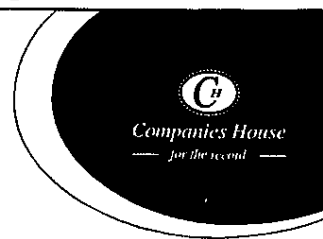


# OS AA01

## Statement of details of parent law and other information for an overseas company

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☒ **What this form is for**  
You may use this form to  
accompany your accounts  
disclosed under parent law

☒ **What this form is NOT for**  
You cannot use this form to reg  
an alteration of manner of cor  
with accounting requirements

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COMPANIES HOUSE  
A34 01/11/2011 125  
COMPANIES HOUSE

### Part 1 Corporate company name

Corporate name of  
overseas company ①

KUMHO TIRE CO., INC

If the company has already been registered in the UK, please enter the  
establishment number below

UK establishment  
number ②

B R 0 1 2 8 5 8

#### → Filling in this form

Please complete in typescript or in  
bold black capitals

All fields are mandatory unless  
specified or indicated by \*

① This is the name of the company in  
its home state

② This should only be completed if  
the company has already been  
registered in the UK

### Part 2 Statement of details of parent law and other information for an overseas company

#### A1 Legislation

Please give the legislation under which the accounts have been prepared and,  
if applicable, the legislation under which the accounts have been audited

Legislation ③

③ This means the relevant rules or  
legislation which regulates the  
preparation and, if applicable, the  
audit of accounts

#### A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted  
accounting principles?

Please tick the appropriate box

☐ No Go to Section A3

☒ Yes. Please enter the name of the organisation or other  
body which issued those principles below, and then go to Section A3

④ Please insert the name of the  
appropriate accounting organisation  
or body

Name of organisation  
or body ④

K-IFRS KOREAN - INTERNATIONAL  
FINANCIAL REPORTING STANDARD

#### A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box

☐ No Go to Section A5

☒ Yes. Go to Section A4

# OS AA01

Statement of details of parent law and other information for an overseas company

**A4**

## Audited accounts

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box

☒ **No. Go to Part 3 'Signature'**

☐ **Yes. Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'**

**1** Please insert the name of the appropriate accounting organisation or body

Name of organisation or body **1**

**A5**

## Unaudited accounts

Unaudited accounts

Is the company required to have its accounts audited?

Please tick the appropriate box

☐ **No.**

☐ **Yes**

## Part 3

## Signature

I am signing this form on behalf of the overseas company

Signature

Signature

**X** 

**X**

This form may be signed by  
Director, Secretary, Permanent representative

# OS AA01

Statement of details of parent law and other information for an overseas company



## Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name	MR. J.S. McDONALD
Company n	
Address	 Marlborough House, Warwick Road, Solihull, West Midlands, B91 3DA Tel 0121 711 2468 Fax 0121 711 1701 Email <a href="mailto:Solihull@primeaccountants.co.uk">Solihull@primeaccountants.co.uk</a> <a href="http://www.primeaccountants.co.uk">www.primeaccountants.co.uk</a>
Post town	
County/Region	
Postcode	
Country	
DX	
Telephone	



## Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following.

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register
- ☐ You have completed all sections of the form, if appropriate
- ☐ You have signed the form



## Important information

Please note that all this information will appear on the public record



## Where to send

You may return this form to any Companies House address

### England and Wales.

The Registrar of Companies, Companies House,  
Crown Way, Cardiff, Wales, CF14 3UZ  
DX 33050 Cardiff

### Scotland.

The Registrar of Companies, Companies House,  
Fourth floor, Edinburgh Quay 2,  
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF  
DX ED235 Edinburgh 1  
or LP - 4 Edinburgh 2 (Legal Post)

### Northern Ireland.

The Registrar of Companies, Companies House,  
Second Floor, The Linenhall, 32-38 Linenhall Street,  
Belfast, Northern Ireland, BT2 8BG  
DX 481 N R Belfast 1



## Further information

For further information, please see the guidance notes on the website at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk) or email [enquiries@companieshouse.gov.uk](mailto:enquiries@companieshouse.gov.uk)

This form is available in an alternative format. Please visit the forms page on the website at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

FC 21610

# **KUMHO TIRE CO., INC.**

**Non-Consolidated Financial Statements  
December 31, 2010 and 2009**

**KUMHO TIRE CO., INC.**  
**Index**  
**December 31, 2010 and 2009**

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## Report of Independent Auditors

To the Board of Directors and Shareholders of  
KUMHO TIRE CO., INC.

We have audited the accompanying non-consolidated statements of financial position of KUMHO TIRE CO., INC. (the "Company") as of December 31, 2010 and 2009, and the related non-consolidated statements of operations, disposition of accumulated deficit, changes in shareholders' equity and cash flows for the years then ended, 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 conformity 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 KUMHO TIRE CO., INC. as of December 31, 2010 and 2009, and the results of its operations, the changes in its accumulated deficit, the changes in its shareholders' equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw your attention to the following matters. As discussed in Note 32 to the accompanying non-consolidated financial statements, as of December 31, 2010, the Company's current liabilities exceeded its current assets by ₩150,567 million. From January 6, 2010, the Company has been under the joint management with the creditor financial institutions. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

As discussed in Note 33 to the accompanying non-consolidated financial statements, the Company restructured its debts, including debt-for-equity conversions, in accordance with the resolution of the creditor financial institutions committee dated April 30, 2010, regarding its debt restructuring plan.

### Samil PricewaterhouseCoopers

LS Yongsan Tower 191 Hangangno 2 ga Yongsan-gu, Seoul 140-702, Korea (Yongsan P.O. Box 266 140 600) [www.samil.com](http://www.samil.com)

Samil PricewaterhouseCoopers is the Korean network firm of PricewaterhouseCoopers International Limited (PwCIL). "PricewaterhouseCoopers" and "PwC" refer to the network of member firms of PwCIL. Each member firm is a separate legal entity and does not act as an agent of PwCIL or any other member firm.

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, changes in shareholders' equity 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 informed about Korean accounting principles or auditing standards and their application in practice.

*Samil PricewaterhouseCoopers*

Seoul, Korea  
March 16, 2011

This report is effective as of March 16, 2011, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**KUMHO TIRE CO., INC.**  
**Non-Consolidated Statements of Financial Position**  
**December 31, 2010 and 2009**

(in millions of Korean won)

	2010	2009
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 20)	₩ 137,809	₩ 12,395
Short-term investments (Note 3)	8	557
Trade accounts and notes receivable, net (Notes 4, 20 and 22)	232,487	292,968
Other accounts receivable, net (Notes 4, 20 and 22)	39,393	79,418
Short-term loans receivable (Notes 20 and 22)	200,930	175,051
Inventories, net (Notes 5 and 9)	213,873	181,513
Deferred income tax assets (Note 18)	14,527	10,340
Others (Notes 20 and 22)	23,866	27,701
Total current assets	862,893	779,943
Long-term financial instruments (Note 3)	35	-
Long-term trade accounts receivable, net (Note 4)	1,145	1,024
Long-term investments (Note 6)	733	2,048
Equity-method investments (Note 7)	486,177	430,726
Deferred income tax assets (Note 18)	62,220	70,262
Property, plant and equipment, net (Notes 8 and 9)	1,046,939	1,062,780
Intangible assets, net (Note 10)	35,366	39,558
Other non-current assets	21,353	22,690
Total assets	₩ 2,516,861	₩ 2,409,031
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Trade accounts payable (Notes 20 and 22)	₩ 379,360	₩ 335,824
Short-term borrowings (Note 11)	311,893	796,557
Current portion of debentures, net (Note 12)	-	159,542
Current portion of bonds with warrant, net (Note 12)	73,774	79,729
Current portion of long-term debts, net (Note 12)	10,923	541,579
Other accounts payable (Notes 20 and 22)	176,725	231,042
Accrued expenses (Note 22)	46,650	37,219
Derivative liabilities (Note 27)	-	1,669
Others	14,135	16,941
Total current liabilities	1,013,460	2,200,102
Convertible bonds, net (Note 12)	113,599	-
Long-term borrowings, net (Note 12)	739,339	-
Accrued severance benefits, net (Note 13)	117,827	118,048
Product warranty reserve (Note 14)	32,131	26,399
Total liabilities	2,016,356	2,344,549
Commitments and contingencies (Note 14)		
<b>Shareholders' equity</b>		
Capital stock		
Common stock (Notes 12 and 15)	466,023	350,042
Capital surplus (Notes 12 and 15)		
Paid-in capital in excess of par value	2,336	316,470
Others	339,093	-
Capital adjustments		
Discount on stock issuance	(2,028)	-
Loss on sale of treasury stock	(15)	-
Others	(18,256)	(16,602)
Accumulated other comprehensive income		
Accumulated comprehensive income from equity-method investees (Note 7)	82,492	109,037
Accumulated comprehensive expense from equity-method investees (Note 7)	(330)	(139)
Gain on revaluation of land	86,619	86,619
Gain on valuation of available-for-sale securities (Note 6)	145	-
Accumulated deficit		
Undisposed accumulated deficit	(455,574)	(780,945)
Total shareholders' equity	500,505	64,482
Total liabilities and shareholders' equity	₩ 2,516,861	₩ 2,409,031

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



**KUMHO TIRE CO., INC.**  
**Non-Consolidated Statements of Operations**  
**Years Ended December 31, 2010 and 2009**

(in millions of Korean won, except per share amounts)

