes receivable	USD	71,446	USD 38,288	109,010	51,724	
	EU	1,120	DM 61			
	GBP	114	EU 384			
	SGD	261				
	JPY	2,116,578				
Other investment	USD	113	-	135	-	
Other investments	USD	5,082	USD 9,683	6,101	12,840	
Trade accounts and notes payable	USD	77,209	USD 29,372	120,618	54,788	
	EUR	394	EUR 182			
	NK	221	DM 108			
	CHF	27	NK 221			
	JPY	2,703,171	SF 5			
			JPY 1,108,138			
Other accounts payable	USD	13,705	JPY 4,241,130	43,411	42,810	
	JPY	2,631,980				
Accrued expenses		-	USD 4,406	-	5,843	

#### Accrued Severance Benefits –

As discussed in Note 21 to the financial statements, LG Chem Investment Ltd. transferred its employees and the related accrued severance benefit due them to the Company on April 1, 2001. Employees and directors with one year or more of employment with the Company and LG Chem Investment Ltd. are entitled to receive a lump-sum payment upon termination of their service with the Company, based on their length of employment and rate of pay at the time of termination. Accrued severance benefits represent the amount of severance benefits which would be payable assuming all eligible employees and directors were to terminate their employment with the Company as of the balance sheet date.

Accrued severance benefits are funded approximately 62.3% and 66.8% as of December 31, 2002 and 2001, respectively, through a severance insurance plan. The Company accounts for the amounts funded under the plan as a deduction from accrued severance benefits.

In accordance with the National Pension Act, accrued severance benefits were deposited with the National Pension Fund and deducted from accrued severance benefits. The contributed amount shall be refunded from the National Pension Fund to employees and directors on their retirement.

#### Income Taxes –

Income tax expense comprises taxes payable for the period and the changes in deferred tax assets and liabilities for the period.

Current income taxes payable comprise corporate income tax and tax surcharges payable for the year ended December 31, 2002 and the nine-month period ended December 31, 2001. Deferred income taxes are recognized for the tax consequences in future years of temporary differences between the tax and financial reporting bases of assets and liabilities at the balance sheet date based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

#### Impairment Loss –

An impairment loss related to assets, other than marketable securities, investment securities, restructured receivables and assets for which present value discounts are applied, are included in income from operations when there are declines in fair value arising from obsolescence, physical damage or the significant decline in market value. A subsequent recovery is recorded as non-operating income up to the original book value.

#### Derivative Financial Instruments –

The Company utilizes derivative instruments to reduce its exposure to fluctuations in interest and foreign currency exchange rates. Rights or obligations derived from derivative instruments are recorded as assets or liabilities at fair value on an accrual basis. Gains or losses on valuation of derivative instruments are recognized as a component of current operations, except for gains and losses on valuation of derivative instruments used to hedge cash flows, which are recorded as a capital adjustment. The Company recognized ₩621 million of loss on hedging transaction in 2002.

#### Application of the Statements of Korean Financial Accounting Standards –

The Korean Accounting Standards Board ("KASB") has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards, established by the Korean Financial and Supervisory Board. SKFAS No. 2 through No. 9 become effective for the Company on January 1, 2003, and the Company plans to adopt these statements in its financial statements for the year ending December 31, 2003.

**Note 3**

Restricted Bank Deposits:

As of December 31, 2002, short-term financial instruments of ₩5,522 million (equivalent to US\$ 4,600 thousand) are deposited in connection with borrowings of related parties. Further, long-term financial instruments of ₩46 million and ₩44 million, are deposited in connection with bank overdraft agreements as of December 31, 2002 and 2001, respectively. The withdrawal of these deposits is restricted (See Note 17).

**Note 4**

Asset-Backed Securitization :

In accordance with Asset Securitization Law, on November 28 and 29, 2001, the Company transferred ₩199,841 million of trade receivables and ₩30,369 million of guarantee deposits as of September 30, 2001 to LG 1st and 2nd Special Purpose Companies, respectively.

Through the asset-backed securitization of trade receivables and guarantee deposits, the Company acquired beneficiary certificates and subordinate notes. The senior-tranche securities has the priority claim rights of the principal and interests and operating expenses of Special Purpose Companies. The beneficiary certificates and subordinate notes held by the Company has the claim right of any remaining portion after payment of the priority claim rights mentioned above. The maturity dates of these securities are November 28 and 29, 2004, respectively.

The Company has the obligation to collect the trade receivables transferred and for payments of the special purpose Company's expenses, such as interests and operating expenses as described above.

As of December 31, 2002 and 2001, trade accounts receivable transferred to the Asset Securitization Companies amounted to ₩171,612 million and 172,883 million, respectively.

**Note 5**

Receivables :

Receivables and allowance for doubtful accounts as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	2002	2001
Trade accounts and notes receivable	₩ 339,100	₩ 304,808
Less : Allowance for doubtful accounts	(27,245)	(23,343)
Present value adjustment	(717)	(663)
	<u>₩ 311,138</u>	<u>₩ 280,802</u>
Other accounts receivable	₩ 56,273	₩ 30,315
Less : Allowance for doubtful accounts	(1,458)	(1,458)
	<u>₩ 54,815</u>	<u>₩ 28,857</u>
Long-term trade accounts and notes Receivable	₩ 3,414	₩ 3,490
Less : Present value adjustment	(1,191)	(1,126)
	<u>₩ 2,223</u>	<u>₩ 2,364</u>

## Note 6

### Inventories :

Inventories as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	2002	2001
Merchandise	₩ 15,101	₩ 11,354
Finished products	166,966	109,099
Work-in-process	31,675	67,659
Raw materials	78,771	31,721
Supplies	16,567	14,322
Materials in-transit	22,965	17,404
	<u>₩ 332,045</u>	<u>₩ 251,559</u>

As of December 31, 2002 and 2001, inventories are insured against fire and other casualty losses up to ₩308,856 million and ₩299,954 million, respectively.

