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KOREA FUND INC
Form N-CSRS
March 08, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM N-CSRS

Investment Company Act file number 811-4058

THE KOREA FUND, INC.

(Exact Name of Registrant as Specified in Charter)

345 Park Avenue
New York, New York 10154

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code: (617) 295-2663

Salvatore Schiavone
Two International Place
Boston, Massachusetts 02110

(Name and Address of Agent for Service)

Date of fiscal year end: 6/30

Date of reporting period: 12/31/2004

**The Korea Fund,
Inc.**

**Semiannual
Report to
Stockholders**

**December 31,
2004**

A closed-end investment
company seeking
long-term capital appreciation
through investment in Korean
securities.

December 31, 2004

The Korea Fund, Inc.

Investment Objective and Policies

long-term capital appreciation through investment in Korean securities

Investment Characteristics

investments in a broad spectrum of Korean industries

closed-end investment company

first United States investment company authorized to invest in Korean securities

a vehicle for international diversification through participation in the Korean economy

a vehicle providing investments in some less liquid Korean opportunities

General Information

Executive Offices	The Korea Fund, Inc. 345 Park Avenue New York, NY 10154
Automated Information Line	Scudder Closed-End Fund Info Line 1-800-349-4281
Web Site	www.TheKoreaFund.com or visit our Direct Link: www.CEF.Scudder.com Obtain monthly fact sheets, financial reports, press releases and webcasts when available.
Transfer Agent and Registrar	Scudder Investments Service Company P.O. Box 219066 Kansas City, MO 64121-9066 For account information: 1-800-294-4366
Dividend Reinvestment Plan Agent	UMB Bank, N.A.
	Debevoise & Plimpton LLP

Legal Counsel	
Custodian	Brown Brothers Harriman & Co.
Subcustodian	Citibank Korea Inc.
Independent Registered Public Accounting Firm	PricewaterhouseCoopers LLP
New York Stock Exchange Symbol	KF

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Investments in funds involve risks. The fund focuses its investments in certain geographical regions, thereby increasing its vulnerability to developments in that region. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and political and economic changes and market risks. This may result in greater share price volatility. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the fund's shares is determined by a number of factors, several of which are beyond the control of the fund. Therefore, the fund cannot predict whether its shares will trade at, below or above net asset value.

This report is sent to the stockholders of The Korea Fund, Inc. for their information. It is not a prospectus, circular, or representation intended for use in the purchase or sale of shares of the fund or of any securities mentioned in the report.

Fund shares are not FDIC-insured and are not deposits or other obligations of, or guaranteed by, any bank. Fund shares involve investment risk, including possible loss of principal.

Portfolio Management Review

In the following interview, Lead Portfolio Manager John J. Lee discusses the market environment, fund performance and his strategy in managing The Korea Fund, Inc. during the six-month period ended December 31, 2004.

Q: How did South Korea's stock market perform during the past six months?

A: Korea* provided robust performance during the second half of 2004, returning 26.50% as measured by the KOSPI.¹ The reporting period began on a down note, as the index initially fell from 786 on June 30 to 720 by August 2. From this low, the market staged a two-month rally, bringing the index to 887 by October 6. Stocks subsequently moved into a tight trading range that lasted for almost the entire fourth quarter. Only on the final trading day of the year did the KOSPI surpass its October high, closing at 896.

** Please note that for the purposes of this report, the term "Korea" refers to South Korea. North Korea is identified as such.*

¹ *KOSPI is a capitalization-weighted index of all common shares on the Korea Stock Exchange. The index is calculated using closing local market prices and converts to US dollars using the London close foreign exchange rates.*

For the six-month period, the Korean market outperformed the broader world markets as measured by the 10.82% return of the MSCI World Index.² Relative to its larger Asian peers, Korea outpaced Japan, Taiwan and Singapore, but trailed Hong Kong and India.

² *The MSCI World Index is an unmanaged, capitalization-weighted measure of global stock markets, including the US, Canada, Europe, Australia and the Far East. The index is calculated using closing local market prices and converts to US dollars using the London close foreign exchange rates.*

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Index returns assume reinvestment of all dividends, and unlike fund returns, do not reflect fees or expenses. It is not possible to invest directly into an index.