	2010	2009
Sales, net (Notes 16, 22, 26 and 29)	₩ 2,701,990	₩ 1,894,700
Cost of sales (Notes 17, 22 and 23)	2,086,870	1,789,686
Gross income	615,120	105,014
Selling and administrative expenses (Notes 21 and 23)	370,173	318,593
Operating income (loss)	244,947	(213,579)
Non-operating income		
Interest income	14,065	12,492
Gain on valuation of equity-method investments (Note 7)	183	6,697
Gain on disposal of equity-method investments (Note 7)	63,943	-
Gain on foreign currency transactions	48,101	92,856
Gain on foreign currency translation	5,783	13,030
Reversal of allowance for doubtful accounts	2,036	-
Gain on disposal of property, plant and equipment	539	1,698
Gain on derivatives transactions (Note 27)	1,423	417
Gain on valuation of derivatives	-	561
Gain on condoned liabilities (Note 33)	60,234	-
Gain on prior period error correction	3,506	-
Gain on bond retirement	373	-
Others	4,907	2,752
	205,093	130,503
Non-operating expenses		
Interest expenses	94,615	118,521
Loss on valuation of equity-method investments (Note 7)	147,057	193,979
Impairment loss on equity-method investments (Note 7)	26,023	120,746
Loss on disposal of equity-method investments (Note 7)	16,069	-
Impairment loss on intangible assets (Note 10)	-	90,797
Loss on foreign currency transactions	47,790	93,673
Loss on foreign currency translation	13,201	24,767
Loss on disposal of property, plant and equipment	804	1,371
Impairment loss on property, plant and equipment (Note 8)	-	8,879
Loss on disposal of accounts receivable	19,703	26,457
Impairment loss on long-term investments (Note 6)	1,500	742
Other bad debts expense	-	7,594
Donations (Note 25)	29	646
Loss on discard of inventories	463	27,188
Loss on derivatives transactions	-	4,723
Loss on adjustment of transfer price (Note 28)	59,739	-
Others	6,844	4,005
	433,837	724,088
Income (Loss) before income tax expense (benefit)	16,204	(807,164)
Income tax expense (benefit) (Note 18)	7,303	(30,996)
Net income (loss)	₩ 8,901	₩ (776,168)
Basic and diluted earnings per share (Note 19)		
Basic earnings (loss) per share	₩ 504	₩ (75,481)
Diluted earnings (loss) per share	₩ 477	₩ (75,481)

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

**KUMHO TIRE CO., INC.****Non-Consolidated Statements of Disposition of Accumulated Deficit****Years ended December 31, 2010 and 2009****(Dates of disposition March 25, 2011 and March 30, 2010****for the years ended December 31, 2010 and 2009, respectively)***(in millions of Korean won)*

	2010	2009
<b>Accumulated deficit before disposition</b>		
Undisposed accumulated deficit		
from prior year	₩ (464,474)	₩ -
Changes in equity-method retained earnings	-	(4,777)
Net income(loss)	8,901	(776,168)
	<u>(455,573)</u>	<u>(780,945)</u>
<b>Transfer from discretionary reserve</b>	<u>-</u>	<u>-</u>
<b>Disposition of accumulated deficit</b>		
Capital surplus	<u>301,604</u>	<u>316,471</u>
<b>Undisposed accumulated deficit carried forward to subsequent year</b>	₩ <u>(153,969)</u>	₩ <u>(464,474)</u>

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

**KUMHO TIRE CO., INC.**  
**Non-Consolidated Statements of Changes in Shareholders' Equity**  
**Years Ended December 31, 2010 and 2009**

(in millions of Korean won)

	Capital stock	Capital surplus	Capital adjustment	Accumulated other comprehensive income(loss)	Accumulated deficit	Total
<b>Balance as of January 1, 2009</b>	₩ 350,000	₩ 427,707	₩ (17,458)	₩ 258,861	₩ (111,242)	₩ 907,868
Disposition of accumulated deficit	-	(111,242)	-	-	111,242	-
<b>Accumulated deficit after disposition</b>					-	907,868
Exercise of stock warrants	42	5	-	-	-	47
Net loss	-	-	-	-	(776,168)	(776,168)
Capital injection for subsidiaries	-	-	856	-	-	856
Changes in retained earnings						
from equity-method investments	-	-	-	-	(4,777)	(4,777)
Changes in accumulated comprehensive income						
from equity-method investments	-	-	-	(63,344)	-	(63,344)
<b>Balance as of December 31, 2009</b>	₩ 350,042	₩ 316,470	₩ (16,602)	₩ 195,517	₩ (780,945)	₩ 64,482
<b>Balance as of January 1, 2010</b>	₩ 350,042	₩ 316,470	₩ (16,602)	₩ 195,517	₩ (780,945)	₩ 64,482
Disposition of accumulated deficit	-	(316,470)	-	-	316,470	-
<b>Accumulated deficit after disposition</b>					(464,475)	64,482
Exercise of stock warrants (Notes 12 and 15)	12,799	2,336	-	-	-	15,135
Reduction of capital stock without consideration	(299,268)	299,268	-	-	-	-
Net income	-	-	-	-	8,901	8,901
Discounts on stocks issued	-	-	(2,028)	-	-	(2,028)
Loss on disposal of treasury stock	-	-	(15)	-	-	(15)
Gain on valuation of available-for-sale securities	-	-	-	145	-	145
Capital injection for subsidiaries	-	-	(1,654)	-	-	(1,654)
Debt for-equity conversion	402,450	-	-	-	-	402,450
Issuance of convertible bond	-	39,825	-	-	-	39,825
Changes in accumulated comprehensive income						
from equity-method investments	-	-	-	(26,736)	-	(26,736)
<b>Balance as of December 31, 2010</b>	₩ 466,023	₩ 341,429	₩ (20,299)	₩ 168,926	₩ (455,574)	₩ 500,505

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

**KUMHO TIRE CO., INC.**  
**Non-Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

(in millions of Korean won)

	2010	2009
<b>Cash flows from operating activities</b>		
Net income (loss)	₩ 8,901	₩ (776,168)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Bad debts expense	4,661	4,629
Depreciation	80,070	97,345
Provision for severance benefits	31,084	28,731
Amortization of intangible assets	5,541	11,739
Loss on disposal of property, plant and equipment	804	1,371
Impairment loss on property, plant and equipment	-	8,879
Impairment loss on long-term investments	1,500	742
Loss on foreign currency translation	10,789	24,767
Loss on discard of inventories	463	27,188
Interest expense (discounted present value)	18,596	6,046
Loss on valuation of equity-method investments	147,057	193,979
Impairment loss on equity-method investments	26,023	120,746
Loss on disposal of equity-method investments	16,069	-
Impairment loss on intangible assets	-	90,797
Provision for warranty reserve	5,731	2,031
Other bad debts expense	-	7,594
Gain on foreign currency translation	(5,318)	(13,030)
Reversal of allowance for doubtful accounts	(2,036)	-
Gain on valuation of equity method investments	(183)	(6,697)
Gain on disposal of property, plant and equipment	(539)	(1,698)
Gain on disposal of equity-method investments	(63,943)	-
Gain on bond retirement	(373)	-
Gain on condoned liabilities	(60,234)	-
Gain on valuation of derivatives	-	(561)
	<u>215,762</u>	<u>604,598</u>
<b>Changes in operating assets and liabilities</b>		
Trade accounts and notes receivable	57,032	196,051
Other accounts receivable	46,515	(35,190)
Prepaid expenses	4,206	(3,758)
Inventories	(32,823)	151,748
Derivative instruments assets	-	31,642
Deferred income tax assets	2,485	(37,998)
Other assets	(175)	17,314
Trade accounts payable	43,942	(14,227)
Other accounts payable	(53,779)	(23,342)
Accrued expenses	20,666	(3,406)
Derivative instruments liabilities	(1,669)	(26,502)
Other liabilities	(2,808)	(11,492)
Payment of severance benefits	(51,309)	(38,663)
Transfer of accrual of severance benefits	-	600
Deposits for severance benefit insurance	19,627	(6,306)
Decrease in contribution to National Pension Fund	377	291
Dividends received from equity method investments	2,499	4,569
	<u>54,786</u>	<u>201,331</u>
<b>Net cash provided by operating activities</b>	<u>279,449</u>	<u>29,761</u>

**KUMHO TIRE CO., INC.**  
**Non-Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

(in millions of Korean won)

	2010	2009
<b>Cash flows from investing activities</b>		
Proceeds from disposal of short-term investments	₩ 549	₩ -
Collection of short-term loans receivable	25,607	-
Proceeds from disposal of equity-method investments	79,302	-
Proceeds from disposal of property, plant and equipment	3,041	7,049
Proceeds from disposal of other non-current assets	6,476	3,644
Proceeds from disposal of other investment assets	17	23
Acquisition of short-term investments	-	(51)
Short-term loans granted	(56,988)	(178,872)
Acquisition of equity-method investments	(300,588)	(43,407)
Acquisition of property, plant and equipment	(68,471)	(62,029)
Acquisition of intangible assets	(412)	(252)
Acquisition of other non-current assets	(5,240)	(9)
Acquisition of other investment assets	(2)	(1,500)
Net cash used in investing activities	(316,689)	(275,404)
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	641,765	3,708,212
Proceeds from long-term borrowings	264,563	194,158
Issuance of convertible bond	158,181	49,540
Issuance of bond with warrants	-	77,800
Exercise of stock warrants	15,013	16
Proceeds from treasury stock	94	-
Payment of short-term borrowings	(647,246)	(3,327,790)
Payment of current portion of long-term debts	(147,659)	(226,468)
Payment of current portion of debentures	(90,000)	(175,000)
Payment of current portion of bonds with warrants	(4,059)	-
Advanced payment of long-term borrowings	(25,860)	(54,087)
Stock-issuing costs	(2,028)	-
Acquisition of treasury stock	(109)	-
Net cash provided by financing activities	162,655	246,381
Net increase in cash and cash equivalents	125,415	739
<b>Cash and cash equivalents (Note 31)</b>		
Beginning of the year	12,395	11,656
End of the year	₩ 137,809	₩ 12,395

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

**KUMHO TIRE CO., INC.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2010 and 2009**

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**1 The Company**

KUMHO TIRE CO., INC. (the "Company") was incorporated on June 30, 2003, under the laws of the Republic of Korea to engage in manufacturing and selling tires. Kumho Industrial Co., Ltd. contributed and transferred its tire business to the Company on June 30, 2003.

The Company has its headquarters at Gwangju, operates manufacturing plants in various locations, including Gwangju and Kok-Sung, and has several overseas associates and research centers.

The Company issued and listed 6.8 million shares of common stock (issue amount ₩99,620 million) on February 17, 2005, on the Korea Exchange. The Company also issued and listed 22.4 million shares of Global Depository Shares, representing 11.2 million shares of common stock (issue amount US\$160 million), on the London Stock Exchange on February 16, 2005. Further, the Company also issued additional four million shares of Global Depository Shares, representing two million shares of common stock, (issue amount US\$29 million) on March 2, 2005, through the execution of stock purchase option granted to J.P. Morgan Securities Ltd.

As of December 31, 2010, the Company is authorized to issue 400 million shares with a par value of ₩5,000 per share, and it has an outstanding capital stock amounting to ₩466,023 million.

**2 Summary of Significant Accounting Policies**

**Basis of Presentation**

The Company maintains its accounting records in Korean won and prepares statutory financial statements in Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. 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. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

The following is a summary of significant accounting policies followed by the Company in the preparation of its financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Revenue Recognition**

Revenue is the gross inflow of economic benefits arising in the ordinary course of the Company's activities and is measured as the fair value of the consideration received or receivable for the sale of goods and services in the said ordinary course of the Company's activities. Revenue is shown as net of value-added tax, sales discounts and sales returns. The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow into the Company.