## Note 7

### Investments :

Investment securities as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	Reference	2002	2001
Bonds	(1)	₩ 30,378	₩ 32,076
Stocks	(2)	478,057	416,318
		<u>₩ 508,435</u>	<u>₩ 448,394</u>

(1) Bonds as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	Annual		Acquisition Cost		Book Value	
	2002	2001	2002	2001	2002	2001
Government bonds	3.0-6.0	3.0-6.0	₩ 1	₩ 428	₩ 1	₩ 428
Beneficiary certificates (*)	-	-	28,612	29,883	28,612	29,883
Subordinated note	11.0	11.0	1,765	1,765	1,765	1,765
			<u>₩30,378</u>	<u>₩32,076</u>	<u>₩30,378</u>	<u>₩32,076</u>

(\*) The Company acquired the subordinated note through the asset-backed securitization of trade receivables and guarantee deposits (see Note 4). Beneficiary certificates amounts vary every month in accordance with the difference between the collection and transfer of trade receivables.

(2) Stocks as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	Ownership		Acquisition Cost		Book Value		Fair Value or Net Asset Value (*6)	
	Percentage (%)							
	2002	2001	2002	2001	2002	2001	2002	2001
<b>Listed Stocks</b>								
LG Investment and Securities								
Co., Ltd. (*1)	-	4.30	-	121,286	-	78,458	-	78,458
				124,025	-	78,458	-	78,458
<b>Unlisted Stocks</b>								
Wuxi LG Chemical Co., Ltd. (*2)	25.00	25.00	275	275	275	275	-	77
N&L Marble	10.00	10.00	169	169	169	169	138	134
PT. Halim Samara Interutama	12.10	12.10	576	576	576	576	491	511
TECWIN	19.90	19.90	139	139	139	139	591	262
ChemRound Pte. Ltd.	-	1.40	-	784	-	784	-	419
Chemizen. Com Ltd.	3.33	3.33	300	300	300	300	167	165
LG Mozel Ltd	19.50	19.50	195	195	195	195	-	195
EICO Properties Pte. Ltd.	9.20	9.20	2,298	2,298	2,298	2,298	3,601	2,440
Compact Power Inc. (*2)	61.00	61.00	3,732	3,732	3,732	3,732	1,325	958
LG Chem Europe (*3)	100.00	-	1,568	-	1,568	-	228	-
Tianjin PVC & Doors (*3)	100.00	-	9,820	-	9,820	-	9,820	-
LG Holdings (H.K.)	18.18	-	13,401	-	13,401	-	13,063	-
LG Chemical (Guangzhou) (*3)	100.00	-	5,278	-	5,278	-	5,278	-
LG Chemical Trading (*3)	100.00	-	1,202	-	1,202	-	1,202	-
			38,953	8,468	38,953	8,468	35,904	5,161
<b>Investments Using the Equity Method</b>								
LG Sports Ltd.	20.00	20.00	1,200	1,200	989	1,001	977	988
LG Petrochemical Co., Ltd.	40.00	26.02	153,790	58,800	226,265	126,597	205,118	127,154
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	17,498	17,498	35,249	37,728	35,249	37,698
Tianjin LG New Building Materials Co., Ltd.	90.37	90.37	12,399	12,399	8,652	8,632	8,548	8,512
Ningbo LG Yongxing Chemical Co., Ltd.	75.00	75.00	63,638	46,507	77,510	67,998	77,509	68,023
LG India Holdings., Ltd.	100.00	100.00	31,467	31,467	41,276	37,203	41,287	37,203
LG Chemical Hong Kong Ltd.	100.00	100.00	254	254	4,803	4,248	4,804	4,152
LG Vina Chemical Co., Ltd.	40.00	40.00	1,194	1,194	1,041	362	1,041	362
LG Chemical America Inc.	100.00	100.00	9,596	9,596	-	-	1,084	-
P.T. Sinar LG Plastics Ind.	95.00	45.00	16,172	4,779	-	-	-	-
LG Lucoat Powder Coatings Ltd. (*4)	28.33	29.90	2,207	2,329	2,328	2,420	2,301	2,390
M. Dohmen S.A. (*5)	49.00	49.00	43,203	43,204	40,991	43,204	23,372	11,349
			352,618	229,227	439,104	329,392	401,290	297,831
			<u>₩391,571</u>	<u>₩358,981</u>	<u>₩478,057</u>	<u>₩416,318</u>	<u>₩437,194</u>	<u>₩381,450</u>

(\*1) On April 25, 2002, the Company disposed of its investment in LG Investments and Securities Co., Ltd. of 5,265,650 shares (per share ₩19,000).

(\*2) Since the total assets of the investees are less than ₩7,000 million and the impact of using equity method is not significant on the valuation of the investments, the equity method of accounting was not applied.

(\*3) Since the investees were established in 2002, the equity method of accounting was not used.

(\*4) LG Ferro Powder Coatings Ltd. changed its name to LG Lucoat Powder coatings Ltd. in 2002.

(\*5) M. Dohmen Holding S.A. became a consolidated controlling company. Consequently, the Company acquired M. Dohmen Holding S.A. through M. Dohmen GmbH. the exchange of their share.

(\*6) Net asset values were calculated based on the recent available financial statements of the investees.

Upon a resolution of the Board of Directors on April 24, 2002, the Company disposed of its investment in LG Investments and Securities Co., Ltd. of 5,265,650 shares (per share ₩19,000) for ₩100,047 million and recognized a gain on disposal of investment amounting to ₩37,669 million on April 25, 2002. In addition, the Company acquired 6,320,000 common shares of LG Petrochemical Co., Ltd. in the amount of ₩94,990 million (per share ₩15,030).

As of December 31, 2002 and 2001, the investment securities valued using the equity method are as follows (Millions of Won):

	Changes for the year ended December 31, 2002						
	As of January 1, 2002	Acquisition (Disposal)	Dividends	Retained earnings (*2)	Valuation Gain (Loss)	Increase (Decrease) in Capital Adjustment	As of December 31, 2002
LG Sports Ltd.	₩ 1,001	₩ -	₩ -	₩ -	₩ (13)	₩ -	₩ 989
LG Petrochemical Co., Ltd.	126,597	94,990	(8,820)	(1,216)	23,759	(9,045)	226,265
Tianjin LG Dagu Chemical Co., Ltd.	37,728	-	-	-	1,144	(3,623)	35,249
Tianjin LG New Building Materials Co., Ltd.	8,632	-	-	-	864	(843)	8,652
Ningbo LG Yongxing Chemical Co., Ltd.	67,998	17,131	(11,719)	-	11,322	(7,223)	77,509
LG India Holdings., Ltd.	37,203	-	-	-	7,248	(3,175)	41,276
LG Chemical Hong Kong Ltd.	4,248	-	-	-	992	(438)	4,803
LG Vina Chemical Co., Ltd	362	-	-	-	744	(64)	1,041
LG Chemical America Inc.(*1)	-	-	-	-	-	-	-
P.T. Sinar LG Plastics Ind. (*1)	-	11,393	-	(11,393)	-	-	-
LG Lucoat Powder Coatings Ltd.	2,420	(122)	-	-	30	-	2,328
M. Dohmen Holding S.A.	43,203	-	-	-	(3,799)	1,588	40,992
	<b>₩329,392</b>	<b>₩123,392</b>	<b>₩(20,539)</b>	<b>₩(12,609)</b>	<b>₩42,291</b>	<b>₩(22,823)</b>	<b>₩439,104</b>