Returns for dollar-based investors were boosted by the rising value of the Korean won in relation to the US dollar: On December 31, 2004, 1048 won were required to purchase one US dollar, an improvement from the 1153 level of June 30 and 1195 of one year ago.

Q: How did the fund perform during the semiannual period?

A: For the six months ended December 31, 2004, the net asset value (NAV) total return of the The Korea Fund was 22.93%. Its share price quoted on the NYSE returned 31.13% to close at \$24.06 per share, representing a discount of 6.74% to NAV. Past performance is no guarantee of future results. Performance of the exchange-traded shares was helped by the announcement on December 15, 2004 that the fund's Board of Directors had approved a series of measures designed to enhance shareholder value. Please see page [13](#) for information associated with this announcement.

Q: What factors helped and hurt performance?

A: The fund continues to benefit from its positions in small- and mid-cap stocks. As we have stated in recent shareholder reports, we believe this is the best area of the market in which to find fast-growing, undervalued and underfollowed companies. About 30% of the fund is now invested in this area, compared with approximately 19% within the benchmark index. Due to the nature of the fund's tender offer, our ability to own and continue to purchase such companies will not be affected by the transaction. A notable detractor from performance was a position in DAUM, a Korean internet stock that declined sharply during the reporting period. The stock is no longer held in the portfolio.

Smaller companies that have performed well for the fund include:

Insun ENT Co., Ltd.: A company that specializes in recycling cement and reengineering used building materials, Insun ENT has experienced average annual sales and earnings growth in excess of 50% over the past five years and trades at just seven times earnings.

Korea Express Co., Ltd.: This parcel delivery company, which is similar to United Parcel Service in the US, holds a 40% market share and has been experiencing average annual earnings growth in excess of 20%, yet continues to trade at just three times earnings.

SFA Engineering Corp.: A leading maker of components for flat panel displays and a supplier to Samsung Electronics Co., Ltd., SFA has generated average earnings growth of 50% per year for the past three years and boasts a return on equity of over 40%. Still, it trades at just one time EBITDA (earnings before interest, taxes, depreciation and amortization) and one time cash flow.

Seoul Semiconductor Co., Ltd.: This company is one of a few that can manufacture high-end LEDs (light emitting diodes), which are used as backlights for displays in handsets, autos and other lighting devices. The company continues to win business away from its Japanese rivals, and its earnings are expected to grow rapidly in 2005. The potential applications for Seoul Semiconductor's cutting-edge technology are enormous, so we view the company as a significant long-term investment opportunity.

Turning to the larger companies in the fund, our position in SK Corp. generated strong returns. The stock declined sharply in 2003 after its illegal accounting practices were revealed, bringing its price to what we believed to be an attractive level. We began purchasing the stock when it was trading below 10,000 won, and it has since risen to approximately 55,000 won. On the negative side, the fund's position in Samsung Electro-Mechanics Co., Ltd. provided disappointing returns when its restructuring initiatives took longer to unfold than we expected. We have

since eliminated the stock from the portfolio.

Samsung Electronics Co, Ltd. and SK Telecom Co., Ltd. both produced sub-par returns. Samsung Electronics performed very well in the first half of the year, but the stock deteriorated in the second half as investors became concerned about slowing computer chip sales and a poor pricing environment in the flat screen television industry. Fortunately, our underweight position (relative to the benchmark) in the stock helped mute the impact of its weak return. In our view, SK Telecom remains a compelling long-term opportunity despite its recent underperformance due to its strong market position, attractive valuation and high dividend yield.

Q: What is your broad view on the Korean stock market?

A: Korean stocks have provided competitive returns amid the rally in global equity markets during the past two-plus years. We believe, however, that the foundation is in place for Korea to begin consistently outperforming in the years ahead. In the short term, its performance has been hindered by the comparative weakness in the country's economy. Gross domestic product (GDP) growth is expected to come in lower in 2005 than in 2004, employment growth is sluggish and consumer debt levels while improving are still high. Confidence is relatively low as a result, and this has limited stock market participation by both Korean individuals and institutions. Consider, for example, the fact that the percentage of household assets invested in the stock market is only 6%, compared with 26% for other Asian nations. The national pension plan is underinvested as well, with only about 8% of assets invested in the local market. The result is that Korea, at six times 2004 earnings and two times cash flow, trades at a significant valuation discount to its Asian peers.