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of goods are transferred to the buyer.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and in banks, and financial instruments with maturity of three months or less at the time of purchase. These financial instruments are readily convertible into cash without significant transaction costs and bear low risks from changes in value due to interest rate fluctuations.

**KUMHO TIRE CO., INC.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2010 and 2009**

---

**Allowance for Doubtful Accounts**

The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method.

**Sale or Discount of Accounts Receivable**

The Company sells or discounts certain accounts or notes receivable to financial institutions, and accounts for the transactions as sales of the receivables if the control over the receivables is substantially transferred to the buyers. The losses from the sale of the receivables are charged to current operations as incurred.

**Inventories**

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of inventories are determined using the moving average method except for finished goods and materials-in-transit which are determined using the monthly weighted-average method and the specific identification method, respectively. Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense. Replacement cost is used for the estimate of net realizable value of raw materials. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed up to the original carrying amount before valuation. The said reversal is deducted from cost of sales.

**Investments in Securities**

Costs of securities are determined using the moving average method. Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Investments in equity securities of companies, over which the Company exercises a significant control or influence, are recorded using the equity-method of accounting. Trading securities are classified as current assets while available-for-sale securities and held-to-maturity securities are classified as long-term investments, excluding those securities that mature or are certain to be disposed of within one year, which are then classified as current assets.

Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable.

Gains and losses related to trading securities are recognized in the income statement, while unrealized gains and losses of available-for-sale securities are recognized under other comprehensive income and expense. Realized gains and losses of available-for-sale securities are recognized in the income statement.

**Equity-method Investments**

Investees over which the Company can exercise significant influence should reflect any changes in equity after the initial purchase date. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. All other changes in equity should be accounted for under other comprehensive income and expense.

In case the investee is also a subsidiary of the Company, the net income and net assets of the investee in its non-consolidated financial statements should be equal to the corresponding share of the Company presented in the consolidated financial statements, unless the equity method of accounting has been discontinued on the said investee.

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**Property, Plant and Equipment**

Land is shown at fair value based on a periodic valuation conducted at least every three years and performed by an independent appraiser. All other property, plant and equipment are stated net of accumulated depreciation. Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use.

Increases in the carrying amount arising on revaluation of land are credited to accumulated other comprehensive income and expense in the shareholders' equity. Decreases that offset previous increases of the same asset are charged directly against accumulated other comprehensive income and expense and all other decreases are charged against income. Also, the residual accumulated other comprehensive income related to valuation of the property, plant and equipment is recognized as profit or loss when the property, plant and equipment are discarded or disposed of.

All other property, plant and equipment are stated net of accumulated depreciation calculated based on the following depreciation methods and estimated useful lives:

	<u>Estimated Useful Lives</u>	<u>Depreciation Method</u>
Buildings	30~40 years	Straight-line method
Structures	15~20 years	Straight-line method
Machinery and equipment	4~19 years <sup>1</sup>	Straight-line method
Vehicles	4 years	Straight-line method
Tools	4 years	Straight-line method
Furniture and fixtures	4 years	Straight-line method

<sup>1</sup> In 2009, the Company changed the estimated useful lives of its machinery and equipment from 8 years to 4~19 years.

Expenditures incurred after the acquisition or completion of assets is capitalized if they enhance the value of the related assets over their recently appraised value or extend the useful life of the related assets. Routine maintenance and repairs are charged to expense as incurred.

**Intangible Assets**

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are stated net of accumulated amortization calculated based on using the following amortization methods and estimated useful lives:

	<u>Estimated Useful Lives</u>	<u>Amortization Method</u>
Goodwill	20 years	Straight-line method
Industrial property rights	5 years	Straight-line method
Others	10 years	Straight-line method

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition.



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**Capitalization of Interest Expense**

The Company capitalizes the interest it incurs on borrowings used to finance the cost of manufacturing, acquisition, and construction of inventory and property, plant, and equipment that require more than one year to complete from the initial date of manufacture, acquisition, and construction

**Impairment of Assets**

When the book value of an asset is significantly greater than its recoverable value due to obsolescence, physical damage or an abrupt decline in the market value of the asset, the said decline in value is deducted from the book value to agree with recoverable amount and is recognized as an asset impairment loss for the period. When the recoverable value subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment. Reversal of impairment of goodwill is not allowed.

**Derivatives**

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The resulting changes in fair value of derivative instruments are recognized either under the income statement or shareholders' equity, depending on whether the derivative instruments qualify as a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The resulting changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized under the shareholders' equity under accumulated other comprehensive income and expense.

**Income Tax and Deferred Income Tax**

Income tax expense includes the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

**Discounts on Debentures**

Discounts on debentures are amortized over the term of the debentures using the effective interest rate method. Amortization of the discount is recorded as part of interest expense.

**Accrued Severance Benefits**

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the statement of financial position.

The Company has partially funded the accrued severance benefits through severance insurance deposits with an insurance company. Deposits made by the Company are recorded as deductions from accrued severance benefits. The excess portion of deposits over accrued severance benefits is recorded as other investments.

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The Company deposits a certain portion of severance benefits to National Pension Service according to National Pension Law. The deposit amount is recorded as a deduction from accrued severance benefits.

**Provisions and Contingent Liabilities**

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

**Translation of Assets and Liabilities Denominated in Foreign Currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates of exchange in effect at the date of the statement of financial position (2010 USD1 ₩ 1,138.9, 2009 USD1 ₩ 1,167.6), and the resulting translation gains and losses are recognized in current operations.

**Currency Translation for Foreign Operations**

Assets and liabilities of a foreign branch or company subject to the equity method of accounting for investments are translated into Korean won at the rates of exchange in effect at the date of the statement of financial position, while their equity is translated at the exchange rate at the time of transaction, and income statement accounts at the average rate over the period. Resulting translation gains and losses are recorded as accumulated other comprehensive income and expense. Corresponding gains and losses are recognized as gain or loss when the foreign branch or company is liquidated or sold.

**Valuation of Assets and Liabilities at Present Value**

Receivables and payables resulting from long-term installment payment transactions, long-term cash loans or other similar borrowings, are valued at their present values, discounted at an appropriate discount rate when the difference between the nominal value and present value is material. The present value discounts are amortized or recovered using the effective interest rate method and are recognized as interest income or expense over the term of the contract.

**Approval of Financial Statements**

The December 31, 2010 financial statements of the Company were approved by the Board of Directors on March 8, 2011.

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**3 Restricted Financial Instruments**

<i>(in millions of Korean won)</i>	2010	2009
Short-term investments <sup>1</sup>	₩ -	₩ 557
Long-term financial Instruments <sup>2</sup>	35	33
	<u>₩ 35</u>	<u>₩ 590</u>

<sup>1</sup> Short-term investments have withdrawal restrictions as they serve as collaterals for the leasehold deposits in 2009

<sup>2</sup> Long-term financial instruments are deposits for checking account related to the opening of a branch in Dubai

**4 Trade Accounts and Notes Receivable and Others**

<i>(in millions of Korean won)</i>	2010		
	Gross amount	Allowance for doubtful accounts	Carrying value
Trade accounts and notes receivable	₩ 261,272	₩ (28,785)	₩ 232,487
Long-term trade accounts receivable	1,894	(749)	1,145
Other accounts receivable	40,217	(824)	39,393

<i>(in millions of Korean won)</i>	2009		
	Gross amount	Allowance for doubtful accounts	Carrying value
Trade accounts and notes receivable	₩ 318,759	₩ (25,791)	₩ 292,968
Long-term trade accounts receivable	1,894	(870)	1,024
Other accounts receivable	80,489	(1,071)	79,418

**5 Inventories**

<i>(in millions of Korean won)</i>	2010	2009
Finished goods	₩ 96,039	₩ 111,578
Merchandise	3,838	5,319
Semi finished goods	11,413	8,680
Raw materials	38,281	31,916
Supplies	1,156	963
Merchandise-in-transit	71,773	31,266
	<u>222,250</u>	<u>189,722</u>
Less Valuation allowance	<u>(8,627)</u>	<u>(8,209)</u>
	<u>₩ 213,873</u>	<u>₩ 181,513</u>

**KUMHO TIRE CO., INC.**  
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**6 Long-term Investments**

**Available-for-sale Securities**

(in millions of Korean won)	Percentage of Ownership (%)	Acquisition Cost		Book Value		Fair Value or Net Asset Value <sup>1</sup>	
	2010 12.31	2010	2009	2010	2009	2010	2009
RUBBERNETWORK COM <sup>2</sup>	5.28	₩ -	₩ 742	₩ -	₩ -	₩ -	₩ 36
Ssangyong Motor Co., Ltd	0.08	548	548	733	548	733	548
		₩ 548	₩ 1,290	₩ 733	₩ 548	₩ 733	₩ 584

<sup>1</sup> Net asset value is stated at the net asset value of the investee based on the most recent financial statements made available to investors

<sup>2</sup> In 2009, the Company recognized the impairment loss of ₩742 million as the book value is significantly greater than the recoverable value

For the year ended December 31, 2010, the changes in gain on valuation of available-for-sale securities recorded as accumulated other comprehensive income and expense, are as follows

(in millions of Korean won)	Beginning Balance	Increase	Tax Effects	Ending Balance
Ssangyong Motor Co., Ltd	₩ -	₩ 185	₩ 41	₩ 144

**Held-to-maturity**

(in millions of Korean won)	Maturity	Acquisition Cost		Book Value <sup>1</sup>	
		2010	2009	2010	2009
Shinbo Chae-An Fund 1 <sup>st</sup> Securitization Specialty Subordinated Bond <sup>1</sup>	2012.4.29	₩ 1,200	₩ 1,200	₩ -	₩ 1,200
Shinbo Chae-An Fund 2 <sup>nd</sup> Securitization Specialty Subordinated Bond <sup>1</sup>	2012.3.4	300	300	-	300
		₩ 1,500	₩ 1,500	₩ -	₩ 1,500

<sup>1</sup> As of December 31, 2010, the subordinated bonds are pledged as collateral for the long-term borrowings and the Company recognized the impairment loss on the subordinated bonds as the book value is significantly greater than the recoverable value (Note 12)

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**7 Equity-Method Investments**