(\*1) The Company discontinued using the equity method of accounting and investments in these affiliates are stated at ₩0, because the affiliates' net asset value is negative. However, there is no unrecognized loss during the year.

(\*2) The change in the retained earnings of LG petrochemical Co., Ltd. resulted from the accumulated effects of the change in the inventory valuation method used by LG Petrochemical Co., Ltd. while the change in the refrained earnings of P.T. Sinar LG Plastics Ind. resulted from the accumulated unrecognized losses incurred after the discontinuation of the use of the equity method of accounting reflected in the current year due to the capital increase of P. T. Sinar LG Plastics Ind.

	Changes for the nine-month period ended December 31, 2001					
	As of April 1, 2001	Acquisition (Disposal)	Dividends	Valuation Gain (Loss)	Increase (Decrease)	As of December 31, 2001
					in Capital Adjustment	
LG Sports Ltd.	₩ 1,387	₩ -	₩ -	₩ (386)	₩ -	₩ 1,172
LG Petrochemical Co., Ltd.	114,250	-	-	11,818	529	115,817
Tianjin LG Specialty Chemical Co., Ltd.	5,541	(5,541)	-	-	-	-
Tianjin LG Dagu Chemical Co., Ltd.	34,340	-	-	1,513	1,875	35,971
Tianjin LG New Building Materials Co., Ltd.	9,163	-	-	(982)	450	8,093
Ningbo LG Yongxing Chemical Co., Ltd.	56,495	4,891	(8,999)	14,359	1,253	65,316
LG India Holdings., Ltd.	40,177	-	-	(3,333)	359	38,612
LG Chemical Hong Kong Ltd.	3,057	-	-	1,005	186	4,064
LG Vina Chemical Co., Ltd.	290	-	-	54	18	337
LG Chemical America Inc. (*1)	9,272	-	-	(8,017)	(1,225)	-
P.T. Sinar LG Plastics Ind. (*1)	-	6	-	(6)	-	-
LG Lucoat Powder Coatings Ltd.	-	2,329	-	91	-	2,329
M. Dohmen Holding S.A.	-	43,203	-	-	-	43,203
	<u>₩ 273,972</u>	<u>₩ 44,889</u>	<u>₩ (8,999)</u>	<u>₩ 16,116</u>	<u>₩ 3,415</u>	<u>₩ 329,392</u>

(\*1) The Company discontinued using the equity method of accounting and investments in these affiliates are stated at ₩0, because the affiliates' net asset value is negative. The accumulated unrealized loss incurred after the discontinuation of the application of the equity method of accounting of LG Chemical America Inc. and P. T. Sinar LG Plastics Ind. is ₩2,400 million and ₩3,533 million, respectively.

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity investments, as well as the changes in such amounts for the year ended December 31, 2002 and the nine-month period ended December 31, 2001 are as follows (Millions of Won):

	2002				2001			
	Beginning	(Decrease)	Increase (Reversal)	Amortization Ending	Beginning	(Decrease)	Increase (Reversal)	Amortization Ending
LG Sports Ltd.	₩ 14	₩ -	₩ 2	₩ 12	₩ 15	₩ -	₩ 1	₩ 14
LG Petrochemical Co., Ltd.	68	25,740	1,939	23,869	114	-	46	68
Tianjin LG New Building Materials Co., Ltd.	167	-	21	146	188	-	21	167
LG LUCOAT powder Coatings Ltd.	30	3	6	27	-	33	3	30
M. Dohmen S.A.	-	19,578	1,958	17,620	-	-	-	-
Ningbo LG Yongxing Chemical Co., Ltd.	-	-	-	-	-	1,238	1,238	-
	<u>₩ 279</u>	<u>₩ 45,321</u>	<u>₩ 3,926</u>	<u>₩ 41,674</u>	<u>₩ 317</u>	<u>₩ 1,271</u>	<u>₩ 1,309</u>	<u>₩ 279</u>

The unrealized gains (losses) resulting from transactions with equity method investees incurred and eliminated as of December 31, 2002 and the nine-month period ended December 31, 2001 are as follows (Millions of Won) :

	2002				2001			
	Tangible or Intangible			Total	Tangible or Intangible			Total
	Inventory	Investments	asset		Inventory	Investments	asset	
LG Petrochemical Co., Ltd.	₩2,722	₩ -	₩ -	₩2,722	₩1,153	₩ -	₩ -	₩1,153
LG Chemical Hong Kong., Ltd.	1	-	-	1	4	-	-	4
Tianjin LG New Building Materials Co., Ltd	42	-	-	42	47	-	-	47
LG India Holdings., Ltd	11	-	-	11	-	-	-	-
LG Chemical America Inc.	1,397	-	-	1,397	-	-	-	-
	<u>₩4,173</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩4,173</u>	<u>₩1,204</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩1,204</u>

In case of using the non-audited financial statements due to the difference of year-end closing dates and other differences in the application of the equity method, no adjustments were made.