We believe the potential exists for this discount to narrow in the years ahead. First, and perhaps most notably, Korea's government is actively encouraging pension plans to make investments in the stock market. This initiative is not intended as a short-term boost to market performance, but rather as a means to help ensure that pension assets will be able to grow fast enough to meet future liabilities. Investment in pension plans is increasing at approximately 20% per year, so even a small rise in the percentage of funds invested in equities will lead to significant cash flows into the market. And stocks, despite their strong showing this year, remain attractive from a fundamental standpoint in our view. For instance, the return on equity for stocks in the KOSPI is now approximately 20%. In comparison, this number stood at -3% during the economic crisis of the late 1990s. Dividends are becoming an increasingly important factor as well. And the small-cap area, as we mentioned, is home to a large number of companies experiencing exceptionally rapid earnings growth.

We also remain encouraged by the direction of longer-term trends in Korea. The country's political leadership remains steadfast in its determination to improve corporate governance despite resistance from the old-line industrial conglomerates (the *chaebol*). An example of a recent reform is a law that allows class action suits in Korea for the first time. In addition, the country remains positioned to benefit from the rapid economic expansion in China. While the markets have been weighing in the possibility of a "hard landing" in China following the government's steps to cool its economy, we believe a recession scenario is unlikely, and that Korea will continue to benefit from the Chinese growth engine for years. Finally, the movement of the economy from more cyclical manufacturing industries and towards a more modern, technology-oriented economy continues to represent an important long-term positive.

Even with these factors in place, the process of the Korean market moving to a valuation level closer to that of its global peers could take many years. In addition, absolute performance could be hurt by any one of several potential risk factors, such as slower global growth, an unexpected jump in US interest rates, or political tension related to North Korea. Nonetheless, we believe the foundation is in place for Korea to deliver attractive long-term performance relative to both the broader world markets and its Asian peers.

The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The managers' views are subject to change at any time based on market and other conditions and should not be construed as a recommendation.

Other Information

Investment Manager

Deutsche Investment Management Americas Inc. ("DeIM"), with headquarters at 345 Park Avenue, New York, NY, is the investment manager for the fund. DeIM and its predecessors have more than 80 years of experience managing mutual funds. DeIM provides a full range of investment advisory services to institutional and retail clients. DeIM is also responsible for selecting brokers and dealers and for negotiating brokerage commissions and dealer charges.

Deutsche Asset Management is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Asset Management, Inc., Deutsche Asset Management Investment Services Ltd., Deutsche Investment Management Americas Inc. and Scudder Trust Company.

Deutsche Asset Management is a global asset management organization that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts and an office network that reaches the world's major investment centers. This well-resourced global investment platform brings together a wide variety of experience and investment insight across industries, regions, asset classes and investing styles.

DeIM is an indirect, wholly owned subsidiary of Deutsche Bank AG. Deutsche Bank AG is a major global banking institution that is engaged in a wide range of financial services, including investment management, mutual fund, retail, private and commercial banking, investment banking and insurance.

Deutsche Asset Management also manages the assets of other closed-end investment companies which invest primarily in foreign securities: Scudder New Asia Fund, Inc., The Brazil Fund, Inc., Scudder Global High Income Fund, Inc., Scudder Global Commodities Stock Fund, Inc., The Germany Fund, Inc., The New Germany Fund, Inc. and The Central Europe and Russia Fund, Inc. In addition, Deutsche Asset Management manages open-end mutual funds which invest in domestic and international markets.

Korean Advisor

Deutsche Investment Trust Management Company Limited ("DeITMC"), located at 19F, Youngpoong Building, 33, Seorin-Dong, Chongro-ku, Seoul, Korea, serves as subadvisor to the fund. DeITMC renders investment advisory and management services with regard to the fund's portfolio. From time to time, DeITMC makes specific investment recommendations, which then are evaluated by DeIM's portfolio managers in light of their own expertise and information from other sources in making investment decisions for the fund.