(in millions of Korean won)	Investee	Percentage of ownership(%)	Acquisition cost		Book value		Net asset value <sup>1</sup>	
			2010	2009	2010	2009	2010	2009
	Kumho Tire U S A	100 00	₩ 13,001	₩ 13,001	₩ -	₩ -	₩ (30,453)	₩ (30,068)
	Kumho Tyre U K	100 00	-	-	-	-	(7,265)	(7,897)
	Kumho Tire Europe	100 00	-	-	-	-	(17,506)	(15,083)
	Kumho Tire Japan	100 00	1,293	1,293	-	-	879	746
	Kumho Tire Canada	100 00	-	-	1,163	2,633	2,083	2,828
	Kumho Tyre Australia	100 00	4,522	4,522	-	-	10,586	7,587
	Kumho Tire France	100 00	873	873	603	628	1,333	1,281
	Kumho Tire H K	100 00	595,543	294,975	249,551	40,550	268,796	62,172
	Kumho Asiana Main Tower Co , Inc	-	-	15,200	-	57,928	-	57,928
	Daewoo Engineering & Construction <sup>2</sup>	4 40	472,564	472,564	234,860	328,987	146,018	171,392
			<u>₩1,087,796</u>	<u>₩ 802,428</u>	<u>₩ 486,177</u>	<u>₩ 430,726</u>	<u>₩ 375,191</u>	<u>₩ 250,886</u>

<sup>1</sup> Net asset value is stated at the net asset value of the investee based on the most recent financial statements made available to investors

<sup>2</sup> The Company's equity interest in Daewoo Engineering & Construction is less than 20%. However, the equity method was applied as the Company can exert influence through its seat in the investee's board of directors. As of December 31, 2010, the market value of the equity investments in Daewoo Engineering & Construction amounts to ₩234,860 million.

Details of equity-method investment valuations for the year ended December 31, 2010, are as follows

(in millions of Korean won)	Investee	Beginning balance		Valuation gain/loss	Increase (decrease) in capital adjustments		Dividends	Capital adjustment		Other increase (decrease)	Ending balance	
		Acquisition										
	Kumho Tire U S A	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
	Kumho Tyre U K	-	-	-	-	-	-	-	-	-	-	-
	Kumho Tire Europe	-	-	-	-	-	-	-	-	-	-	-
	Kumho Tire Japan	-	-	-	-	-	-	-	-	-	-	-
	Kumho Tire Canada	2,633	-	(1,554)	84	-	-	-	-	-	1,163	-
	Kumho Tyre Australia	-	-	-	-	-	-	-	-	-	-	-
	Kumho Tire France	628	-	183	(208)	-	-	-	-	-	603	-
	Kumho Tire H K <sup>4</sup>	40,550	330,568	(94,382)	4,469	-	(1,654)	-	-	-	249,551	-
	Kumho Asiana Main Tower Co , Inc <sup>1</sup>	57,928	(56,343)	-	-	(1,585)	-	-	-	-	-	-
	Daewoo Engineering & Construction <sup>2,3,4</sup>	328,987	-	(51,121)	1,839	(914)	-	(43,931)	-	-	234,860	-
	<b>2010</b>	<u>₩ 430,726</u>	<u>₩ 244,225</u>	<u>₩(146,874)</u>	<u>₩ 6,184</u>	<u>₩ (2,499)</u>	<u>₩ (1,654)</u>	<u>₩ (43,931)</u>	<u>₩ 486,177</u>			
	<b>2009</b>	<u>₩ 766,303</u>	<u>₩ 43,406</u>	<u>₩(187,282)</u>	<u>₩ (68,662)</u>	<u>₩ (4,569)</u>	<u>₩ 856</u>	<u>₩ (119,326)</u>	<u>₩ 430,726</u>			

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<sup>1</sup> For the year ended December 31, 2010, the Company sold all of its equity-method investments in Kumho Asiana Main Tower to a related party, Asiana Airlines Inc., and recognized a gain on disposal amounting to ₩ 63,943 million (Note 14)

<sup>2</sup> As of December 31, 2010, the percentage of ownership decreased from 5.61% to 4.40% due to the proportionate capital increase and the Company recognized loss on the disposal of equity-method investments in Daewoo Engineering & Construction amounting to ₩16,069 million, including realized accumulated comprehensive income from equity-method investments amounting to ₩397 million

<sup>3</sup> As of December 31, 2010, the Company recognized the impairment loss of ₩ 26,023 million (including realized accumulated comprehensive income from equity-method investments amounting to ₩ 1,442 million), representing the difference between its recoverable value and its carrying value

<sup>4</sup> As of December 31, 2010, the equity-method investments are pledged as collaterals for long-term borrowings (Note 12)

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity investments are amortized over their economic lives not to exceed 20 years using the straight-line method, along with changes in such amounts are as follows

(In millions of Korean won)

Investee	Beginning balance	Amortization	Impairment	Ending balance
Kumho Tire Australia	₩ (10)	₩ 1	₩ -	₩ (9)
Daewoo Engineering & Construction	157,677	(9,091)	(59,606)	88,980
<b>2010</b>	<u>₩ 157,667</u>	<u>₩ (9,090)</u>	<u>₩ (59,606)</u>	<u>₩ 88,971</u>
<b>2009</b>	<u>₩ 317,656</u>	<u>₩ (17,895)</u>	<u>₩ (142,094)</u>	<u>₩ 157,667</u>

For the year ended December 31, 2010, unrealized profit amounting to ₩81,125 million (2009 ₩47,924 million) was eliminated during the valuation of equity-method investments

The Company's unrecorded accumulated changes in net assets of the equity-method investees for which the application of equity-method of accounting has been suspended due to their accumulated losses, are as follows

(in millions of Korean won)

Investee	Beginning balance	Increase (Decrease)	Ending balance <sup>1</sup>
Kumho Tire U S A	₩ 33,129	₩ 38,981	₩ 72,110
Kumho Tyre U K	7,562	(961)	6,601
Kumho Tire Europe	17,903	1,269	19,172
Kumho Tyre Australia	939	3,789	4,728
Kumho Tire Japan	291	376	667
<b>Total</b>	<u>₩ 59,824</u>	<u>₩ 43,454</u>	<u>₩ 103,278</u>

<sup>1</sup> Includes capital adjustments from gain and loss on valuation of equity-method investments

Details of major differences between net income (loss) and net assets of individual financial statements and consolidated financial statements are as follows

(in millions of Korean won)	2010		2009	
	Net income	Net assets	Net loss	Net assets
Suspension of equity-method	₩ 46,439	₩ 103,278	₩ (6,122)	₩ 59,824

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Capital adjustments in shareholders' equity resulting from equity method of accounting are as follows

(in millions of Korean won)

Investee	2010			
	Beginning balance	Increase (Decrease)	Disposal Realized	Ending Balance
Kumho Tire U S A	₩ -	₩ -	₩ -	₩ -
Kumho Tyre U K	(48)	-	-	(48)
Kumho Tire Europe	647	-	-	647
Kumho Tire Japan <sup>1</sup>	37	-	-	37
Kumho Tire Canada <sup>1</sup>	335	66	-	401
Kumho Tyre Australia	(91)	-	-	(91)
Kumho Tire France <sup>1</sup>	13	(204)	-	(191)
Kumho Tire H K	76,937	4,469	-	81,406
Kumho Asiana Main Tower Co , Inc <sup>1</sup>	31,067	-	(31,067)	-
Daewoo Engineering & Construction	-	1,839	(1,839)	-
Other comprehensive income	₩ 109,036	₩ 6,361	₩ (32,906)	₩ 82,491
Other comprehensive loss	₩ (139)	₩ (191)	₩ -	₩ (330)

(in millions of Korean won)

Investee	2009			
	Beginning Balance	Increase (Decrease)	Disposal Realized	Ending balance
Kumho Tire U S A	₩ -	₩ -	₩ -	₩ -
Kumho Tyre U K	(48)	-	-	(48)
Kumho Tire Europe	647	-	-	647
Kumho Tire Japan	133	(96)	-	37
Kumho Tire Canada <sup>1</sup>	237	98	-	335
Kumho Tyre Australia	(91)	-	-	(91)
Kumho Tire France <sup>1</sup>	63	(50)	-	13
Kumho Tire H K	132,767	(55,830)	-	76,937
Kumho Asiana Main Tower Co , Inc <sup>1</sup>	31,968	(901)	-	31,067
Daewoo Engineering & Construction	6,565	(12,762)	6,197	-
Other comprehensive income	₩ 172,380	₩ (63,344)	₩ -	₩ 109,036
Other comprehensive loss	₩ (139)	₩ (6,197)	₩ 6,197	₩ (139)

<sup>1</sup> This amount is net of the deferred income tax effect of the capital adjustments and loss on valuation of equity-method investments

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Summaries of financial information of equity-method investees are as follows

(in millions of Korean won)

Investee	2010			
	Assets	Liabilities	Sales	Net income (loss)
Kumho Tire U S A	₩ 354,049	₩ 384,502	₩ 709,295	₩ (629)
Kumho Tyre U K	53,529	60,794	99,482	138
Kumho Tire Europe	107,060	124,565	263,179	(3,742)
Kumho Tire Japan	14,577	13,698	47,637	23
Kumho Tire Canada	15,409	12,606	42,145	(104)
Kumho Tyre Australia	83,344	72,758	125,002	2,007
Kumho Tire France	51,293	49,960	93,876	173
Kumho Tire H K	697,248	428,452	-	(52,801)
Daewoo Engineering & Construction	9,214,340	5,893,878	6,734,285	(749,023)
Total	₩ 10,590,849	₩ 7,041,213	₩ 8,114,901	₩ (803,958)

(in millions of Korean won)

Investee	2009			
	Assets	Liabilities	Sales	Net income (loss)
Kumho Tire U S A	₩ 340,433	₩ 370,501	₩ 615,820	₩ (8,083)
Kumho Tyre U K	63,643	71,540	119,945	36
Kumho Tire Europe	128,282	143,365	246,692	(553)
Kumho Tire Japan	15,243	14,497	48,818	77
Kumho Tire Canada	12,441	9,613	54,150	447
Kumho Tyre Australia	69,428	61,841	111,474	1,483
Kumho Tire France	44,136	42,855	83,993	225
Kumho Tire H K	486,871	424,699	-	(181,922)
Kumho Asiana Main Tower Co , Inc	278,366	205,956	28,281	6,944
Daewoo Engineering & Construction	8,841,021	5,785,898	7,097,387	80,003
Total	₩ 10,279,864	₩ 7,130,765	₩ 8,406,560	₩ (101,343)