Changes in gain on valuation of investment securities accounted for as capital adjustment for the year ended December 31, 2002 and the nine-month period ended December 31, 2001 are as follows (Millions of Won):

	2002			2001		
	Gain	Loss	Net	Gain	Loss	Net
Beginning	₩ 91,039	₩ -	₩ 91,039	₩ 74,476	₩ 6,454	₩ 68,022
Decrease	(40,491)	-	(40,491)	(4,186)	(6,454)	(2,268)
Increase	1,588	-	1,588	20,749	-	20,749
Ending	<u>₩ 52,136</u>	<u>₩ -</u>	<u>₩ 52,136</u>	<u>₩ 91,039</u>	<u>₩ -</u>	<u>₩91,039</u>

## Note 8

### Property, Plant and Equipment:

Property, plant and equipment as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	2002	2001
Buildings	₩ 557,996	₩ 553,650
Structures	232,543	229,286
Machinery and equipment	2,624,053	2,526,755
Vehicles	19,473	19,597
Tools and furniture	414,787	383,184
	<u>3,848,852</u>	<u>3,712,472</u>
Accumulated depreciation	(2,154,161)	(2,018,855)
	<u>1,694,691</u>	<u>1,693,617</u>
Land	309,487	349,147
Construction in-progress	231,022	260,121
Machinery in-transit	24,595	53,529
	<u>₩ 2,259,795</u>	<u>₩ 2,356,414</u>

As of December 31, 2002 and 2001, property, plant and equipment, except for land, are insured against fire and other casualty losses up to ₩7,836,850 million and ₩6,865,268 million, respectively. In addition, as of December 31, 2002 and 2001, the Company has business interruption insurance policies.

The Company's certain property, plant and equipment as of December 31, 2002 and 2001, have been pledged as collateral for certain bank loans, up to a maximum of ₩376,042 million and ₩387,155 million, respectively (see Notes 9 and 10).

As of December 31, 2002 and 2001, the fair value of land as assessed by the Korean Government amounted to ₩505,173 million and ₩420,880 million, respectively.

## Note 9

### Short-term Borrowings:

Short-term borrowings as of December 31, 2002 and 2001, comprise the following:

	Annual Interest Rate (%)		Millions of Won (Thousands of Foreign Currency)	
	2002	2001	2002	2001
Short-term borrowings :				
General term loans	1.6-5.8	5.8-6.8	₩ 58,665	56,000
Notes discounted	-	4.5-7.7	-	242,200
Usance	-	0.8-2.7	-	688
Bank overdrafts	-	-	564	194
Borrowings from related parties	-	-	132	-
			(USD 110)	(USD 460)
			(JPY 885,450)	(JPY 7,727)
			<u>₩ 59,361</u>	<u>₩ 299,082</u>
Current maturities of long-term debt :				
Debentures	Libor+0.6-0.9	Libor+0.5-0.9	680,000	91,718
Won currency loans	3.0-9.05	3.0-12.0	5,682	11,771
Foreign currency loans	1.1-3.46	Libor+0.4-1.7	19,724	134,365
			(USD 16,228)	(USD 92,321)
			(EUR 292)	(EUR 292)
			(SF 428)	(SF 428)
				(JPY1,115,210)
		Less : Discount on debentures issued	(2,018)	(51)
			<u>703,338</u>	<u>237,803</u>
			<u>₩ 762,749</u>	<u>₩ 536,885</u>

See Note 8 for collateral arrangements on the above borrowings.

## Note 10

### Long-term Debt :

Long-term debt as of December 31, 2002 and 2001 comprises the following:

	Reference	Millions of Won	
		2002	2001
Debentures	(1)	₩ 488,562	₩ 979,584
Loans	(2)	32,763	50,497
		<b>₩ 521,325</b>	<b>₩ 1,030,081</b>

(1) Debentures as of December 31, 2002 and 2001 are as follows :

	2002	Annual	Millions of Won	
		Interest Rate (%)	(Thousand of foreign currency)	
		2001	2002	2001
Public offered debentures, payable through 2005	5.0-9.0	6.0-9.0	₩ 940,000	₩ 951,718
Private offered debentures, payable through 2004	5.6-16.9	10.9-16.9	90,000	130,000
Foreign debentures, payable through 2005 (*)	Libor+0.6	-	144,048 (USD 120,000)	-
			1,174,048	1,081,718
Less : Current maturities			(680,000)	(91,718)
Discount on debentures issued			(5,486)	(10,416)
			<b>₩ 488,562</b>	<b>₩ 979,584</b>

(\*) The Company issued floating rate notes (FRN) on June 21, 2002 with maturities on December 21, 2004, June 21, 2005 and December 21, 2005.

2) Loans as of December 31, 2002 and 2001 reprise the following :

	Annual Interest Rate (%)		Millions of Won (Thousands of Foreign Currency)	
	2002	2001	2002	2001
	<b>Won currency loans</b>			
Energy fund loans	5.0-7.0	5.0-7.0	₩ 1,360	₩ 2,911
General term loans	8.4	10.7	2,927	11,091
Housing loans	3.0-9.5	3.0-12.5	3,622	3,747
Loans for technology improvement	8.4	5.5-10.7	1,909	3,853
			9,818	21,602
		Less : Current maturities	(5,682)	(11,771)
			4,136	9,831
<b>Foreign currency loans</b>				
General term loans	Libor+0.4-1.7	Libor+0.4-1.7	₩ 45,796	₩ 167,369
Other loans	Libor+0.7	Libor+0.7-0.9	1,334	6,313
Payment by installment	Libor+1.5	Libor+1.5	1,221	1,349
			48,351	175,031
			(USD 29,639)	(USD 121,961)
			(EU 438)	(EU 730)
			(SF 1,071)	(SF 1,499)
			(JPY1,115,210)	(JPY 1,115,210)
		Less : Current maturities	(19,724)	(134,365)
			28,627	40,666
			₩ 32,763	₩ 50,497

See Note 8 for collateral arrangements on the above borrowings.

The annual maturities of long-term debt, excluding discounts and premiums on debentures, as of December 31, 2002 are as follows (Millions of Won) :

Year	Won		Foreign		Total
	Debentures	Currency Loans	Currency Loans		
2004	₩ 298,016	₩ 450	₩ 14,071	₩ 312,537	
2005	196,032	164	14,556	210,752	
2006	-	100	-	100	
2007 and there after	-	3,422	-	3,442	
	₩ 494,048	₩ 4,136	₩ 28,627	₩ 526,811	

## Note 11

### Commitments and Contingencies :

As of December 31, 2002, the Company provides joint guarantee for the obligations before the spin-off, which are assumed by LG Chem Investment Ltd. and LG Household & Health Care Ltd. as of April 1, 2001 (see Note 21) and provides financial guarantee to customers.