Dividend Reinvestment and Cash Purchase Plan

The fund's Dividend Reinvestment and Cash Purchase Plan offers you a convenient way to have your dividends and capital gain distributions reinvested in shares of the fund. We believe this Plan is attractive for stockholders. Its features are more fully described on page 40. You may obtain more detailed information by requesting a copy of the Plan from the Transfer Agent. All correspondence (including notifications) should be directed to: The Korea Fund Dividend Reinvestment and Cash Purchase Plan, c/o Scudder Investments Service Company, P.O. Box 219066, Kansas City, MO 4121-9066, 1-800-294-4366.

Recent Events

On December 15, 2004, the fund's Board of Directors approved a series of measures designed to enhance shareholder value and to maintain the fund's viability:

an offer to repurchase 50% of the fund's outstanding shares in exchange for portfolio securities of the fund;

a program for future repurchase offers; and

a reduction in the fee paid to the fund's manager, Deutsche Investment Management Americas Inc.

The initial offer would be to repurchase 50% of the fund's outstanding shares at a price of 98% of net asset value on the day after the expiration of the offer. Shareholders exchanging their shares in the offer would receive a pro rata share of the fund's portfolio. Shareholders may sell their share of portfolio securities and receive the cash proceeds.

Launching of the offer would be conditioned on receipt of a ruling from the Internal Revenue Service that the fund would not recognize capital gain as a result of distributing appreciated property to participating shareholders. The offer would also be conditioned on approvals by the SEC and by regulators in Korea. The fund currently anticipates receipt of approvals in the first half of 2005.

The board also approved making semi-annual offers, each to repurchase 10% of the fund's shares then outstanding, at a price of 98% of net asset value on the day after expiration of the offer, in the three calendar years following completion of the initial offer. As with the initial offer, participating holders would be paid in kind, by receiving a pro rata share of the fund's portfolio. Each of these subsequent offers would be made, subject to regulatory approvals, fiduciary and other applicable requirements, if the fund's shares traded on the New York Stock Exchange at an average weekly discount from net asset value greater than 5% during a 13-week measuring period ending the last day of the preceding half-year.

In light of the size of the initial offer and the program for subsequent offers, the board announced that the fund would not proceed with its previously announced program of a contingent 10% repurchase offer in the first quarter of 2005 and in the first quarter of 2006.

The board also announced a reduction, effective December 1, 2004, in the fees payable to the fund's manager. Previously, the annual management fee had ranged from 1.15% on the first \$50 million of net assets to 0.85% of net assets over \$1.050 billion. Under the amended advisory agreement, the management fee ranges from 0.60% on the first \$250 million of net assets to 0.50% of net assets in excess of \$1 billion. On the fund's current assets, this represents an overall reduction of approximately 45% in the management fee.

As part of the Board's previously announced review of key aspects of the fund's structure and operations, the board announced that it will be sending out requests for proposals for management of the fund. In the fund's announcement, Robert J. Callander, Chairman of the fund's Board of Directors, said: "The fund's manager DeIM has done well for shareholders in managing the fund, and its capabilities in researching and selecting Korean securities have produced strong investment performance, and has agreed to a substantial reduction in the management fee. However, we will review proposals from other managers with the requisite capabilities and record of performance, so we can compare their proposals with having DeIM continue as the manager."

Mr. Callander stated: "The board of directors of The Korea Fund, which consists entirely of independent directors who have no affiliation with the manager, has taken full account of the results of the annual meeting on October 6 and has considered the views expressed by stockholders. Our objective is to do what is best for the fund and its stockholders bearing in mind both the desires of some stockholders for liquidity and the fund's record of success in achieving its

objective of long-term capital appreciation through investing in Korean securities."

"The board continues to believe that the fund's closed-end structure is in the best interests of stockholders because, under current market conditions, including the emerging nature of the Korean capital markets and the volatility and limited liquidity of many of the fund's holdings, the board believes that the fund is best able to achieve its investment objective as a closed-end fund."

The fund also announced that it expected that William H. Luers would continue as a director until his term expired at the fund's 2005 annual meeting, and that Mr. Callander, because of his responsibilities as Chairman of the Board, had agreed to stand for re-election at the 2005 annual meeting. The fund had previously indicated that both directors were expected to retire in April 2005.

