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September 23, 2010

**ATTENTION: BANK WORK OUT TEAMS AND TEAM LEADERS AT BANKS
FOR WORK OUT OF: HANIL ENGINEERING & CONSTRUCTION CO., LTD.**

LEAD BANK ON WORK OUT:

KUKMIN BANK
JUNG-KU, NAMDAEMOON-RO, 2 KA 9-1
SEOUL, KOREA

OTHER BANKS IN WORK OUT:

WOORI BANK
JUNG-KU, HOIHYUN-DONG 1 KA 203
SEOUL, KOREA

CHEIL BANK
CHONGRO-KU, GONGPYUNG-DONG 100
SEOUL, KOREA

KOREA INDUSTRIAL DEVELOPMENT BANK
YOUNGDUNGPO-KU, YEOIDO-DONG 16-3
SEOUL, KOREA

SHINHAN BANK
JUNG-KU, TAEPYUNG-RO, 2 KA
(DAEKYUNG BUILDING 120)
SEOUL, KOREA

RE: HANIL DEVELOPMENT, INC. (“HDI”) – THE AROMA CENTER, LOS ANGELES, CALIFORNIA, U.S.A. **HANIL ENGINEERING & CONSTRUCTION CO., LTD. (“HEC”) LIABILITY FOR UNLAWFUL “LIFETIME” SPA MEMBERSHIPS, DIVERTED FUNDS; DOUBLE BOOKS, NONPAYMENT OF TAXES; OVERSTATEMENT OF CONSTRUCTION COSTS, ETC.** in the California Los Angeles County Superior Court Case:
EDWARD S. AHN, individually and as derivative plaintiff for and on behalf of HANIL DEVELOPMENT, INC., a California corporation v. HANIL DEVELOPMENT INC., nominal defendant; AROMA SPA & SPORTS, LLC, a California limited liability company; HANIL CEMENT CO., LTD, a Korean corporation; HANIL ENGINEERING & CONSTRUCTION CO., LTD., a Korean corporation; BYOUNG GIL CHOI; SEUNG KEUN KIM; KEEJUNE HUH; YEONG IK KWEON; DAVID CHO; JOOHAK KIM; and SUNG SONG; individuals and DOES 1 through 50 inclusive, Los Angeles Superior Court Case No. BC445084 [filed Sept. 3, 2010]; NOTICE OF THAT BANKS MUST MAKE PROVISION AND SET ASIDE AT LEAST \$120 MILLION FOR HEC LIABILITY TO HDI/AROMA CREDITORS IN THE HEC “WORK OUT”

Gentlemen:

This firm and another law firm are legal counsel to Dr. Edward S. Ahn, plaintiff in the above captioned case. Dr. Ahn and his wife Helen Ahn are shareholders in Hanil Development,

Inc., a California corporation (“HDI”). HDI owns the “Aroma” retail center and spa in Koreatown, Los Angeles, U.S.A, and operates the spa through its wholly owned limited liability company, Aroma Spa & Sports, LLC. HDI’s only other shareholders are its majority shareholders Hanil Cement Co., Ltd. (“HCM”) and Hanil Engineering & Construction Co., Ltd. (“HEC”).

THE HANIL ENGINEERING & CONSTRUCTION CO., LTD “WORK OUT” MUST INCLUDE LIABILITIES FOR HDI AND AROMA MULTI MILLION DOLLAR DEBTS

We are informed that you, the addressee banks (“BANKS”) are engaged, pursuant to Korean law, in a “work out” of HEC’s debts and obligations, and that the “work out” is not a bankruptcy type proceeding, but rather a write down and restructuring of HEC company debt. We are informed that the BANKS are aware that HEC owns HDI stock. We write regarding what we contend, based on documents, witness testimony and other evidence, are HEC’s many millions of dollars in liability for HDI and Aroma, and to point out that provision for such HEC multi-million dollar liability must be made in the “work out” for payment of these liabilities.

We are informed that integral to the “work out” is the pledge and assumption by Hanil Cement Co., Ltd. of approximately \$80,000,000 USD¹ to support the HEC “work out.” Please be advised that HCM is liable to the same extent and degree as HEC on the HDI/Aroma liabilities and claims set forth herein. Therefore, to the extent the “work out” relies on HCM and its balance sheet, please be sure to adjust the HCM balance sheet to reflect the liabilities referred to and documented herein.

Please make sure that this letter, the documents that accompany this letter, and relevant financial statements and data pertaining to the “work out” are provided to the BANK’S accountants and advisors for re-analysis of the feasibility of the “work out” given the claims and liabilities set forth herein. If the BANKS’ accountants and advisors desire additional information, documentation, witness testimony or other data or evidence, please contact us and we will provide it.² ALL claims stated herein are based on evidence and fact accumulated in over nine years of lawsuits and are claims that we expect will be proven and rendered into judgment.

Of course HEC and HCM disagree with our point of view, and so we take this opportunity to apprise the BANKS of our position. We are informed and believe and concerned that the BANKS are not aware of the documents, witnesses and information that supports claims for HEC’s massive liability for HDI and Aroma, and that HEC has withheld the information from the Banks and has misstated the truth about HDI and Aroma – telling the BANKS that HDI and Aroma are profitable and under new management.

¹ Please note that all monetary references are in U. S. Dollars.