As of December 31, 2002, the Company receives guarantees from Seoul Guarantee Insurance for the execution of supply contracts.

As of December 31, 2002 and 2001, in the normal course of business, the Company has provided as collateral for creditors and guarantors, a number of blank promissory notes and promissory notes having face values amounting to ₩2,602 million.

The Company has guaranteed the repayment of various obligations of subsidiaries and affiliated companies. The outstanding balances of such guarantees as of December 31, 2002 and 2001 approximated ₩227,106 million and ₩251,516 million, respectively (see Note 17).

As of December 31, 2002 and 2001, the Company is contingently liable for notes from export sales which were discounted through financial institutions in the ordinary course of business amounting to approximately ₩158,553 million (including LG international Corp. agent sales) and ₩95,124 million, respectively. Further, the Company is contingently liable for trade receivables transferred to Asset Securitization Companies amounting to ₩171,612 million and 172,883 million, respectively as of December 31, 2002 and 2001 (See Note 4).

As of December 31, 2002 and 2001, the Company has been named as a defendant in various legal actions. Based on the advice of its counsel, management is of the opinion that the actions outstanding as of December 31, 2002 and 2001, in the aggregate, will not have a material adverse impact on the Company's operations or financial position.

The Company has entered into various multi-year technical assistance and license agreements with several foreign companies for the manufacture of certain product lines. In connection with these agreements, the Company is obligated to pay fees and royalties.

The Company has entered into forward exchange contracts for hedging against foreign exchange rate fluctuations. Outstanding currency forward as of December 31, 2002 and 2001 pertain to buying contracts of USD 5,000 thousand and USD 14,000 thousand, respectively. Further, the Company entered into an interest rate swap contract that pays fixed interest rate and receives variable interest rate, which will be effective on March 31, 2003.

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Company may be either directly or indirectly affected by these generally unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

**Note 12**

Capital Surplus and Retained Earnings :

Paid-in capital in excess of par value –

At the time of spin-off, the Company recorded ₩532,002 million as paid-in capital in excess of par value.

Legal Reserve –

The Korean Commercial Code requires the Company to appropriate an amount equal to a minimum of 10% of its cash dividends as a legal reserve until such reserve equals 50% of its paid-in capital. This reserve is not available for the payment of cash dividends. Subject to the approval of the Board of Directors, it may be transferred to common stock or may be used to reduce accumulated deficit, if any.

Other Reserves –

Pursuant to the Korean tax laws, the Company is allowed to claim the amount of retained earnings appropriated for reserves for technology development as deductions in its income tax return. These reserves are not available for the payment of dividends until used for the specified purpose or reversed.

The Company deducted ₩8,864 million net of income tax amount due to the retained earnings adjustment of equity method investees (See Note 7)

**Note 13**

Treasury Stock :

Changes in treasury stock for the year ended December 31, 2002 and the nine-month period ended December 31, 2001, are as follows (Millions of Won) :

For the year ended December 31, 2002 –

	Common Stock		Preferred Stock	
	Number of shares	Amounts	Number of shares	Amounts
As of January 1, 2002	12,200	₩ 158	3,657	₩ 20
Increase	23,000	965	-	-
Decrease	(16,806)	(705)	-	-
As of December 31, 2002	<u>18,394</u>	<u>₩ 418</u>	<u>3,657</u>	<u>₩ 20</u>

For the nine-month period ended December 31, 2001 –

	Common Stock		Preferred Stock	
	Number of shares	Amounts	Number of shares	Amounts
As of April 1, 2001	12,200	₩ 158	3,657	₩ 20
Increase	-	-	-	-
Decrease	-	-	-	-
As of December 31, 2001	<u>12,200</u>	<u>₩ 158</u>	<u>3,657</u>	<u>₩ 20</u>

**Note 14**

**Income Taxes :**

Income taxes for the year ended December 31, 2002 and the nine-month period ended December 31, 2001 comprise the following (Millions of Won):

	2002	2001
Current income taxes under the tax law	₩ 119,732	₩ 39,992
Changes in deferred income tax assets (liabilities) (*)	14,046	(17,436)
Income taxes	<u>₩ 133,778</u>	<u>₩ 57,428</u>

(\*) The changes in deferred income tax liabilities are as follows :

	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)	
	2002	2001	2002	2001
Beginning balance (**)	₩ (33,195)	₩ 38,705	₩ (9,859)	₩ 11,921
Ending balance	₩ (80,489)	₩ (19,465)	(23,905)	(5,781)
			<u>₩ (14,046)</u>	<u>₩ (17,436)</u>

(\*\*) The effect of the accounting change of ₩12,609 million and additional tax payment of ₩1,121 million on temporary differences was included.

Current income taxes under the tax law are calculated as follows (Millions of Won):

	2002		2001	
Income before income taxes		₩ 479,056		₩ 189,887
Addition to pretax income				
Temporary differences	125,900		79,803	
Permanent differences	26,384	152,284	8,955	88,759
Deduction to pretax income				
Temporary differences	173,194		137,108	
Permanent differences	41,715	214,909	-	137,108
Taxable income		<u>₩ 416,431</u>		<u>₩ 141,538</u>

Changes in temporary differences for the year ended December 31, 2002 and the nine-month period ended December 31, 2001 are as follows (Millions of Won):

For the year ended December 31, 2002 –

	Beginning Balance(*)	Increase	Decrease	Ending Balance
Accrued severance benefits	₩ 113,525	₩ (857)	₩ -	₩ 112,668
Severance insurance plans	(112,668)	-	-	(112,668)
Allowance for doubtful accounts	23,895	34,191	21,678	36,408
Accrued income	(734)	(304)	(424)	(614)
Research and development cost	(59,932)	-	(9,831)	(50,101)
Present value discount	1,583	-	-	1,583
Depreciation	16,648	13,987	2,140	28,495
Gain on valuation of investments using the equity method of accounting (*)	21,092	3,466	-	24,558
Gain on foreign currency translation	12,179	-	4,159	8,020
Reserves for technology development	(50,000)	(90,000)	-	(140,000)
Others (*)	1,217	7,780	(2,165)	11,162
	<u>₩ (33,195)</u>	<u>₩ (31,737)</u>	<u>₩ 15,557</u>	<u>₩ (80,489)</u>

(\*) The accumulated effect of accounting change of ₩12,609 million and additional tax payment ₩1,121 million on temporary differences was included.