There can be no assurance that the approvals needed for the repurchase offers will be obtained, or that any action proposed or adopted by the board will reduce or eliminate the discount from net asset value at which the fund's shares trade. The fund's announcement is not an offer to purchase or the solicitation of an offer to sell shares of the fund. The repurchase offers referred to in the fund's announcement will be made only by the offer to purchase and related letter of transmittal. Stockholders should review these documents carefully when they are available, because they will contain important information. These documents will be available to investors for free at the Web site of the Securities and Exchange Commission (www.sec.gov), as well as on the fund's Web site at www.CEF.scudder.com. An offer to purchase will not be made to, nor will tenders pursuant to the offer to purchase be accepted from or on behalf of, holders of shares in any jurisdiction in which making or accepting the offer to purchase would violate the jurisdiction's laws.

Changes in Officers

On October 6, 2004, the Board of Directors elected Paul H. Schubert as Chief Financial Officer of the fund, replacing Charles A. Rizzo who remains as Treasurer of the fund. The Board of Directors also changed the titles of Bruce A. Rosenblum and John Millette, electing Bruce A. Rosenblum as Vice President and Secretary of the fund and John Millette as Assistant Secretary of the fund.

Proxy Voting

A description of the fund's policies and procedures for voting proxies for portfolio securities and information about how the fund voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site scudder.com (type "proxy voting" in the search field) or on the SEC's Web site www.sec.gov. To obtain a written copy of the fund's policies and procedures without charge, upon request, call us toll free at (800) 621-1048.

Share Repurchases

The Board of Directors of The Korea Fund, Inc. has also authorized the fund to effect periodic repurchases of its shares in the open market from time to time when the fund's shares trade at a discount to their NAV. Subject to periodic review by the Board, repurchases may be made at such time and in such amounts as the fund's Manager believes will further the achievement of the fund's objectives. Depending on market conditions, available funds, regulatory requirements and alternative investment opportunities, such repurchases are limited to (1) 5% of the shares outstanding at the beginning of the calendar year, plus (2) an estimate of shares to be issued in connection with the current calendar year's dividends, plus (3) the number of shares authorized for purchase in the previous calendar year that have not been purchased. In measuring the number of shares authorized for repurchase, the shares relating to the current calendar year's dividends are estimated at 50% of the number of shares issued in connection with the prior

calendar year's dividends or until such time during the calendar year that the fund's Manager has a more accurate projection of the calendar year's dividends. Repurchases made based on this estimate shall continue to have been authorized, even if the actual dividend or related share issuance is lower. During the six months ended December 31, 2004, the fund repurchased no shares pursuant to this share repurchase plan as described above.

Net Asset Value

The fund's NAV is available daily on our Web site at www.TheKoreaFund.com or visit our Direct Link www.CEF.Scudder.com. The fund's NAV is published weekly on Monday and the fund's Market Value is published every weekday in *The Wall Street Journal* under the heading "Closed End Funds." The fund's market value is also published daily in *The New York Times* and weekly in *Barron's*. The fund's NAV is also published weekly in *Barron's*.

Investment Summary as of December 31, 2004

Performance is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit www.CEF.Scudder.com for the Fund's most recent performance.

Historical Information								
	Total Return (%)							
	Market Value		Net Asset Value (a)		Index (b)		Index (c)	
	Cumulative	Average Annual	Cumulative	Average Annual	Cumulative	Average Annual	Cumulative	Average Annual
Current Quarter	19.75		20.42		18.62		7.28	
One Year	34.70	34.70	26.03	26.03	27.04	27.04	10.51	10.51
Three Year	102.60	26.54	77.63	21.11	64.06	17.92	29.15	8.89
Five Year	80.35	12.52	41.34	7.17	-4.38	-.89	-12.85	-2.71
Ten Year	53.21	4.36	81.00	6.11	-34.07	-4.08	-12.79	-1.36

Per Share Information and Returns (a)										
	Yearly periods ended December 31									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Net Asset Value (\$)	20.04	13.55	4.44	9.59	23.13	12.79	15.89	16.56	20.97	25.80
Income Dividends (\$)	.06					.17	.01	.18	.30	.45
Capital Gains Distributions (\$)	.36	.60					1.53	.67		.20
Total Return (%)	4.26	-30.01	-66.50	115.99	141.19	-44.24	42.71	9.39	28.84	26.03

(a) Total investment returns reflect changes in net asset value per share during each period and assume that dividends and capital gains distributions, if any, were reinvested. These percentages are not an indication of the performance of a shareholder's investment in the Fund based on market price.