² Various documents are referred to in this letter and are separately provided either in hard copy or on disk.

The truth is that HDI and Aroma are totally insolvent, with HEC and HCM having taken or not accounted for HDI revenue, while at the same time having saddled HDI and Aroma with many millions in liability HEC and HCM created and for which they are legally responsible under California law.

We are further informed that HEC has imparted to the BANKS false and misleading information about HDI and Aroma. Among other untruths we have heard HEC/Hanil voice are that Dr. Ahn as HDI minority shareholder has no further rights against HEC and HCM, that the Federal Court in Los Angeles ruled the Aroma spa "lifetime" memberships are "legal", and that Aroma is doing well with "new" management following the supposed termination of Mr. Keejune Huh as HDI Officer and Director. As an example of the mistruths, included with this letter (either separately or on a disk that accompanies this letter) are an article from each of the Korea Times and Korean Herald both of which were published in or about August 9, 2010 following the Federal Court ruling entered on August 5, 2010 (copy accompanies letter).

The Articles and HDI spokesperson's positive and glowing statements about HDI and Aroma are completely false. The truth is that, under the direction and control of HEC and HCM, HDI and Aroma have, according to HDI "audited" financial statements, lost millions of dollars since 2001. We believe, based on documents and other evidence, including a "secret" profit and loss statement (copy on disk), that the "audited" financial statements are false and that HDI, as reflected by a "double" set of books, has made money since 2003. However, while revenue has been taken "off the books", the earnings do not include the massive liabilities HEC and HCM have caused HDI to incur, which on a balance sheet basis, make HDI insolvent. (Please note that Dr. Ahn has invited HEC and HCM to place HDI in bankruptcy, but they refuse to do so.)

Under the direction and control of HEC and HCM, HDI has incurred and is liable for many millions of dollars to numerous creditors, including minority shareholders Dr. and Mrs. Ahn, over six hundred (600) "lifetime" and "ten year" Aroma spa members, to the federal and state tax and other authorities for unpaid taxes and for the sale and false advertising of the unlawful "lifetime" and "ten year" memberships, to Aroma tenants for overcharge of common area maintenance charges, to a company that tried to buy Aroma in 2007 but could not because of fraud by HDI, HEC and HCM, and others. Estimates for these liabilities are shown on the attached grid. The range of total liability for "lifetime" memberships is in the range \$25,000,000- \$90,000,000, and for false advertising \$3,000,000 - \$50,000,000. The range of liability for all claims is between \$50,000,000 and \$200,000,000. For purposes of reserving funds to cover the liabilities, we select a midpoint of \$120,000,000.

Because the wrongdoing was conducted at the direction and under the control of HEC and HCM, HEC is liable and responsible for these claims and damages, as is HCM. In particular, HDI and HEC are liable under California Business & Professions Code §17200 and §17500 et seq. These statutes will easily and readily be applied to undisputed facts demonstrated by documents and witnesses that will prove HEC's liability. Civil penalties, restitution, and

other remedies will apply. The liability of HEC under California law is plain, simple, and undeniable. Therefore, provision must be made in any “workout” of HEC for payment of these liabilities and claims, and the payment must be a liability of both HEC and HCM.

On behalf of Dr. Ahn, for the benefit of himself and other HDI creditors, please be advised that the BANKS should cause at least \$120 million to be set aside for claims against HDI and Aroma in the HEC “work out.” If such funds are not set aside for these liabilities, the “work out” will not be feasible or effective, as HEC and HCM will face these liabilities, and where no provision has been made for them, these liabilities will impact and likely make the “work out” dysfunctional.

Our legal research shows that HDI, its creditors and victims have no standing to assert claims in the “work out” proceeding in Korea. For the “work out” to bind HDI and its creditors, the BANKS must file and prosecute an ancillary Chapter 15 (11 U.S.C. §1501 et seq.) bankruptcy here in Los Angeles. Were they to do so, HDI and its creditors would have the right to assert claims and obtain the protection for their claims and rights from the United States Bankruptcy Court. However, absent such United States ancillary proceeding, the “work out” in Korea as to HEC’s debts and liabilities to HDI and its creditors will have no effect, except to cause HDI and its creditors to potentially have rights against the BANKS if they make no provision for HEC to cover HDI and Aroma liabilities. HDI and its creditors cannot stand idly by and allow a “work out”, that makes no provision for HDI and its creditors, a “work out” whereby the BANKS, direct and cause the assets of HEC to be applied to their benefit, to the detriment of HDI and its creditors. Moreover, while the Korean courts have no personal jurisdiction over HDI and its creditors, HDI, United States and California courts have jurisdiction over the BANKS as the BANKS do business in California.

HEC and HCM will disagree with our analysis and point of view, and will attempt to discount our evidence. We urge that the BANKS consult with their own independent legal counsel and accountants before finalizing any HEC “work out” which does not provide at least \$120 million for HDI and its creditors which funds must be deposited to a United States bank account or backed by BANKS’ letters of credit. We would be pleased to discuss our analysis herein, and share information and documentation to which the BANKS, we are informed, are entitled as they are making management and capital decisions for HEC through the “work out.”