**KUMHO TIRE CO., INC.**  
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**8 Property, Plant and Equipment**

(in millions of Korean won)	2010					
	Land	Buildings	Machinery and equipment	Construction- in-progress	Others	Total
<b>Beginning balance</b>	₩ 269,620	₩ 267,197	₩ 383,806	₩ 57,796	₩ 84,361	₩ 1,062,780
Acquisition	-	-	-	63,278	5,193	68,471
Transfer	-	1,592	27,252	(52,703)	22,922	(937)
Disposal	-	-	(662)	-	(2,643)	(3,305)
Depreciation	-	(8,472)	(41,014)	-	(30,584)	(80,070)
<b>Ending balance</b>	<u>₩ 269,620</u>	<u>₩ 260,317</u>	<u>₩ 369,382</u>	<u>₩ 68,371</u>	<u>₩ 79,249</u>	<u>₩ 1,046,939</u>
Acquisition cost	₩ 269,620	₩ 316,911	₩ 906,081	₩ 68,371	₩ 288,707	₩ 1,849,690
Accumulated depreciation	-	(56,594)	(527,820)	-	(209,458)	(793,872)
Accumulated impairment	-	-	(8,879)	-	-	(8,879)

(in millions of Korean won)	2009					
	Land	Buildings	Machinery and equipment	Construction- in-progress	Others	Total
<b>Beginning balance</b>	₩ 269,688	₩ 270,298	₩ 400,898	₩ 98,731	₩ 94,630	₩ 1,134,245
Acquisition	-	-	-	57,540	4,489	62,029
Transfer	-	5,296	48,114	(98,475)	24,518	(20,547)
Disposal	(68)	-	(221)	-	(6,434)	(6,723)
Depreciation	-	(8,397)	(56,106)	-	(32,842)	(97,345)
Impairment	-	-	(8,879)	-	-	(8,879)
<b>Ending balance</b>	<u>₩ 269,620</u>	<u>₩ 267,197</u>	<u>₩ 383,806</u>	<u>₩ 57,796</u>	<u>₩ 84,361</u>	<u>₩ 1,062,780</u>
Acquisition cost	₩ 269,620	₩ 315,319	₩ 885,471	₩ 57,796	₩ 271,238	₩ 1,799,444
Accumulated depreciation	-	(48,122)	(492,786)	-	(186,877)	(727,785)
Accumulated impairment	-	-	(8,879)	-	-	(8,879)

As of December 31, 2010, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, amounts to approximately ₩175,226 million (2009 ₩169,693 million)

As of December 31, 2010, substantial portions of the Company's land, buildings and machinery are pledged as collaterals for long-term and short-term debt obligations of up to ₩294,600 million, US\$25.2 million and JPY2,532 million in aggregate (Notes 11 and 12)

At December 31, 2008, land was revalued at fair values by independent appraisers. As of December 31, 2010, the value of the Company's land, based on its acquisition cost, is ₩158,611 million (2009 ₩158,611 million)

Property, plant and equipment are insured against fire for up to ₩2,238,829 million (2009 ₩2,221,655 million) with The Korea Development Bank as the beneficiary of the insured amount

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**9 Capitalization of interest expense**

For the year ended December 31, 2010, the Company capitalized the interest of ₩5,940 million incurred on the borrowings used to finance the cost of acquisition of the property, plant and equipment

A comparison of the relevant accounts assuming the interest is capitalized or expensed is as follows

<i>(in millions of Korean won)</i>	2010	
	Capitalized	Expensed
Property, plant and equipment		
Acquisition cost	₩ 1,849,690	₩ 1,843,750
Accumulated depreciation	(793,872)	(793,872)
Depreciation	80,070	80,070
Interest expenses	94,615	97,049

**10 Intangible Assets**

<i>(in millions of Korean won)</i>	2010		
	Industrial property rights	Other	Total
Beginning balance	₩ 1,394	₩ 38,164	₩ 39,558
Acquisition	412	937	1,349
Amortization	(554)	(4,987)	(5,541)
Ending balance	₩ 1,252	₩ 34,114	₩ 35,366

<i>(in millions of Korean won)</i>	2009			
	Goodwill	Industrial property rights	Other	Total
Beginning balance	₩ 97,523	₩ 1,667	₩ 22,105	₩ 121,295
Acquisition	-	252	20,547	20,799
Amortization	(6,726)	(525)	(4,488)	(11,739)
Impairment <sup>1</sup>	(90,797)	-	-	(90,797)
Ending balance	₩ -	₩ 1,394	₩ 38,164	₩ 39,558

<sup>1</sup> The Company recognized the impairment loss of ₩90,797 million, representing the difference between the recoverable value of goodwill and its book value

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**11. Short-Term Borrowings**

<i>(in millions of Korean won)</i>	Interest rate (%) at 12/31/2010	2010	2009
Bank overdraft	2 00 ~ 7 00	₩ 51,500	₩ 95,720
Commercial papers issued	8 20 ~ 9 15	137,165	407,130
General term-loans			
(2009 including US\$ 16,000 thousand)	-	-	219,409
Usance of US\$ 107,252 thousand			
(2009 US\$ 63,333 thousand)	1 20 ~ 3 95	123,228	74,298
		₩ 311,893	₩ 796,557

The Company has bank overdraft agreements with The Korea Development Bank and other banks for up to ₩136,659 million. Certain portions of the Company's property, plant and equipment and two promissory notes are pledged as collaterals for the borrowings above (Note 8)

**12 Long-Term Debts**

**Debentures**

<i>(in millions of Korean won)</i>	Interest rate (%) at 12/31/2010	2010	2009
Non-guaranteed debentures	-	₩ -	₩ 160,000
Less Discount on debentures		-	(458)
Less Current portion, net of discount		-	(159,542)
		-	-
Bond with stock warrants <sup>1</sup>	7 00	71,022	79,969
Add Redemption premium		(965)	(1,788)
Less Discount on debentures		(3,631)	(6,726)
Less Stock warrants adjustment		7,348	8,274
Less Current portion, net of discount		73,774	79,729
		-	-
Convertible bonds <sup>2</sup>	2 00	158,181	-
Less Conversion rights adjustment		(85,376)	-
Add Premium on convertible bonds		40,794	-
		113,599	-
		₩ 113,599	₩ -

<sup>1</sup> On May 11, 2009, the Company issued bonds with warrants of ₩80,000 million at an interest rate of 7% per annum. The warrants are exercisable on or after August 1, 2009 through April 11, 2012, at an exercise price of ₩5,650 per share (adjusted to ₩ 5,880 per share on November 30, 2010, ₩15,000 per share on October 15, 2010, ₩ 5,000 per share on February 11, 2010 and ₩5,050 per share on November 11, 2009) of common stock. After adjusting an exercise price, the exercise rate was changed from 100% to 96.0884%. The bonds will mature in three years from the issue date and will be repaid at 110.3466% of their principal amount at maturity. The bonds are redeemable before maturity at the option of the bondholders every three months from the interest payment date after 1.5 years from the issue date. If the warrants are exercised during the year, the Company considers the warrants were exercised at the beginning of the year.

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For the year ended December 31, 2010, details of common stocks issued by exercising the warrants are as follows

Exercise price per share (in Korea won)	Issuance of common stocks		
	Payment in cash	Payment in bonds	Total
₩ 5,050	4	1,227	1,231
5,000	67,284	3,171	70,455
15,000	13,076	2,950	16,026
5,880	2,462,584	9,668	2,472,252
	<u>2,542,948</u>	<u>17,016</u>	<u>2,559,964</u>

As of December 31, 2010, the warrants of 2,568,307 shares were exercised and stock warrants of 11,038,313 shares are outstanding

As of December 31, 2010, the bond with stock warrants above were reclassified as current due to breach of the loan agreements

<sup>2</sup> On July 23, 2010, the Company issued convertible bonds privately according to the plan for the new financial support decided by the committee of the creditor financial institutions, and the bonds will mature on December 31, 2014. The coupon rate is 2% and the yield to maturity(YTM) is 7%. If the Company terminates the joint management control of its creditor financial institutions before the maturity date, the creditors can ask the Company to redeem before the maturity date getting the yield to maturity(YTM). Stocks acquired from the conversion of the bonds could not be sold without an approval of the creditor financial institutions until the maturity date of the bonds. They are convertible from July 23, 2011 until December 30, 2014, at a conversion price of ₩5,000 per share and the conversion ratio is 100%. If the convertible bonds are exercised during the year, the Company considers these as having been exercised at the beginning of the year.

**Long-term Borrowings**

(in millions of Korean won)	Interest rate (%) at 12/31/2010	2010	2009
Won currency loans	2.00 ~ 4.00	₩ 754,907	₩ 530,575
Less Present value discount		(34,610)	(1,592)
Less Current portion		<u>(10,923)</u>	<u>(528,983)</u>
		709,374	-
Foreign currency loans	2.00 ~ 4.00	31,375	12,604
US\$ 21,177 thousand, JPY 519,480 thousand (2009 US\$ 5,177 thousand, JPY 519,450 thousand)			
Less Present value discount		(1,410)	(8)
Less Current portion		-	(12,596)
(2009 US\$ 5,177 thousand, JPY 519,450 thousand)		<u>29,965</u>	<u>-</u>
		₩ 739,339	₩ -

As of December 31, 2010, Company's property, plant and equipment, long-term investments and equity-method investments are pledged as collaterals for the long-term borrowings above (Notes 6, 7 and 8)

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For the year ended December 31, 2010, the creditor financial institutions committee of the Company implemented the debt restructuring program, including debt-to-equity conversion, extension of maturity, new financial support and others. Accordingly, the Company's debts were either converted into equity or general term-loans (Note 33).

**13. Accrued Severance Benefits**

<i>(in millions of Korean won)</i>	2010	2009
Accrued severance benefits	₩ 257,417	₩ 277,642
Less: Severance insurance deposits	(137,399)	(157,026)
Deposits to National Pension Fund	(2,191)	(2,568)
	<u>₩ 117,827</u>	<u>₩ 118,048</u>

As of December 31, 2010, the Company estimates severance payable to all employees to be ₩257,417 million (2009 ₩277,642 million) and records the corresponding amount as accrued severance benefits. Also, the Company funded 53.38% (2009 56.56%) of severance payable through severance insurance deposits with the Korea Development Bank.

For the years ended December 31, 2010 and 2009, the Company paid retired employees and directors ₩51,309 million and ₩38,663 million, respectively.