(b) Korea Stock Price Index ("KOSPI") in US dollars.

(c) KOSPI in local terms.

KOSPI is a capitalization-weighted index of all common shares on the Korea Stock Exchange. The index is calculated using closing local market prices and converts to US dollars using the London close foreign exchange rates. Index returns, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Portfolio Summary as of December 31, 2004

Asset Allocation	12/31/04	6/30/04
Common Stocks	84%	84%
Preferred Stocks	15%	16%
Corporate Bonds	1%	
	100%	100%

Sector Diversification		
(Sector breakdown of the Fund's equity securities) 12/31/04 6/30/04		
Information Technology	25%	30%
Consumer Discretionary	18%	18%
Financials	16%	15%
Materials	12%	10%
Energy	9%	8%
Industrials	7%	6%
Consumer Staples	7%	7%
Telecommunications Services	5%	6%
Health Care	1%	
	100%	100%

Asset allocation and sector diversification are subject to change.

Ten Largest Equity Holdings at December 31, 2004 (63.8% of Net Assets)	
1. Samsung Electronics Co., Ltd.	17.8%
Manufacturer of major electronics	
2. Samsung Fire & Marine Insurance Co., Ltd.	8.5%
Provider of insurance products	
3. POSCO	7.0%
Manufacturer of hot and cold rolled steel products	
4. Hyundai Motor Co., Ltd.	5.6%
Manufacturer of motor vehicles	
5. SK Telecom Co., Ltd.	5.5%
Provider of mobile telecommunication services	
6. S-Oil Corp.	5.1%
Refines crude oil and sells petroleum and related products	
7. SK Corp.	3.9%
Refiner of oil in Korea	
8. Hankook Tire Co., Ltd.	3.8%
Manufacturer of tires, tire tubes and aluminum alloy wheels	
9. Kookmin Bank	3.4%
Provider of commercial banking services	
10. Shinsegae Co., Ltd.	3.2%
Operator of discount stores	

Portfolio holdings are subject to change.

For more complete details about the Fund's investment portfolio, see page 21. A quarterly Fact Sheet is available upon request. Please call 1-800-349-4281.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.



Investment Portfolio as of December 31, 2004

	Shares	Value (\$)
Common Stocks 84.0%		
Consumer Discretionary 12.4%		
Auto Components 4.3%		
Halla Climate Control Corp.	600,000	5,940,881
Hankook Tire Co., Ltd.	4,464,307	43,987,569
		49,928,450
Automobiles 0.7%		
Hanil E-Wha Co., Ltd.	706,950	867,298
Nexen Tire Corp.	400,000	7,380,216
		8,247,514
Hotels Restaurants & Leisure 2.1%		
Hotel Shilla Co., Ltd.	858,391	5,199,103
Kangwon Land, Inc.	1,471,530	19,119,087
		24,318,190
Internet & Catalog Retail 0.3%		
LG Home Shopping, Inc.	56,200	3,474,498
Media 0.7%		
Cheil Communications, Inc.	57,600	8,374,034
Multiline Retail 4.1%		
Shinsegae Co., Ltd.	135,787	37,317,814
Taegu Department Store Co., Ltd. (b)	1,336,800	9,930,440
		47,248,254
Textiles, Apparel & Luxury Goods 0.2%		
BYC Co., Ltd. (b)	39,530	1,748,912
Consumer Staples 5.1%		
Beverages 1.6%		
Hite Brewery Co., Ltd.	50,000	4,129,637
Nam Yang Dairy Products Co., Ltd. (b)	43,390	14,963,514
		19,093,151
Food Products 1.4%		
CJ Corp.	99,606	6,812,311
Nhong Shim Co., Ltd.	38,229	9,213,809
		16,026,120
Household Products 0.1%		
LG Household & Health Care Ltd.	51,511	1,365,898
Tobacco 2.0%		
KT&G Corp. 144A (GDR)	413,800	6,082,860
KT&G Corp.	552,570	16,520,519
		22,603,379
Energy 8.6%		
Oil & Gas		
S-Oil Corp.	827,300	53,544,339
SK Corp.	826,200	45,412,268
		98,956,607
Financials 13.1%		
Banks 4.4%		
Jeonbuk Bank (b)	2,787,695	11,848,781
Kookmin Bank (ADR)*	100,917	3,943,836
Kookmin Bank*	909,198	35,570,440
		51,363,057
Diversified Financial Services 0.5%		
Nong Shim Holdings Co., Ltd.	22,521	1,277,031
Samsung Securities Co., Ltd.	164,720	3,993,887