BACKGROUND FACTS – THE AROMA SPA

HDI owns the Aroma retail center and health spa located at 3680 Wilshire Blvd. in the heart of Korea Town in Los Angeles, and operates the Aroma Spa & Sports Health Club and spa. HEC’s website prominently displays the Aroma Center as a successful U.S.A. project for HEC. (See HEC website pages on the enclosed disk). HEC and HCM, through its Vice President Byoung Gil Choi (a defendant in the case) has stated that Aroma Center provides Hanil Korea with prestige and visibility in the Los Angeles Korean community. (See Mr. Choi’s declaration on the enclosed disk). As mentioned above, we are informed and we have seen news articles in which HEC and HCM have falsely given Aroma and HDI glowing reports, stating that Dr. Ahn

has no rights because of the recent Federal Court ruling, that the Federal Court held “lifetime” memberships were legal, and other falsehoods to the effect that HDI and Aroma are good and valuable HEC assets.

On the contrary, there is nothing positive for HEC about HDI and Aroma; HDI and Aroma are not HEC assets, but huge liabilities for HEC and HCM. HEC and HCM, as HDI’s majority and controlling shareholders, have made HDI into a massive liability for which they are responsible. We estimate the liability as between \$50,000,000 and \$200,000,000. In considering the HEC “work out”, and the contribution of sister company HCM, the BANKS must consider the very substantial liability it has for its wrongdoing at Aroma and that such liability will be fixed by judgment in the above referenced case and in other cases now pending against HDI (Hanil Development, Inc.) in the Los Angeles Superior Court.

NINE YEARS OF SHAREHOLDER LITIGATION PRODUCES SOLID EVIDENCE

Dr. Ahn has been in litigation over Aroma with shareholders HCM and HEC for over nine (9) years. HDI started the first state court case in July 2001; that case concluded in 2008. A Federal case, *Edward Ahn v. Hanil Development, Inc., Hanil Cement Co., Ltd., Hanil Engineering & Construction, Ltd., et al.*, United States District Court Case No. CV07-08378 CJC (AJWx) was filed 12/28/07. This past August, the Federal case was remanded (i.e. sent back) to State Court by Federal Court order entered 8/5/2010, where the case is now pending as the case captioned at the start of this letter. (Copy of Federal case remand order and state court case complaint provided).

In Federal Court Dr. Ahn sued under the law called “RICO” which stands for “Racketeering Influenced Corrupt Organizations”. However, the Federal Court found that the case did not have the facts and damage type needed to be a “RICO” case. The Federal Court dismissed the federal RICO claim only, and sent the case with its other claims to the state court.

In the prior state court case, which was conducted January 2008, Dr. Ahn sued for minority shareholder rights for the time frame prior to May 2004. As it turned out, HDI was not significantly profitable prior to that time. However, HEC and HCM had vastly overstated Aroma construction costs. HDI purported to “settle” the construction cost overrun by use of a “special committee” which rubberstamped a settlement for the benefit of HEC. The first state court case did not consider the “lifetime” and “ten year” memberships. This was put off for later litigation. In the Federal Court no rulings were made on the “lifetime” membership issues as the Federal Court merely dismissed the Federal RICO claim and sent the rest of the case back to state court.

In the current state court Dr. Ahn is suing for himself individually and as “derivative” plaintiff on behalf of the company HDI against HEC and HCM and others, for wrongdoing that occurred since and during the time frame May, 2004 through the present. (Copy of the state court lawsuit complaint, filed Sept. 3, 2010, is on the enclosed disk.) The case concerns various claims, but the principal wrongdoing are several: (1) the sale and ongoing re-sale of “lifetime”

memberships at the Aroma spa, (2) the diversion of revenue from HDI and the Aroma spa; (3) the maintenance and use of “double books” (4) failure to declare revenue on federal income tax returns; (5) payment of spa employees under the table; i.e. evasion of payroll tax and related obligations; and (6) liability of “special” directors for approving the “rubber stamp” settlement of construction cost overruns.

HEC would like the BANKS and others to think that the prior lawsuits, which did not end in judgments in favor of Dr. Ahn, are indicative of the future. Nothing could be more wrong. The initial state court case dealt only with the time frame through May 2004, and specifically did not include the “lifetime” membership claims. The Federal Court case concerned federal RICO claims, which were dismissed but the dismissal of which has no effect as the same claims are now asserted in the state court case.

In the new state court case, HEC faces liability on various causes of action, including under Business & Professions Code §17200 (unfair/unlawful business practices) and §17500 (false advertising)(sometimes called the “unfair competition law” or “UCL”). HDI’s violations of the law, authorized and promoted by HEC, are *per se* violations of §17200; see, e.g. *Cel-Tech Communications, Inc. v. Los Angeles Cellular Telephone Co.*, (1999) 20 Cal.4th 163, 180. The prior lawsuits served to provide opportunity for discovery and identification of evidence, documents and witnesses. In this third case, the evidence is overwhelming and already in Dr. Ahn’s possession, ready to be submitted to the court. This third case will move quickly and in favor of Dr. Ahn and related plaintiffs. (See e-mail on disk re: UCL)

Evidence from the litigation also will prove, in our view, that HEC and HCM are “doing business” in California. This means that they must register with the California Secretary of State and file tax returns and pay state tax for past years in order to defend themselves in court. (See e-mail and letters re: “doing business”).