For the nine-month period ended December 31, 2001–

	Beginning Balance	Take in after Spin-off	Increase	Decrease	Ending Balance
Accrued severance benefits	₩ 113,525	₩ -	₩ -	₩ -	₩ 113,525
Severance insurance plans	(106,279)	-	(6,389)	-	(112,668)
Allowance for doubtful accounts	-	9,793	21,665	7,563	23,895
Accrued income	(12,914)	-	(686)	(12,866)	(734)
Research and development cost	-	(39,105)	(25,194)	(4,367)	(59,932)
Present value discount	-	1,583	-	-	1,583
Depreciation	-	-	16,648	-	16,648
Gain on valuation of investments using the equity method of accounting	43,804	-	(19,102)	(8,999)	33,701
Gain on foreign currency translation	-	26,921	-	1,742	12,179
Reserves for technology development	-	-	(50,000)	-	(50,000)
Others	569	(57)	1,782	(44)	2,338
	<u>₩ 38,705</u>	<u>₩ (865)</u>	<u>₩(61,276)</u>	<u>₩ (3,971)</u>	<u>₩ (19,465)</u>

Income tax rate applicable to deferred tax liabilities at December 31, 2002 and 2001 are 29.7% and 30.8%, respectively. However, as a result of the tax reconciliation, tax credits and other items, the effective tax rate of the Company for the year ended December 31, 2002 and for the nine-month period ended December 31, 2001 are 27.8% and 30.2%, respectively.

## Note 15

### Earnings Per Share :

Basic ordinary income per share and earnings per share for the year ended December 31, 2002 and the nine-month period ended December 31, 2001 are as follows :

	2002	2001
Net income	₩ 345,277,200,055	₩ 130,176,106,989
Preferred stock dividends	(13,419,270,700)	(6,926,075,200)
Net income and ordinary income available for common stock (A)	₩ 331,857,929,355	₩ 123,250,031,789
Weighted average number of shares of outstanding common stock (B) (*)	64,408,528 shares	64,414,017 shares
Basic earnings per share and ordinary income per share (A/B)	<u>₩ 5,152</u>	<u>₩ 1,913</u>

(\*) Treasury stock is deducted from outstanding common stock.

There are no outstanding convertible bonds or other dilutive securities as of December 31, 2002 and 2001. Accordingly, basic and ordinary income per share are equal to fully diluted earnings per share.

## Note 16

### Dividends :

Details of dividends for the years ended December 31, 2002 and 2001, are as follows :

	2002	2001
Shares issued and outstanding (par value 5,000 won)		
Common stock	64,406,670 Shares	64,412,864 Shares
Preferred stock	8,657,594 Shares	8,657,594 Shares
Dividend per share		
Common stock : cash	1,500Won (30%)	750Won (15%)
Preferred stock : cash	1,550Won (31%)	800Won (16%)
Dividend amount		
Common stock	₩ 96,610 million	₩ 48,310 million
Preferred stock	13,419 million	6,926 million
	<u>₩ 110,029 million</u>	<u>₩ 55,236 million</u>

**Note 17**

Related Party Transactions :

Significant transactions, which occurred in the ordinary course of business with related companies for the year ended December 31, 2002 and the nine-month period ended December 31, 2001 and related account balances as of those dates are summarized as follows (Millions of Won):

	2002	2001
Sales	₩ 913,351	₩ 492,498
Purchases	1,125,435	782,450
Receivables (*)	91,011	65,825
Payables	154,747	133,529

(\*) Loans to Tianjin LG New Building Materials Co., Ltd. and P. T. Sinar LG Plastics Ind. amounting to ₩6,101 million and ₩12,841 million, as of December 31, 2002 and 2001, respectively, are included .

The Company has guaranteed the repayment of the various obligations of subsidiaries. The outstanding balance of such guarantees as of December 31, 2002 and 2001 approximated ₩227,106 million and ₩251,516 million, respectively. In addition, as of December 31, 2002 and 2001 outstanding loans provided by financial institutions to the Company's subsidiaries amounted to ₩128,485 million and ₩159,375 million, respectively. The details are as follows (Millions of Won):

As of December 31, 2002 –

Beneficiary	Guarantee	Loan	
		Financial Amount	Outstanding Institution Amount
Tianjin LG Dagu Chemical Co., Ltd.		₩ 14,405	EXIM Bank ₩ 9,603
"		14,502	Fudong Bank 14,502
"		12,004	ABC 12,004
"		4,802	ICBC 4,802
Tianjin LG New Building Materials Co., Ltd.		1,440	KEB 1,200
"		2,175	ICBC 2,175
"		6,002	CHB 6,002
"		5,522	KDB 5,522
"		8,846	WOORI Bank 8,846
Tianjin PVC & Doors		4,786	" 1,305
"		4,802	ABC2,401
LG Chem (Guangzhou)		6,962	ICBC -
LG Vina Chemica		6,842	KDB 1,513
LG CAI		22,808	WOORI Bank -
"		8,403	Bank One -
"		12,004	KDB -
"		6,002	BOA -
LG Chem H.K.		36,012	BOA 24,234
"		18,006	HSBC 18,006
LG India Holdings		5,402	BOA 739
"		15,605	NAZ 14,342
"		6,002	CHB -
LG Chem EURO		3,772	CL Bank 1,289
		<u>₩227,106</u>	<u>₩128,485</u>

As of December 31, 2001 –

Beneficiary	Guarantee	Financial	Loan
	Amount	Institution	Outstanding Amount
Tianjin LG Dagu Chemical Co., Ltd.	₩ 53,044	IBJ	₩ 15,914
"	17,239	Hana Bank	13,261
"	15,913	EXIM Bank	15,913
Tianjin LG New Building Materials Co., Ltd.	4,464	FUJI Bank	4,464
"	2,387	KEB	1,989
"	2,652	ICBC	2,406
"	6,630	CHB	6,630
LG Vina Chemical	7,559	KDB	3,341
P.T.Sinar LG	17,637	KDB	17,637
LG CAI	25,196	WOORI Bank	22,329
"	9,282	Bank One	7,138
"	13,261	KDB	5,717
"	6,631	BOA	-
LG Chem H.K.	26,522	BOA	26,522
"	19,892	HSBC	3,982
LG India Holdings	5,967	BOA	4,749
"	17,240	ANZ	7,437
	<u>₩ 251,516</u>		<u>₩ 159,375</u>

## Note 18

### Supplemental Cash Flow Information :

Major transactions not involving an inflow or outflow of cash and cash equivalents are as follows (Millions of Won) :

	2002	2001
Transfer to current portion of long term trade receivables	₩ 420	₩ 1,751
Transfer to property, plant and equipment	169,091	195,361
Transfer to machinery and equipment	72,494	28,266
Transfer to development costs	7,950	7,291
Gain on valuation of investment using the equity method of accounting (capital adjustment)	22,824	23,479
Transfer to current maturities of long-term debts	25,405	146,136
Transfer to current maturities of debentures	680,000	40,000
Dividend declaration	110,029	55,236

**Note 19**

Segment Information :

The Company defines its segments by the nature of its products and services.