**14. Commitments and Contingencies**

As of December 31, 2010 and 2009, the Company has provided guarantees amounting to US\$ 873,447 thousand (equivalent to ₩994,769 million) and US\$ 955,506 thousand (equivalent to ₩1,115,648 million), respectively, for the operations of its overseas associates as follows:

<i>(in thousands of US dollars)</i>	2010	2009
Kumho Tire Japan	US\$ 1,300	US\$ 4,841
Kumho Tyre U.K.	-	4,503
Kumho Tire Tianjin	325,335	333,860
Kumho Tire Changchun	104,000	104,000
Nanjing Kumho Tire	61,231	71,481
Kumho Tire China	6,000	6,000
Kumho Tyre Australia	-	13,962
Kumho Tire H.K.	217,189	217,189
Kumho Tire Vietnam	158,392	199,670
	<u>US\$ 873,447</u>	<u>US\$ 955,506</u>

As of December 31, 2010, the Company has provided guarantees of up to ₩1,372 million for the borrowings of Tire Net Corporation, one of its suppliers.

Unmatured foreign currency trade accounts receivable sold as of December 31, 2010, amount to ₩562,564 million, including letters of credit.

Notes receivable issued by its customers at a discount that have not yet matured amount to ₩3,144 million as of December 31, 2010.

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As of December 31, 2010, the Korea Development Bank and other banks have provided the Company with guarantees in relation to the opening of letters of credit with a limit of US\$ 180,095 thousand. In addition, the Company has been provided with performance guarantees by Seoul Guarantee Insurance Company and others. Meanwhile, the Company has provided Kia Motors Corporation with two promissory notes, Daewoo Engineering & Construction with two promissory notes and IBK Capital with one promissory note as collateral in connection with performance guarantees, redemption of commercial paper and discount on notes receivable, respectively.

As of December 31, 2010, the Company has technical assistance and license agreements with associated companies, Nanjing Kumho Tire Co., Ltd., Tianjin Kumho Tire Co., Ltd. and other associated companies.

Further, the Company has also agreed with the IFC and others that it should maintain ownership of more than 51% in the investee, Nanjing Kumho, until Nanjing Kumho's loans are fully paid, and that should the said investee suffer financial insolvency resulting in a default, the Company is required to provide subordinated loans.

As of December 31, 2010, the Company is a defendant in several lawsuits filed by customers in relation to product liability. The ultimate outcome of these cases cannot presently be determined. The Company is also insured by Hyundai Marine & Fire Insurance Co., Ltd. and other insurance companies against future claims.

As of December 31, 2010, the Company is a defendant in a lawsuit filed by Industrial Bank of Korea and four other financial institutions regarding payments of debts involving damages of ₩ 24,915 million. In addition, the Company is named as a defendant in several lawsuits involving damages of ₩ 1,495 million. Accordingly, the Company recorded borrowings and other liabilities in the financial statements amounting to ₩ 24,948 million for litigation regarding payments of notes.

On February 17, 2010, the Company sold all of its equity-method investments in Kumho Asiana Main Tower to a related party, Asiana Airlines Inc., and the Company has entered into an agreement with Asiana Airlines Inc., which gives the Company the right to purchase all or part of the investments in Kumho Asiana Main Tower at appraised value three years from the date of closing of trade.

**15. Capital Stock**

<i>(in millions of Korean won except number of shares)</i>	<b>Number of shares</b>	<b>Common stock</b>	<b>Paid-in capital in excess of par value</b>	<b>Other capital surpluses</b>	<b>Total</b>
<b>January 1, 2010</b>	70,008,343	₩ 350,042	₩ 316,470	₩ -	₩ 666,512
Exercise of stock warrants <sup>1</sup>	2,559,964	12,799	2,336	-	15,135
Disposition of accumulated deficit	-	-	(316,470)	-	(316,470)
Issuance of convertible bonds <sup>2</sup>	-	-	-	39,825	39,825
Capital reduction without consideration	(59,853,639)	(299,268)	-	299,268	-
Debt-for-equity conversion	80,489,952	402,450	-	-	402,450
<b>December 31, 2010</b>	<u>93,204,620</u>	<u>₩ 466,023</u>	<u>₩ 2,336</u>	<u>₩ 339,093</u>	<u>₩ 807,452</u>

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<sup>1</sup> Refer to Note 12 for details of the exercise of the warrants for the year ended December 31, 2010

<sup>2</sup> Consideration for conversion rights amounting to ₩ 39,825 million is recognized due to issuance of the convertible bonds

**16 Sales**

<i>(in millions of Korean won)</i>	2010	2009
Sales		
Sales of finished goods	₩ 2,127,954	₩ 1,492,749
Sales of merchandise	550,784	469,186
Others	34,643	56,149
Total sales	2,713,381	2,018,084
Sales discounts and others	(11,391)	(123,384)
Net sales	₩ 2,701,990	₩ 1,894,700

**17. Cost of Sales**

<i>(in millions of Korean won)</i>	2010	2009
Inventory, beginning	₩ 116,897	₩ 251,747
Manufacturing cost for the year	2,035,770	1,684,894
Transfer to other accounts	34,080	(30,058)
Inventory, ending	(99,877)	(116,897)
Cost of sales	₩ 2,086,870	₩ 1,789,686

**18 Income Taxes**

<i>(in millions of Korean won)</i>	2010	2009
Current income tax	₩ 4,817	₩ 7,002
Deferred income tax from temporary differences <sup>1</sup>	(10,232)	805
Deferred income tax due to tax loss carryforwards	14,088	(37,924)
Deferred income taxes directly charged to shareholders' equity <sup>2</sup>	(1,370)	(879)
Income tax expense (benefit)	₩ 7,303	₩ (30,996)

<sup>1</sup> Changes in deferred income tax from temporary differences are computed as follows

<i>(in millions of Korean won)</i>	2010	2009
Beginning deferred tax assets	₩ -	₩ 805
Ending deferred tax assets <sup>1</sup>	10,232	-
Deferred income tax due to temporary differences	₩ (10,232)	₩ 805

<sup>1</sup> Excludes deferred income tax asset amounting to ₩66,515 million due to tax loss carryforwards and others

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<sup>2</sup> Changes in deferred income taxes directly charged to shareholders' equity are as follows

<i>(in millions of Korean won)</i>	2010	2009
Increase (decrease) resulting from equity method	₩ 9,904	₩ (879)
Gain on valuation of available-for-sale securities	(41)	-
Consideration for conversion rights	(11,233)	-
Total	₩ (1,370)	₩ (879)

**Reconciliation of Net income(loss) before Tax and Income Tax Expense (benefit)**

<i>(in millions of Korean won)</i>	2010	2009
Net income (loss) before tax (benefit)	₩ 16,204	₩ (807,164)
Income tax expense (benefit) based on statutory rate	₩ 3,895	₩ (195,309)
Adjustments		
Non-deductable expense	3,714	4,509
Effect of unrecognized deferred tax asset	(440)	142,982
Changes in the statutory tax rate	(4,644)	16,876
Others	4,778	(54)
Income tax expense (benefit)	₩ 7,303	₩ (30,996)
Effective tax rate (Income tax over net income before tax)	45.07%	3.84%



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The changes in temporary differences and related deferred income tax assets and liabilities are as follows

(in millions of Korean won)	Beginning balance	Increase (Decrease)	Ending balance	Deferred tax assets(liabilities)	
				Current	Non-current
Allowance for doubtful accounts	₩ 24,214	₩ 3,296	₩ 27,510	₩ 6,657	₩ -
Provision for warranty expense	5,650	5,731	11,381	-	2,504
Equity-method investments	490,481	191,623	682,104	-	150,063
Derivative financial instruments	1,669	(1,669)	-	-	-
Foreign currency translation	11,736	3,469	15,205	3,680	-
Inventory valuation reserve	8,209	537	8,746	2,116	-
Bond with stock warrants	-	3,820	3,820	925	-
Amortization of intangible assets	70,620	(26,903)	43,717	-	9,618
Accrued severance benefits	105,250	1,987	107,237	-	23,592
Convertible bonds	-	(44,582)	(44,582)	-	(9,808)
Gain on exemption of debts	-	(36,019)	(36,019)	-	(7,924)
Available-for-sale securities	-	(185)	(185)	-	(41)
Increase (decrease) resulting from equity-method	(41,432)	40,918	(514)	-	(113)
Land (revaluation gain)	(111,050)	-	(111,050)	-	(24,431)
Tax loss carryforwards	486,397	(184,058)	302,339	-	66,515
Tax credit carryforwards	21,902	3,762	25,664	-	25,664
Others	12,385	610	12,995	1,149	1,814
	1,086,031	(37,663)	1,048,368	14,527	237,453
Not recognized as a deferred tax assets				-	(175,233)
<b>2010</b>	<b>₩ 1,086,031</b>	<b>₩ (37,663)</b>	<b>₩ 1,048,368</b>	<b>₩ 14,527</b>	<b>₩ 62,220</b>
<b>2009</b>	<b>₩ 283,156</b>	<b>₩ 802,875</b>	<b>₩ 1,086,031</b>	<b>₩ 10,340</b>	<b>₩ 70,262</b>

To determine the realizability of deferred income tax assets, all available positive and negative evidences are considered, including the Company's performance, the market environment in which the Company operates, forecasts of future profitability, the utilization period of past tax credits and tax loss carryforwards, and other factors. Management periodically considers these factors in reaching its conclusion. As of December 31, 2010, the Company has recognized the deferred income tax assets related to temporary differences, excluding the tax credit carryforwards of ₩25,664 million and the temporary differences of ₩679,858 million that are deemed to be not realizable. The balance of the deferred income tax assets is subject to change in accordance with changes in estimates for future taxable income.

**Temporary Differences not Recognized as Deferred Tax Assets**

Details of the deductible temporary differences for which deferred tax assets were not recognized are as follows

(in millions of Korean won)	Year of Expiration	Amount
Equity-method investments	-	₩ 679,858
Tax credit carryforwards	2013	13,420
	2014	8,482
	2015	3,762

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The gross balances of deferred tax assets and liabilities are as follows

(in millions of Korean won)	2010		2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Current	₩ 14,527	₩ -	₩ 10,340	₩ -
Non-current	104,537	(42,317)	104,710	(34,448)

**19 Earnings per Share**

Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. Ordinary income per share is computed by dividing ordinary income allocated to common stock, which is net income allocated to common stocks as adjusted by extraordinary gain or losses, net of related income taxes, by the weighted average number of common shares outstanding during the year.