MASSIVE LIABILITY FOR UNLAWFUL “LIFETIME” SPA MEMBERSHIPS

Under the control of and at the direction of HCM and HEC, HDI sold as much as \$11,000,000 (and at least \$7 million) in “lifetime” and other long term spa memberships to about six hundred members of the Los Angeles Korean community. HDI also charged the “lifetime” and other members millions more as monthly dues and for “re-sale” fees on HDI authorized “re-sales” of the “lifetime” memberships.

In Korea “lifetime” and other long term spa memberships are legal and common. However, in California, they are illegal, and selling them makes the seller and those who work with the seller liable for substantial monetary damages. Under California law, “Lifetime” and “ten year” members can obtain a refund of their spa membership fees, 10% interest, and “treble” (i.e. “triple”) damages. The liability of HEC is “strict”, meaning that there is liability even if HEC and HDI had no intent to violate the law. Based on the “treble damage” strict liability, HEC is responsible for somewhere between \$15 million and \$33 million, depending on the value

of the “lifetime” and “ten year” memberships. (According to Keejune Huh, at least \$7 million in such memberships were sold as of 2004. More were sold afterwards. Other information indicates revenue of about \$11,000,000.)

Fraudulent intent is not needed for the “lifetime” members to obtain treble (3x) damages, but is required for a fraud claim. The evidence is clear that HDI, under the control of HEC and HCM, had such intent, as it and HEC and HCM deliberately sold “lifetime” and “ten year” memberships with full knowledge the memberships were unlawful. They conducted a fraud on the Los Angeles Korean community by purposefully selling phony “lifetime” memberships.

As a result, the “lifetime” members have fraud claims that entitle them to nine (9) times their investment. HDI Director and COO Keejune HUH testified that HDI sold approximately \$7,000,000 worth of “lifetime” and “ten year” memberships. Multiplied by a punitive damage factor of nine (9), the liability becomes \$63,000,000.

In 2007 and again this year groups of “lifetime” spa members sued HDI (See copies of 2007 and 2010 lawsuits included on the enclosed disk). This year further lawsuits have been filed and more are threatened. Overall, Dr. Ahn’s case will likely serve as the platform for many other plaintiffs, private and government, to file suit against HEC and HCM. Dr. Ahn’s derivative lawsuit will serve to impose the massive “lifetime” member liability on HEC and HCM.

In the past and continuing as this letter is written, HDI has engaged in a campaign to stifle and subdue “lifetime” members who dare to file suit against HDI and HEC/HCM over the unlawful “lifetime” memberships. This tactic will not work with Dr. Ahn in his capacity as derivative plaintiff. Moreover, it will not work with government authorities, who can easily, based on the evidence in hand, obtain civil penalties of many millions of dollars. (See, e.g. Business & Prof. Code §17206, §17536.)

We estimate the financial exposure to HEC and HCM for these illegal ‘lifetime’ spa contracts is somewhere in the range of \$25 - \$90 million dollars and potentially much more. To our knowledge, this liability has never been correctly shown on HCM or HEC financial statements. It is clear under all applicable accounting rules, FASB, IAS and KASB/KSAS that HDI must report the substantial “lifetime” membership liability on its financial statements as a contingent liability. (See e-mail dated 9/12/09 included on the enclosed disk which discusses U.S., International, and Korean Accounting standards’ treatment of the “lifetime” membership liability) Similarly, we are informed that HEC and HCM must reflect the liability on their financial statements. This liability must be considered as part of the HEC work out.

There can be no dispute that the illegal “lifetime” spa memberships were sold and as HEC and HCM admit, continue to be re-sold with their approval. It is now proven that HDI’s own lawyers, the Lim Ruger & Kim (“LRK”) law firm, in Oct. 2000 advised HDI that the sale of “lifetime” and “ten year” Aroma spa memberships would be unlawful and against California law.

But HCM and HEC decided that HDI would still sell the illegal contracts. The LRK law firm drafted the contract form that HDI used to sell the memberships. (See June 1, 2009 letter to LRK included in the enclosed disk).

HDI, HEC and HCM also face liability and problems for having defrauded Aroma real estate lender Telesis on its \$22 million loan. They falsely told Telesis that the “lifetime” memberships were like a “country club” membership, and could be bought and sold. This lender fraud, we believe, eventually will cause more problems for HEC and HCM. (See documents on disk).

LIABILITY FOR ADVERTISING OF UNLAWFUL “LIFETIME” SPA MEMBERSHIPS

Under the control of and at the direction of HCM and HEC, HDI advertises on its website that “lifetime” and “ten year” spa memberships are “available.” These advertisements are directed primarily to members of the Los Angeles Korean community. The advertisements serve to maintain HDI’s fraud that it can sell “lifetime” and “ten year” memberships. However, this false advertising subjects HDI to potential liability under California Business and Professions Code Sections 17500, and in particular Sections 17206 and 17536. The statutory penalties are \$2,500 per violation, doubled when separate sections are applied. Multiplied by 600 for the 600 “lifetime” and “ten year” members, the fine would be \$3,000,000.

However, it is possible that government authorities would take the position that a violation occurred each time anyone accessed the Aroma website. Were that the approach, the penalties would depend on the number of “hits” on the Aroma website each day. Assuming just 10 “hits” per day, means there are 3,650 violations per year, and going back three years, there would be over 10,000 violations. Multiplied by \$5,000, the penalties are \$50,000,000.