(1) Industry Segment Information

Industry	Products or Services	Major Customers
Petrochemicals	PE, PVC, VCM, Alcohol, Plasticizers and others	LG International Corp. Youlchon Chemical Co., Ltd. National Plastic Co., Ltd. and others
Performance Polymers	ABS/PS, EPS, MBS, SBL, EP and others	LG Electronics Inc. Daewoo Electronics Co., Ltd. Kia Motors Corp. and others
Industrial & Building Materials	HiSash, UBR, Wall coverings, Living materials, Building materials and others	Hyundai Motors Co., Ltd. Daewoo Motor Co., Ltd. Distributors and wholesalers
Information & Electronic Materials	Battery, Fluorescent materials, Polarized light board and others	LG Electronics Inc. Hynix Semiconductor Inc. and others

Financial information on industry segments for the year ended December 31, 2002 and the nine-month period ended December 31, 2001

For the year ended December 31, 2002 –

	Millions of Won					
	Petrochemicals	Performance Polymers	Industrial & Building Materials	Information & Electronic Materials	Others	Total
1. Sales						
External sales	₩ 1,667,252	₩ 1,385,754	₩ 2,174,824	₩ 452,001	₩ (246,771)	₩ 5,433,060
Inter-segment sales	56,479	47,021	198,767	11	(55,507)	246,771
Total	<u>₩ 1,723,731</u>	<u>₩ 1,432,775</u>	<u>₩ 2,373,591</u>	<u>₩ 452,012</u>	<u>₩ (302,278)</u>	<u>₩ 5,679,831</u>
2. Operating income	<u>₩ 148,263</u>	<u>₩ 114,156</u>	<u>₩ 210,313</u>	<u>₩ 37,978</u>	<u>₩ 5,677</u>	<u>₩ 516,386</u>
3. Fixed assets						
Tangible and intangible assets	<u>₩ 640,866</u>	<u>₩ 438,073</u>	<u>₩ 488,062</u>	<u>₩ 337,669</u>	<u>₩ 452,277</u>	<u>₩ 2,396,947</u>
Depreciation and amortization	<u>₩ 99,033</u>	<u>₩ 48,668</u>	<u>₩ 60,472</u>	<u>₩ 28,901</u>	<u>₩ 23,265</u>	<u>₩ 260,339</u>

For the nine-month period ended December 31, 2001 –

	Millions of Won					Total
	Petrochemicals	Performance Polymers	Industrial & Building Materials	Information & Electronic Materials	Others	
1. Sales						
External sales	₩ 1,015,772	₩ 934,052	₩ 1,476,214	₩ 170,095	₩ 3,917	₩ 3,600,050
Inter-segment sales	144,519	31,553	1,774	25	28,896	206,767
Total	<u>₩ 1,160,291</u>	<u>₩ 965,605</u>	<u>₩ 1,477,988</u>	<u>₩ 170,120</u>	<u>₩ 32,813</u>	<u>₩ 3,806,817</u>
2. Operating income	<u>₩ 96,441</u>	<u>₩ 77,823</u>	<u>₩ 120,232</u>	<u>₩ (22,398)</u>	<u>₩ (4,839)</u>	<u>₩ 267,259</u>
3. Fixed assets						
Tangible and intangible assets	<u>₩ 706,978</u>	<u>₩ 455,696</u>	<u>₩ 463,978</u>	<u>₩ 322,689</u>	<u>₩ 484,781</u>	<u>₩ 2,434,122</u>
Depreciation and amortization	<u>₩ 77,376</u>	<u>₩ 38,914</u>	<u>₩ 47,677</u>	<u>₩ 16,940</u>	<u>₩ 3,153</u>	<u>₩ 184,060</u>

## (2) Geographical Segment Information

The sales by geographical segment for the year ended December 31, 2002 and the nine-month period ended December 31, 2001 are as follows (Millions of Won):

	Domestic(*)	China	North America	South America	South-East Asia	Western Europe	Others	Total
2002	<u>₩3,673,041</u>	<u>₩935,192</u>	<u>₩223,429</u>	<u>₩48,430</u>	<u>₩176,265</u>	<u>₩153,010</u>	<u>₩223,693</u>	<u>₩5,433,060</u>
2001	<u>₩2,130,592</u>	<u>₩847,460</u>	<u>₩ 94,334</u>	<u>₩98,867</u>	<u>₩156,114</u>	<u>₩125,442</u>	<u>₩114,241</u>	<u>₩3,600,050</u>

(\*) Domestic sales include the exports made based on local letters of credit.

## Note 20

### Discontinued Operations :

#### (1) Powder Segment

The Company disposed of its powder segment to LG Lucoat Powder Coatings Ltd. (formerly, LG Ferro Powder Coatings Ltd.), which is 28.33% owned by the Company, on May 31, 2001.

The rights on the property, plant and equipment and inventories as well as the workforce of the powder segment were transferred upon the disposal of the segment.

The gain on disposal of the powder segment is as follows :

		Millions of Won
Book value	Inventories	₩ 2,800
	Property, plant and equipment	4,411
		7,211
Sales price		8,524
Gain on disposal		<u>₩ 1,313</u>

The financial status of the discontinued operation is as follows:

	Millions of Won	
	2000	2001.1.1 - 2001.5.31
Sales	₩ 12,368	₩ 5,457
Cost of sales	10,655	4,794
Gross profit	1,713	663
Selling & Administration expenses	757	527
Operation income	₩ 956	₩ 136

(2) Dyestuff Segment

The Company invested ₩43,203 million (US\$ 33,700 thousand) for a 49.00% ownership of M. Dohmen GmbH, and disposed of the inventories, and trade accounts and notes receivable of its dyestuff segment, and its shares of Tianjin LG Specialty Chemical Co., Ltd. to M. Dohmen Holding S.A., an affiliated company of M. Dohmen GmbH, on August 31, 2001.