	2010	2009
(1) Weighted average number of common shares <sup>1</sup>	17,655,313 shares	10,283,006 shares
(2) Net income(loss) for common shares	₩ 8,900,823,745	₩ (776,168,111,849)
(3) Basic earnings(loss) per share ((2)/(1))	₩ 504	₩ (75,481)

<sup>1</sup> The number of common shares is calculated by using the weighted-average method. Weighted average number of common shares in 2009 is recalculated based on the rate of the capital reduction implemented in 2010.

**Diluted Earnings Per Share**

	2010	2009 <sup>1</sup>
(1) Adjusted weighted average number of common shares <sup>2</sup>	42,734,898 shares	10,283,006 shares
(2) Adjusted net income (loss) attributable to common shares <sup>3</sup>	₩ 20,399,575,234	₩ (776,168,111,849)
(3) Diluted earnings (loss) per share ((2)/(1))	₩ 477	₩ (75,481)

<sup>1</sup> Diluted earnings(loss) per share is identical to basic earnings(loss) per share as the exercise price of the bond with warrant and the conversion price of the convertible bond is higher than the average price of the Company's share.

<sup>2</sup> Details of adjusted weighted average number of common shares are as follows

	2010	2009
Weighted average number of common shares	17,655,313 shares	10,283,006 shares
(1) Bond with stock warrants	11,038,313 shares	-
(2) Convertible bonds	14,041,272 shares	-
Adjusted weighted average number of common	<u>42,734,898 shares</u>	<u>10,283,006 shares</u>

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<sup>3</sup>Details of adjusted net income (loss) attributable to common shares are as follows

<i>(in Korean won)</i>	2010	2009
Net income (loss) for common shares	₩ 8,900,823,745	₩ (776,168,111,849)
Adjustments		
(1) Interest from the bond with stock warrants(after tax)	5,349,373,961	-
(2) Interest from the convertible bonds(after tax)	6,149,377,528	-
Adjusted net income(loss) attributable to common shares	₩ 20,399,575,234	₩ (776,168,111,849)

**20. Monetary Assets and Liabilities Denominated in Foreign Currencies**

Monetary assets and liabilities denominated in foreign currencies, other than amounts presented in Notes 11 and 13, are as follows

<i>(in millions of Korean won, foreign currencies in thousands)</i>	Foreign currencies				Korean won equivalent
	US\$	JPY	EUR	Others <sup>1</sup>	
<b>Assets</b>					
Cash and cash equivalents	33,560	-	-	-	₩ 38,221
Trade accounts receivable	42,781	7,616	11,725	14,562	81,139
Other accounts receivable	26,696	129	7	3,482	33,899
Short-term loans receivable	176,357	-	-	-	200,853
Accrued revenues	6,223	-	-	-	7,088
2010	285,617	7,745	11,732	18,044	₩ 361,200
2009	285,064	78,864	6,155	5,957	₩ 349,947
<b>Liabilities</b>					
Trade accounts payable	42,405	-	100	-	48,446
Other accounts payable	21,833	490	2,492	2,536	31,181
2010	64,238	490	2,592	2,536	₩ 79,627
2009	167,053	69,100	5,185	23,312	₩ 210,050

<sup>1</sup> Korean won equivalent of other foreign currencies

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**21. Selling and Administrative expenses**

<i>(in millions of Korean won)</i>	2010	2009
Salaries and wages	₩ 43,009	₩ 49,901
Employee fringe benefits	12,278	6,540
Welfare expense	10,605	12,846
Travel expense	4,665	5,287
Rental expense	11,347	12,040
Depreciation	6,790	6,898
Amortization	4,752	11,281
Insurance premium	6,451	6,627
Advertising expense	31,864	36,915
Freight	22,792	19,369
Passage fare	136,596	78,065
Sales commissions	18,424	20,229
Warranty expense	18,974	13,955
Others	41,626	38,640
	<u>₩ 370,173</u>	<u>₩ 318,593</u>

**22 Related Party Transactions**

Details of the parent and subsidiaries are as follows

	<b>Related party</b>
Subsidiaries	Kumho Tire U S A , Kumho Tire Georgia, Kumho Tire Georgia Holding, Kumho Tyre U K , Kumho Tire Europe, Kumho Tire Japan, Kumho Tire Canada, Kumho Tyre Australia, Kumho Tire France, Kumho Tire H K , Nanjing Kumho Tire, Kumho Tire Tianjin, Kumho Tire Changchun, Kumho Tire Vietnam, Kumho Tire China, Kumho Tire Vina
Others <sup>1</sup>	Kumho Petrochemical Co , Ltd

<sup>1</sup>Kumho Petrochemical Co , Ltd was classified as the parent company in 2009 However, it was classified as others due to the capital reduction on October 15, 2010 (Note 33)

Significant transactions entered into in the ordinary course of business with related parties and the related account balances are as follows

<i>(in millions of Korean won)</i>	<b>Revenues<sup>1</sup></b>	<b>Purchases</b>	<b>Receivables<sup>2</sup></b>	<b>Payables<sup>3</sup></b>
Subsidiaries	₩ 1,271,078	₩ 438,468	₩ 310,034	₩ 54,094
Others	84,983	400,227	2,541	256,402
2010	<u>₩ 1,356,061</u>	<u>₩ 838,694</u>	<u>₩ 312,574</u>	<u>₩ 310,496</u>
2009	<u>₩ 841,059</u>	<u>₩ 768,572</u>	<u>₩ 323,428</u>	<u>₩ 442,429</u>

<sup>1</sup> Revenue includes sale of property, plant and equipment of ₩25 million for the year ended December 31, 2010 (2009 ₩24,922 million), and book value of the property, plant and equipment is ₩22 million (2009 ₩23,863 million)

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<sup>2</sup> Receivables are presented as net of allowance for bad debts of ₩2,797 million (2009 ₩443 million) as of December 31, 2010

<sup>3</sup> Payables include borrowings from related parties amounting to ₩ 780 million (2009 ₩158,300 million) as of December 31, 2010

Receivables include US\$ 176,357 thousand (equivalent to ₩ 200,853 million) of a loan to a subsidiary. The changes in the said loan are as follows

<i>(in thousands of US dollar)</i>	<b>Beginning</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending</b>
Kumho Tire H K	US\$ 149,857	US\$ 48,790	US\$ 22,290	US\$ 176,357

As of December 31, 2010, the Company has provided guarantees for its overseas associates (Note 14)

Key management compensation consists of

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Short-term salaries	₩ 4,161	₩ 5,540
Post-retirement benefits	691	2,533
<b>Total</b>	<b>₩ 4,852</b>	<b>₩ 8,073</b>

The above compensation expenses include all benefits provided to directors of the board, internal auditors and executives who are responsible for the planning, operations and control of the Company

**23. Value Added Information**

<i>(in millions of Korean won)</i>	<b>2010</b>			<b>2009</b>
	<b>Selling and administrative expenses</b>	<b>Cost of sales</b>	<b>Total</b>	<b>Total</b>
Salaries and wages	₩ 43,009	₩ 214,793	₩ 257,802	₩ 292,473
Severance benefits	12,278	18,806	31,084	28,731
Employee fringe benefits	10,605	48,560	59,165	75,239
Rental charges	11,347	1,425	12,772	14,168
Depreciation	6,790	73,280	80,070	97,345
Taxes and dues	2,654	2,156	4,810	4,570
	<b>₩ 86,683</b>	<b>₩ 359,020</b>	<b>₩ 445,703</b>	<b>₩ 512,526</b>

**24. Environmental Investments**

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Facilities for the prevention of air pollution	₩ 1,949	₩ 1,367
Facilities for sanitation	38	27
Others	4,715	3,306
<b>Total</b>	<b>₩ 6,702</b>	<b>₩ 4,700</b>

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**25 Contributions to Society**

<i>(in millions of Korean won)</i>	2010	2009
Scholarships	₩ -	₩ 40
Donation for social welfare	3	305
Donation to cultural organizations	10	200
Others	6	101
Total	₩ 19	₩ 646

As part of its employee welfare program, the Company provides housing loans to its qualified employees. As of December 31, 2010, outstanding loans to employees amounted to ₩374 million (2009 ₩376 million).

**26 Geographical Segment Information**

<i>(in millions of Korean won)</i>	Sales	
	2010	2009
Domestic	₩ 911,829	₩ 667,910
North America	667,605	292,905
Europe	409,935	328,477
Asia	89,547	84,729
Others	623,074	520,679
Total	₩ 2,701,990	₩ 1,894,700

**27 Foreign Currency Forward Contracts**

In order to reduce the risk of changes in exchange rates on future cash flows, the Company has entered into foreign currency option contracts which are effective automatically when the exchange rate is higher than a certain rate.

Gain on foreign exchange forward transaction amounting to ₩1,423 million was recognized as the foreign currency option contracts expired on July 28, 2010.

**28 Loss on Adjustment of Transfer Price**

The Company applied for a preliminary approval of the transfer price, which is related to the purchase of merchandise (tires) from the related parties, Nanjing Kumho Tire, Kumho Tire Tianjin and Kumho Tire Changchun during the year. The adjustment regarding the transfer price from those related parties in China for the prior years amounting to ₩59,739 million is recognized as non-operating expenses for the year ended December 31, 2010.

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**29 Operating Results for the Final Interim Period**

<i>(in millions of Korean won except per share amounts)</i>	2010	2009
Sales	₩ 767,449	₩ 459,307
Operating income (loss)	76,305	(375,003)
Net loss	88,290	439,618
Weighted average number of common shares outstanding	39,767,257 shares	10,284,721 shares
Basic ordinary loss per share	₩ 2,220	₩ 42,745

**30 Comprehensive Income (loss)**

<i>(In millions of Korean won)</i>	2010	2009
Net income(loss)	₩ 8,901	₩ (776,168)
Accumulated other comprehensive income(loss)		
Valuation of equity-method investments, net of tax effects of ₩ 9,928 (2009 ₩(-)879)	(26,737)	(63,344)
Gain on valuation of available-for-sale securities, net of tax effect of ₩ (-)41	145	-
Comprehensive income(loss)	<u>₩ (17,691)</u>	<u>₩ (839,512)</u>

**31. Statements of Cash Flows**

Significant non-cash transactions are as follows

<i>(in millions of Korean won)</i>	2010	2009
Debt to equity conversion	₩ 402,450	₩ -
Reclassification from short-term borrowings to long-term borrowings	201,604	780,850
Reclassification of construction-in-progress to property, plant and equipment	52,703	98,475
Reclassification from machinery-in-transit to machinery	-	2,211
Total	<u>₩ 656,757</u>	<u>₩ 881,536</u>

**32 Uncertainty over Going Concern**

The Company's non-consolidated financial statements have been prepared in conformity with the accounting principles generally accepted in the republic of Korea, which contemplate the continuation of the Company as a going concern. However, as of December 31, 2010, the Company's current liabilities exceeded its current assets by ₩150,567 million. On the other hand, since January 6, 2010, the Company has been under the joint management control by its creditor financial institutions to implement its business rehabilitation plans.