MONEY DIVERTED FROM HDI

Documents, eyewitness testimony and other evidence confirm that, under the direction and control of HCM and HEC, substantial revenue, in the range of \$10 million, was taken and diverted from HDI in the years 2004, 2005 and 2006 with the result that HDI lost money and had no money to pay dividends to its shareholders.

Since HDI started business in 2001, it has never reported on its financial that it made a profit. Yet year after year HDI has remained under the management of Keejune Huh, who draws a large six figure salary that has increased despite repeated annual loss. Dr. Ahn has protested HDI’s lack of financial performance and the need for new management many times, including at the shareholder meetings held in 2007, 2008, 2009 and 2010. Mr. Keejune Huh and Mr. Yeoung Ik Kweon were at the meetings, and had no response or comments to Dr. Ahn’s protests. The same management and the same losses continue.

We are informed that HEC may have informed the BANKS that Aroma is profitable, that Keejune Huh and other management have been replaced. We are informed and believe that this is not true. Mr. Keejune Huh continues to arrive and work at the Aroma facility and its offices.

HDI MAINTAINS “DOUBLE” BOOKS

Documents, eyewitness testimony and other evidence indicate that, under the direction and control of HCM and HEC, HDI has kept a “double” set of books. One set, reflected by HDI’s supposed “audited” financial statements, shows HDI losing money every year. The other set shows the true HDI revenue and profit.

On the enclosed disk are the e-mail sent to HDI’s accountants, Kim & Lee, requesting that they review and respond with regard to HDI’s “secret” profit and loss statements which were certified as correct by HDI Director and President Seung Keun Kim. The “secret” P&L show additional and unreported HDI revenue of about \$3,300,000 USD for each of the years 2004, 2005 and 2006.

Also on the enclosed disk are declarations with analysis and opinion issued by Dr. Ahn’s expert accountants to the effect that the secret P&L call into question and render invalid HDI’s supposed “audited” financial statements. Again, while these documents and analysis and opinions have been provided to HEC and HCM, they have provided no response.

HDI UNDERREPORTED REVENUE ON ITS TAX RETURNS

Documents, eyewitness testimony and other evidence show that, under the direction and control of HCM and HEC, HDI has not reported all of its revenue on its U.S. federal income tax returns. The “secret” P&L and the analysis and opinions of Dr. Ahn’s accountants, referred to above, provide the evidence and analysis. The accountants opine that HDI has not reported approximately \$2.5 million in “lifetime” revenue as taxable income, incorrectly taking the position that the revenue is “unearned”. In its August 5, 2010 ruling, the federal court found that there was “understatement of earnings on [HDI’s] tax returns”. (Federal Court Ruling, 8/5/10, p. 6, fn. 4, lines 27-28). A copy of the federal court ruling is included on the disk with this letter).

Based on the “secret” profit and loss statements showing that HDI did not report approximately \$11,000,000 in revenue for years 2004, 2005 and 2006, and using a 25% tax rate, HDI did not pay approximately \$2,750,000 in federal income tax. With interest and penalties, the amount easily more than doubles, to approximately \$7,000,000, according to rough analysis.

Using a California corporate tax rate of about 10%, HDI owes the California Franchise Tax Board approximately \$1,100,000. With interest and penalties, the amount is more than double, approximately \$2,500,000.

HDI FAILED TO REPORT AND PAY EMPLOYMENT TAXES FOR AROMA SPA WORKERS; I.E. LIABILITY FOR PAYING WORKERS “UNDER THE TABLE”

Documents, eyewitness testimony and other evidence in our possession or available to us show that, under the direction and control of HCM and HEC, HDI, in the time frame 2001 through at least 2008, did not pay spa workers through a payroll whereby taxes were deducted for the worker’s federal and state income tax, medicare, social security, unemployment and other required deductions. Based on information we have, we estimate that HDI owes the State of California and the IRS between \$2,000,000 - \$4,000,000 for unreported payroll taxes and withholding. Amounts not withheld and paid increase dramatically with interest and penalties.

HDI OVERCHARGED TENANTS ON “CAM” CHARGES

Documents, eyewitness testimony and other evidence show that, under the direction and control of HCM and HEC, HDI overcharged Aroma tenants for common area maintenance or “CAM” charges. The overcharge is estimated at about \$200,000 per year for nine (9) years, or a total of \$2,000,000. With ten percent (10%) interest added over a nine year period, the liability increases to about \$3,000,000.

HEC, THROUGH ITS SUBSIDIARY HCI, OVERSTATED THE COST TO CONSTRUCT AROMA

Documents, eyewitness testimony and other evidence show that, under the direction and control of HCM and HEC, HEC directed its California construction subsidiary Hanil Construction, Inc., a California corporation, to overcharge for Aroma construction. Expert analysis, both contemporaneous and later, along with appraisals’ cost estimates, demonstrate that Aroma and the spa should have cost, at most, about \$22 million to build. However, HDI, at the direction of HEC and HCM, contend on financial statements and tax returns that Aroma cost about \$40 million.

Dr. Ahn challenged the construction cost overruns in the prior state court case, which was conducted January 2008. However, the state court in that case dismissed the claims, finding that a “special” litigation committee of HDI Directors had considered and then “settled” the claims for HDI. The “special” committee made HCI pay only about \$200,000, finding that HCI had done everything right except had hired an unlicensed contractor for a brief time. The committee had no issue with the massive cost overrun or solid evidence of the use of unlicensed contractors and serious construction delay. There was no conceivable way a \$40 million construction cost could be justified. Evidence indicates and eyewitnesses have stated that Aroma construction and the excess construction costs were a means to funnel money from Korea into the United States.