The net gain on disposal is as follows :

		Millions of Won
. Disposal of dyestuff segment		
Book value	Inventories	₩ 17,934
	Trade accounts and notes receivable	12,478
		30,412
Sales price		40,696
Gain on disposal		10,284
. Disposal of shares of Tianjin LG Specialty Chemical Co., Ltd.		
Book value	Investment securities	5,540
	Gain on valuation of investment securities (capital adjustment)	₩ (2,932)
		2,608
Sales price		2,567
Loss on disposal		(41)
. Additional severance payment and other payments		(455)
. Net gain on disposal of dyestuff business ( + + )		₩ 9,788

The financial status of the discontinued operation is as follows:

	Millions of Won	
	2000	2001.1.1 - 2001.8.31
Sales	₩ 55,034	₩ 38,953
Cost of sales	46,428	34,372
Gross profit	8,606	4,581
Selling & Administration expenses	7,159	7,501
Operation income	₩ 1,447	₩ (2,920)

(3) Epoxy Polymers segment

On May 8, 2002, the Company disposed of its epoxy polymers segment to Bakelite Korea, a subsidiary of Bakelite Co., Ltd., at ₩22,402 million and realized a gain on the disposal of the segment amounting to ₩3,807 million.

The gain on disposal of the epoxy polymers segment is as follows :

		Millions of Won
Book value	Inventories	₩ 3,632
	Trade accounts and notes receivable	3,184
	Property, plant and equipment	11,779
		18,595
Sales price		22,402
Gain on disposal		₩ 3,807

The financial results of the discontinued operation is as follows:

	Millions of Won	
	2001	2002.1.1~2002.5.8
Sales	₩ 55,449	₩ 20,971
Cost of sales	48,122	17,661
Gross profit	7,327	3,310
Selling & Administration expenses	4,372	2,590
Operation income	₩ 2,955	₩ 720

**Note 21****Business Division :**

Upon a resolution of the Board of Directors on November 15, 2000 and a resolution of the stockholders on December 28, 2000, the Company was created by a spin-off transaction from LG Chem Investment Ltd. on April 1, 2001. On April 3, 2001, the Company has completed the registration process for new companies, according to the Commercial Code of the Republic of Korea.

According to the provisions in the Commercial Code Article 530-2, LG Chem Investment Ltd. established two new companies, the Company, to engage in the business of petrochemicals, performance polymers, industrial and building materials, and information and electronic materials, and LG Household & Health Care Ltd., to engage in the business of household goods and cosmetics. In addition, LG Chem Investment Ltd. has transferred the related assets and liabilities to the new companies.

The Company issued 73,086,315 shares and distributed such shares to the shareholders of LG Chem Investment Ltd. on a pro-rata basis.

The new companies, the Company and LG Household & Health Care Ltd., carried over assets and liabilities from LG Chem Investment Ltd. based on the spin-off plan, which was approved in a resolution of the stockholders on December 28, 2000. In addition, any increase or decrease in assets or liabilities up to the spin off date was also carried over to the newly established companies.

All assets, liabilities and obligations were transferred to the new companies from LG Chem Investment Ltd., effective April 1, 2001.

Accrued severance liabilities for employees working for the new companies were transferred effective April 1, 2001.

LG Chem Investment Ltd. and the two new companies hold joint guarantees for the obligations relating to the liabilities before the spin-off.

The summarized beginning balance sheet of the Company as of April 1, 2001 is as follows:

Millions of Won

ASSETS

Current assets

Cash and cash equivalents	₩	26,211
Trade receivable, net		430,658
Inventories		327,195
Other current assets		53,609
Total current assets		837,673

Property, plant and equipment		2,364,660
Investment securities		349,135
Long-term financial instruments		40,041
Guarantee deposits		27,606
Intangible asset		45,098
Others		74,147
Total assets	₩	3,738,360

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Short-term borrowings	₩	370,885
Current portion of long-term debts		836,803
Trade payables		294,867
Other payables		233,839
Other current liabilities		121,750
Total current liabilities		1,858,144

Long-term debt, net		661,173
Accrued severance benefits, net		40,306
Other long-term liabilities		6,511
Total long-term liabilities		707,990
Total liabilities		2,566,134

Commitment and contingencies

Shareholders' equity		365,432
Capital surplus		738,772
Retained earnings		-
Capital adjustment		68,022
Total shareholders' equity		1,172,226
Total liabilities and shareholders' equity	₩	3,738,360

The financial information of LG Chem Investment Ltd. and LG Household & Health Care Ltd. as of April 1, 2001 is as follows (Millions of Won):

	LG Chem Investment Ltd.	LG Household & Health Care, Ltd.
Current assets	₩ 344,019	₩ 209,083
Fixed assets	2,306,070	402,192
Total assets	<u>2,650,089</u>	<u>611,275</u>
Current liabilities	124,464	256,003
Long-term liabilities	1,329,873	163,441
Total liabilities	<u>1,454,337</u>	<u>419,444</u>
Paid-in capital	99,663	88,589
Capital surplus	213,996	97,263
Retained earnings and others accounts	882,093	5,979
Total shareholders' equity	<u>1,195,752</u>	<u>191,831</u>
Total liabilities and Shareholders' equity	<u>₩ 2,650,089</u>	<u>₩ 611,275</u>

LG Chem Investment Ltd. (formerly, LG Chemical Ltd.) had listed its Global Depository Receipts (GDR) of 2,482,725 shares on the London Stock Exchange, among which 1,638,559 shares were transferred to the Company. At December 21, 2001, the Company relisted 1,638,559 shares of GDR on the London Stock Exchange.

**Note 22**

Restatement and reclassification of prior year financial statement presentation :

The financial statements as of and for the nine-month period ended December 31, 2001 has been restated by the changes in inventory valuation method and has been reclassified to confirm to the 2002 presentation.