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These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management is implementing its business rehabilitation plans including the rescheduling of the existing borrowings, the adjustment of interest rate and the debt-equity swap.

Unless the plans mentioned above are executed successfully, the Company may not continue as a going concern, and therefore the Company's assets and liabilities on the basis of the book value may not be realized or redeemed through the normal operating activities. The ultimate effects of these significant uncertainties are not reflected in the accompanying financial statements.

### 33 Debt Restructuring

Since January 6, 2010, the Company has been under the joint management control by its creditor financial institutions to implement its business rehabilitation plans. At the third conference of creditor financial institutions held on April 30, 2010, the troubled debt restructuring program, including debt-to-equity conversion was finalized. Accordingly, the Company and the creditor financial institutions have entered into a contract to execute such program on May 31, 2010.

Details of troubled debt restructuring program are as follows:

	Debts before restructuring	Conversion into equity	Terms for modification
Short-term borrowings	₩ 446,394	₩ 257,602	₩ 188,792
Debentures	74,765	29,545	45,220
Long-term borrowings	440,393	108,686	331,707
Other debts	9,127	6,617	2,510
	<u>₩ 970,679</u>	<u>₩ 402,450</u>	<u>₩ 568,229</u>

Meanwhile, the Company fulfilled a capital reduction without consideration according to the decision of the shareholders on October 15, 2010, the ratio which is 100:1 for major shareholders and 3:1 for minority shareholders in order to implement the restructuring program of the third conference of creditor financial institutions.

Details of loans to be converted into equity and loans with modified terms are as follows:

#### Conversion into Equity

	Description
Amount	₩ 402,450 million
Kind of shares	Common stock
Issue price	₩5,000 per share
Restriction on disposal	Disposal of shares from this conversion is prohibited until December 31, 2014. (However, disposal of shares from the conversion of equity of Kumho associates is prohibited for 6 months.)



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**Deferred Payment of Debts**

	<b>Description</b>
Amount	₩ 568,229 million
Period of postponement	Until December 31, 2014
Method of repayment	The creditor financial institutions will decide the method of repayment considering the Company's cash flows from operating activities and others within three months before the end of the extended period

**Markdown of the Interest Rate and Condonation of the Accrued Interest**

	<b>Description</b>
Amount	₩ 970,679 million
Interest rate to be applied	4% for receivables with collateral, 2% for receivable without collateral
Period of adjustment	From December 30, 2009 to December 31, 2014
Others	Interests for receivables to be converted into equity are exempted from December 30, 2009

**Additional Financial Support**

The creditor financial institutions decided to provide operating funds, and the Company will issue privately placed corporate bonds amounting to ₩158,181 million which will mature on December 31, 2014, and also provide a limit of usance and a limit of D/A amounting to US\$148,295 thousand and US\$98,863 thousand, respectively

The effect of debt restructurings are as follows

**Deferred Payment of Debts and Markdown of the Interest Rate**

	<b>Book value of debts before restructuring</b>	<b>Book value of debts after restructuring</b>	<b>Gain on troubled debt restructuring</b>
Deferred payment of debts and markdown of the interest rate	₩ 568,229	₩ 519,230	₩ 48,999
Accrued interest	19,351	8,116	11,235
	<u>₩ 587,580</u>	<u>₩ 527,346</u>	<u>₩ 60,234</u>

**34 Adoption of Korean International Financial Reporting Standards**

The Company is required to prepare its financial statements in accordance with the Korean International Financial Reporting Standards (K-IFRS) starting 2011, based on the roadmap on the adoption of International Financial Reporting Standards announced in March 2007

The Company's implementation plan is as follows

**Preparation Plan for Adoption & Progress**

Since the release of the IFRS roadmap in March 2007, the Company has organized a Task Force Team to perform preliminary analysis of the effects of K-IFRS adoption, and trained its relevant personnel through internal and external training programs. Since 2009, the Company has engaged an external advisory firm and completed an analysis on the significant differences between K-IFRS and current Korean Financial Accounting Standards and the likely effects of the adoption, and the final determination of the accounting policies. Since 2010, the alignment of accounting systems has started to apply the new accounting treatments under K-IFRS, and the financial reports on the Company's transition date have been prepared.

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**Major differences in accounting policies**

Significant differences between the accounting policies adopted by the Company under K-IFRS and those under the current Korean generally accepted accounting principles (K-GAAP) are enumerated below. The following may not include all the differences and the effects of the adoption may change after subsequent analysis of any amendment of the standards in the future.

**The first adoption of K-IFRS**

The Company has applied the mandatory exceptions and certain optional exemptions allowed by K-IFRS, which are not applicable in K-GAAP.

**Business combination** The Company has not retrospectively applied Korean IFRS 1103 to the business combinations that took place prior to the transition date of January 1, 2010.

For investments in subsidiaries, jointly controlled entities and associates in the non-consolidated financial statements as of January 1, 2010, the Company has elected to use the book value under K-GAAP as its deemed cost.

**Deemed cost from fair value or revalued amounts** The Company has applied the exception, and uses revalued amounts under the current Korean generally accepted accounting principles (K-GAAP) as deemed cost. In the case of other property, plant and equipment, the Company has elected to measure an item at the date of transition to IFRS at its fair value and uses that fair value as its deemed cost at that date.

**Employee Benefits**

Under K-GAAP, accrued severance benefits are calculated based on the assumption that all employees terminate their employment at the reporting date, and accumulating compensated absences are accounted for as a liability when the obligation of payment becomes certain. However, under K-IFRS, accrued severance benefits for all employees are valued using an actuarial method, and accumulating compensated absences should be accounted for as a liability when the employees render services.

**Business Combination**

Under K-GAAP, the Company could use either the pooling method or the acquisition method to account for business combination, whereas K-IFRS only accepts the acquisition method. Also, under K-GAAP, the Company shall amortize goodwill or negative goodwill using the straight-line method, whereas K-IFRS shall not amortize but test impairment of goodwill or recognize a gain from a bargain purchase on the acquisition date.

**Property, Plant and Equipment**

Under K-GAAP, the Company applies the revaluation model only on land and acquisition cost method to other tangible assets. Under K-IFRS, the Company applies acquisition cost method to every property, plant and equipment.

**Investment Properties**

The Company recognizes properties to earn rentals as property, plant and equipment under K-GAAP, but properties to earn rentals or to benefit from capital appreciation, or both should be recognized as investment properties under K-IFRS.

**Investments in Subsidiaries, Jointly controlled entities and Associates**

Under K-GAAP, the Company applies the equity method to subsidiaries, jointly controlled entities and associates. Under K-IFRS, the Company applies the acquisition cost method in separate financial statements.

**Memberships**

The Company recognizes memberships as other non-current assets under K-GAAP, but should be recognized as intangible assets which have indefinite useful life or financial instruments evaluated in the amortised cost under K-IFRS.

**Financial Assets and Liabilities**

Under K-GAAP, the Company evaluates long-term deferred payment as present value when the gap between the nominal value and present value is significant. However, under K-IFRS, financial assets and liabilities, which are classified as loans and receivables, should be estimated by fair value and the gap between fair value and nominal value should be amortized based on effective yield.

**KUMHO TIRE CO., INC.**  
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The Company classifies transactions of receivables as transaction of trade or transaction of loan according to the transfer of control under K-GAAP. Under K-IFRS, determination of time of derecognition and scope of recognition for transfer of receivables depends on sequence of standards such as risk and compensation for receivables, control, continuous involvement and others.

The Company recognizes financial guarantee contracts as contingencies or provisions considering the possibility of estimation of possibility of outflows of resources and amounts. Under K-IFRS, financial guarantee contracts at initial recognition should be recognized as financial liabilities at fair value and the amount appraised is the higher of the amount at initial recognition according to K-IFRS 1037 and the amount after deducting accumulated depreciation according to K-IFRS 1018.

Under K-GAAP, the Company recognizes financial liabilities, discounted at effective interest rate when incurred in restructuring of receivables and payables. However, under K-IFRS, the Company shall recognize financial liabilities at effective interest rate at the time of modification of conditions.

**Embedded derivatives**

Under K-GAAP, the Company has not recognized embedded derivatives as certain accounts, but under K-IFRS, the Company should recognize embedded derivatives as separate assets or liabilities. These assets and liabilities are measured at fair value, and the variation of fair value is recognized in the income statement. Also, warrants which do not meet the definition of an equity instrument are recognized as liabilities.

**Deferred Tax**

Under K-GAAP, deferred tax assets and liabilities should be classified as either current or non-current based on the classification of their underlying assets and liabilities. If there are no correspondent assets or liabilities, deferred tax assets and liabilities are classified based on the periods the temporary differences are expected to reverse. Under K-IFRS, deferred tax assets and liabilities should be classified only non-current assets or liabilities.

Under K-GAAP, the Company recognizes deferred tax assets and liabilities of temporary differences of investment for subsidiaries, jointly controlled companies and related companies without the distinction of sources. Under K-IFRS, recognition of deferred tax asset and liabilities depends on the method of reversal of temporary differences for subsidiaries, jointly controlled companies and related companies.

## **Report on the Operations of the Internal Accounting Control System**

To the Board of Directors and Audit Committee of  
KUMHO TIRE CO , INC

I, as the Internal Accounting Control Officer ("IACO") of KUMHO TIRE CO , INC ("the Company"), assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2010

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

Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2010, in all material respects, in accordance with the IACS standards.

March 8, 2011

Ho Lee  
Internal Accounting Control System Officer

Jong Ho Kim  
Chief Executive Officer

**Report of Independent Accounts'  
Review of Internal Accounting Control System**

To the President of  
KUMHO TIRE CO , INC

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of KUMHO TIRE CO , INC (the "Company") as of December 31, 2010. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2010, the Company's IACS has been designed and is operating effectively as of December 31, 2010, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

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

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2010, and we did not review management's assessment of its IACS subsequent to December 31, 2010. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

March 16, 2011