The “special committee” merely rubber-stamped a phony settlement for the benefit of HEC. In doing so the Directors breached their fiduciary duties. We expect the Directors will seek indemnity from HDI and HEC/HCM, so the cost overrun of about \$18 million, plus fees

paid to unlicensed contractors of several million more, are additional HEC/HCM liabilities which must be taken in to account as part of the HEC “work out.”

In addition, HEC and HCM must provide HDI with funds to pay taxes on the depreciation claimed on the cost overrun. As of 2006 depreciation claimed was about \$6 million. Half of that amount must be disallowed and taxes paid on it.

HEC AND HCM DEFRAUDED AROMA PURCHASER; LAWSUIT FILED

Documents, eyewitness testimony and other evidence show that, under the direction and control of HCM and HEC, HEC and HCM, in or about April 2007 entered into a contract to sell their HDI stock to a company called Bectel H. J. Development, owned and run by a Mr. Howard Park. The stock sale failed because, according to Mr. Park, HEC and HCM did not disclose and were not truthful about the “lifetime” Aroma spa memberships being unlawful. During the escrow for the sale, a group of “lifetime” members sued HDI and HEC. (Copy of the lawsuit, filed June 29, 2007, is attached.)

Mr. Park has sued HEC and HCM in the action *Howard Park v. Hanil Engineering & Construction Co., Ltd., Hanil Cement Co., Ltd., Dong Sup Huh, Keejune Huh, Byoung Gil Choi, Seung Keun Kim, et al.*, Los Angeles Superior Court Case No. BC4411861, filed July 9, 2010 (copy on the enclosed disk). We are not privy to all of the facts behind the lawsuit, but we know that, based on documents and witness testimony, the “lifetime” membership liability and lawsuit were the reasons that Mr. Park was unable to close the transaction. In the lawsuit Mr. Park seeks return of the \$1,100,000 deposit plus damages.

HEC AND HCM POINTLESS LITIGATION AGAINST MINORITY SHAREHOLDER DR. AND MRS. AHN

HCM and HEC have spent millions of dollars on legal fees fighting Dr. and Mrs. Ahn in court. They would like the BANKS to believe they have “won”, yet the litigation now heads to a third round in which the accumulated evidence will be devastating. The litigation has never made and still makes no economic sense for HEC and HCM whatsoever. It has served only to bring up evidence of HDI’s illegal activities and wrongdoing.

DIVERSION OF HDI REVENUE AND HDI MISMANAGEMENT HARMS HEC AND HCM SHAREHOLDERS, CREDITORS AND EMPLOYEES

The diversion of HDI revenues and the mismanagement of HDI so as to have it not achieve its maximum profit potential harm not only Dr. and Mrs. Ahn, but also HEC and HCM shareholders and their employees and creditors.

HEC "WORK OUT" MUST TAKE INTO ACCOUNT MASSIVE LIABILITY FOR HDI

We are aware and informed that the HEC "work out" is supposed to re-structure about \$1 billion in HEC debt. We are told that about 80% of the HEC debt will be written off. We are further advised that HCM will contribute \$80 million to the "work out", and that HCM will take over responsibility for HDI and Aroma. As stated above, none of these transactions bind HDI or its creditors. Dr. Ahn for himself and HDI, along with other creditors, will still have claims against HEC, however it emerges or is reconstituted in the "work out."

It is vital that the Banks and their work out teams consider HEC's and HCM's massive liability for the unlawful sale and advertising of "lifetime" spa memberships, funds diversion, "double" books, understatement of revenue on U.S. and California State income tax returns, overstatement of Aroma construction cost, "CAM" overcharges, "under the table" employee payments, breach of contract with Aroma purchaser, and other claims that are pending or will soon be pending in the state court here in California. These claims are and will be many tens of millions of dollars, and must be taken into account in the HEC "work out."

As part of the work out, we contend that about \$120,000,000 must be set aside and allocated to cover HDI's liabilities. Attached to this letter is a "claims grid" which summarizes the claims and corresponding damage/loss described herein for each claim.

For your further information and review, we enclose a disk with documents or otherwise provide the documents referred to above and on the attached list, which documents describe the claims and the case and disputes. Please feel free to contact us with any question or comment.

Sincerely,



Patrick J. Evans
Evans & Associates
Legal Counsel to Dr. Edward Ahn,
Individual Plaintiff

cc. Edward S. Ahn (w/encls.)
Paul J. Sievers, Manly & Stewart (w/encls.)
[Plaintiff's Derivative Counsel]

Attachments: List of Documents, Claims/Liability/Loss Grid
Encls.: Documents referenced in letter, separate copies or disk provided

DOCUMENTS REFERENCED AND SEPARATELY PROVIDED BY COPY OR ON DISK:

1. State Court Complaint, *Edward Ahn v. HDI, HEC, HCM, et al.*, filed 9/3/10
2. Lawsuits filed by two groups of “lifetime” members: (1) lawsuit filed in 2007, entitled: SECOND AMENDED COMPLAINT FOR DAMAGES filed December 6, 2007 in the case *Young Ja Ahn, et al., v. Hanil Development, Inc., et al.*, Los Angeles Superior Court Case No. BC273581 and Lawsuit filed by “lifetime” members in 2009 and (2) lawsuit filed in 2010: COMPLAINT FOR DAMAGES AND INJUNCTIVE RELIEF, in the case *Kevin K. Lee, an individual, Kye Kim, an individual, and Chungdo Chung, an individual v. Hanil Development, Inc., a California corporation, Aroma Spa & Sports, LLC, a California limited liability company, Bechtel H. J. Development, Inc.*, Los Angeles Superior Court Case No. BC430624 filed January 27, 2010.
3. Advertising and promotion of Aroma Center on the website of Hanil Engineering & Construction Co., Ltd., and declaration of Byoung Gil Choi, HEC Officer, filed 2/16/10 Doc. #270-1 (3 pages), in which Mr. Choi states that Hanil Engineering & Construction Co., Ltd. “obtain[s] substantial name recognition and goodwill with its association with Aroma Center and the larger Los Angeles Korean community.” [¶2]
4. Pleading filed by HDI Lawyer entitled: “EXHIBITS 1-4 IN SUPPORT OF DEFENDANT HANIL DEVELOPMENT INC.’S MOTION TO DISQUALIFY PLAINTIFF EDWARD AHN’S ATTORNEY,” etc., filed in federal court 10/02/09 Doc. #180-3, Its Exhibits:
 - Exhibit #2, pages 10-20 [handwritten page nos.] Letter dated June 1, 2009 by Dr. Ahn’s lawyer P. Evans to Lim Ruger Kim law firm regarding its role in sale of the illegal “lifetime” memberships
 - Exhibit #3, pages 21-25 [handwritten pages nos.] E-mail dated Sept. 12, 2009 by Dr. Ahn’s lawyer P. Evans to HDI explaining lack of compliance with FASB, IAS and KASB/KSAS accounting rules in failing to recognize “lifetime” membership claims as a contingent liability
5. Current and continuing Aroma website advertising of the illegal “lifetime” and “ten year” spa memberships. www.aromaresort.com, FAQ section, downloaded April 1, 2010 [This advertising exposes HDI, HEC and HCM to millions of dollars in fines and penalties for advertising an illegal contract.] Also included is April 1, 2010 e-mail to HEC and HCM legal counsel and HDI legal counsel advising of the violation.

6. Pages from HEC Website that depict "Aroma" as HEC project and asset.
7. E-mail to HDI accountants Kim & Lee, sent Sept. 7, 2010, in care of Kim & Lee attorneys, together with "secret" P&L for 2004, 2005 and 2006, separate corroborating internal HEC/HCM document with the same figures, and Dr. Ahn's expert accountants' analysis and opinions that HDI maintains double books, that its accounting is materially false, that its "audited" financial statements must be adjusted and revised to reflect the "double" book income not reported for 2004, 2005 and 2006 which is several million dollars, and that approximately \$2.5 million in "lifetime" revenue is not properly accounted for and not reported as taxable revenue.
8. Lawsuit filed by person/company that attempted to purchase HDI stock from HEC and HCM, but was not successful due to "lifetime" membership issues and lawsuit, which issues HEC and HCM failed to disclose, thereby defrauding the buyer. *Howard Park v. Hanil Engineering & Construction Co., Ltd., Hanil Cement Co., Ltd., Dong Sup Huh, Keejune Huh, Byoung Gil Choi, Seung Keun Kim, et al.*, Los Angeles Superior Court Case No. BC4411861, filed July 9, 2010 (copy on disk)
9. E-mails dated Sept. 22, 2010, and letters from late 2007 regarding service on HEC and HCM and their "doing business" in California.
10. Letter and attachment dated Sept. 21, 2009 re: Lender Telesis and HDI misstatements to Telesis that "lifetime" memberships are "like a country club membership and have gone up in value" and liability to Telesis for unlawful "lifetime" memberships.
11. News Articles regarding "Lifetime" member lawsuit, April 2010; News Articles regarding HDI's announcement and mischaracterization of Aug. 5, 2010 Federal Court Rule, Korean Daily and Korean Herald, Aug. 9, 2010.
12. Federal Court Order dismissing RICO and remanding case, August 5, 2010.

ATTENTION: BANK WORK OUT TEAMS AND TEAM LEADERS
 AT BANKS FOR WORK OUT OF: HANIL ENGINEERING & CONSTRUCTION CO., LTD.
 September 23, 2010

CLAIMS AGAINST HDI CLAIMANTS, BASIS FOR LIABILITY, AND ESTIMATED LOSS/DAMAGE

Claims	Claimant	Claim Basis	Low End Claim Value Estimate	High End Claim Value Estimate	Claim Probability High End
Lifetime Memberships Unlawful, both under California Civil Code §1812.80 et seq. and under California Securities Law (the “lifetime” memberships are illegal under the civil code and are securities according to HDI’s own attorneys)	“Lifetime” and “Ten Year” Aroma Spa Members	Cal. Civil Code §1812.80 et. seq., <i>Holland v. Nelson</i> , 5 Cal. App.3d 308 (1970); B&P Code §17200 et seq., Cal. Securities Law	\$25,000,000 (refund of memberships and treble damages §1812.94) + civil penalties under B&P Code	\$90,000,000 If liability for fraud, punitive damages at 9x membership fees are found, together with statutory penalties	HDI/Aroma fraud, done at the direction of HEC, will easily be proven. The evidence shows that HDI and HEC knowingly and deliberately sold the unlawful memberships and continue with their resale. HDI and HEC have been “buying off” “lifetime” members to stop lawsuits. This technique will not work in this case. High end estimate is probable.
Unlawful Advertising of “Lifetime” and “Ten Year” Memberships on HDI/Aroma Website	Dr. Ahn for HDI; Law Enforcement Agencies; Private Lawsuit by “Lifetime” and “Ten Year” Claimants	Cal. Business & Professions Code §17200, §17500, §17206, §17536, et al.	\$3,000,000, based on \$5,000 per violation x 600 “lifetime and “ten year” members, violation of UCL and UCL False Advertising	\$50,000,000, based on 10 “hits” per day on Aroma Website, each day for past 3 years, x \$5,000	Probability of enforcement, given the plain easy to see violation of website advertising, appears to be high
Diversion of Revenue/Profits, 2004, 2005 and 2006 (Expected that 2007 is the same; 2008 and 2009 unclear)	Minority Shareholder Dr. Ahn	HEC and HCM Breach of Fiduciary Duty; Corp. Code, <i>Jones v. Ahmanson</i> , 1 Cal. 3d 93 (1969)	\$750,000 per year from 2004 through 2009; total \$3,750,000	\$1,500,000 per year from 2004 through 2009 \$7,500,000	“Secret” P&L are signed and initialed by HDI President and CEO; figures are backed by separate HDI/HCC/HCM internal document. Diversion also includes overcharge on CAM; excess depreciation based on inflated construction cost basis. Higher value probable.

ATTENTION: BANK WORK OUT TEAMS AND TEAM LEADERS

AT BANKS FOR WORK OUT OF: HANIL ENGINEERING & CONSTRUCTION CO., LTD.

September 23, 2010

CLAIMS AGAINST HDI CLAIMANTS, BASIS FOR LIABILITY, AND ESTIMATED LOSS/DAMAGE

Claims	Claimant	Claim Basis	Low End Claim Value Estimate	High End Claim Value Estimate	Claim Probability High End
Overstatement of Aroma Construction Cost; Diversion of Construction Funds; Payments to Unlicensed Contractors	Minority Shareholder Dr. Ahn; Federal and State Authorities (understated tax due to false depreciation on inflated construction costs)	“Special” Committee Settlement that occurred 9/07; claim for breach of fiduciary duty against the Committee for rubberstamp of the unfavorable settlement designed only to benefit HEC.	Reliable estimate for Aroma construction is about \$22 million; HEC and HCM claim construction cost \$40 million; payments to unlicensed contractors	\$18,000,000 overcharge. 25% of this amount owed to Dr. Ahn, i.e. \$4.5 million; depreciation on the overstated amount, over last 9 years, must be calculated and taxes paid; estimate is \$2,000,000 in unpaid tax, plus interest and penalties	Contemporaneous and re-worked cost estimates, together with appraisals’ cost estimates indicate construction cost is vastly over-stated. Probability of proof of \$18 million + over-statement is high
Unpaid Federal Income Tax, 2004, 2005 and 2006	IRS	Internal Revenue Code various sections	\$5,000,000 (assumes \$2.5 tax and double for interest)	\$10,000,000 (assumes \$2.5m tax and more for interest and penalties)	If taxes were not timely paid as evidence shows, interest and penalties are a certainty; probability high
Unpaid Calif. State Income Tax, 2004, 2005 and 2006 and later	California Franchise Tax Board	Cal. Revenue & Taxation Code various sections	\$1,100,000 (tax only)	\$2,500,00 (est. tax plus interest and penalties)	Same. HEC and HCM must also pay taxes and file tax returns for “doing business” in Calif. 1998 - 2009
Unpaid Payroll Tax; Failure to Withhold Employee Tax and Charges	IRS FTB	Cal. Labor Code and Revenue & Taxation Code, various sections	\$2,000,000 Estimates based on expert review of payroll records	\$4,000,000 Estimate increases with interest and penalties	There is no question that HDI and HEC and HCM have this liability. It will be easy for the authorities to prove these amounts, or much more, are due.
Overcharge of Tenants on “CAM” Charges, 2001 - 2009	Aroma Tenants	Tenant Leases with Aroma; Civil Code and case law pertaining to contract law and fraud on contract	Approximately \$200,000 per year going back to 2001, i.e. 9 years, or about \$2,000,000, with interest add about \$3,000,000	\$200,000 per year estimate is believed reliable; therefore no difference, unless HDI found to have committed fraud, in which case punitive damages could be, at the high end, \$18,000,000	Dr. Ahn is apprised of documents and calculations which back the CAM claims
Breach of Contract/Fraud on Contract to sell HDI stock in 2007	Howard Park, Bechtel H. J. Devt.	Contract law; April 2007 contract with HEC and HCM	Refund of deposit \$1,100,00	Complaint seeks \$20,000,000 plus	Dr. Ahn not privy to all facts, but has witness testimony and documents indicating complaint is well founded
TOTALS	ROUNDED ESTIMATES		\$50,000,000	\$200,000,000	