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Telephus Co., Ltd.* (b) (d) (e)	2,266,667	328,439
		5,599,357
Insurance 8.2%		
Korean Reinsurance Co.	1,643,310	7,452,995
Oriental Fire & Marine Insurance Co. (b)	584,860	9,802,281
Samsung Fire & Marine Insurance Co., Ltd.	979,625	77,124,650
		94,379,926
Health Care 0.5%		
Pharmaceuticals		
Choongwae Pharma Corp.	88,600	1,566,248
Yuhan Corp.	46,500	3,907,941
		5,474,189
Industrials 7.4%		
Commercial Services & Supplies 2.4%		
Insun ENT Co., Ltd.	377,203	7,415,071
S1 Corp.	564,270	19,895,532
		27,310,603
Construction & Engineering 0.3%		
Ssangyong Engineering & Construction Co., Ltd.*	461,200	2,967,148
Industrial Conglomerates 2.9%		
Anycell, Inc. (b) (d) (e) (i)	1,250,000	0
Daeyang E&C Ltd.*	1,153,948	4,469,988
Hyundai Mobis	350,480	22,175,850
SFA Engineering Corp.	466,200	7,430,738
		34,076,576
Machinery 0.5%		
HS R&A Co., Ltd.	144,800	783,307
Samsung Climate Control Co., Ltd. (b)	827,630	5,092,739
		5,876,046
Trading Companies & Distributors 0.7%		
Jahwa Electronics Co., Ltd.	779,900	8,061,177
Transportation Infrastructure 0.6%		
Korea Express Co., Ltd.*	301,880	7,392,444
Information Technology 19.9%		
Computers & Peripherals 0.1%		
Ahnlab, Inc.*	89,600	1,471,407
Electronic Equipment & Instruments 4.2%		
Dae Duck Electronics Co., Ltd.	360,901	3,165,553
Hankuk Electric Glass Co., Ltd.	142,400	6,589,026
Interflex Co., Ltd. (b)	667,800	11,192,359
Mtekvision Co., Ltd.*	83,200	2,620,093
Samsung SDI Co., Ltd.	209,956	22,918,304
SE Co., Ltd. (b) (d) (e)	636,950	1,932,016
		48,417,351
Internet Software & Services 0.5%		
NCsoft Corp.*	70,000	5,666,538
Semiconductors & Semiconductor Equipment 15.1%		
NEPES Corp.*	358,890	3,362,860
Phicom Corp.*	1,060,000	5,908,230
Samsung Electronics Co., Ltd. (j)	340,299	148,091,866
Seoul Semiconductor Co., Ltd. (b)	1,003,900	16,195,064
		173,558,020
Materials 11.5%		
Chemicals 1.4%		
Korea Fine Chemical Co.	3,803	32,659
LG Chemical Ltd.	212,486	8,467,009
Samsung Fine Chemicals Co., Ltd.	425,000	7,307,767
		15,807,435
Construction Materials 0.4%		

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Sungshin Cement Co., Ltd.	276,200	4,669,146	
Containers & Packaging 0.3%			
Youlchon Chemical Co., Ltd.	351,300	3,393,547	
Metals & Mining 9.4%			
Dongkuk Steel Mill Co., Ltd.	1,170,900	20,189,881	
Korea Iron & Steel Co., Ltd.	227,200	5,311,283	
POSCO	443,000	80,024,150	
Samwoo EMC Co., Ltd. (b)	754,800	2,307,711	
SeAH Steel Corp.	77,110	1,229,052	
		109,062,077	
Telecommunication Services 5.5%			
Wireless Telecommunication Services			
SK Telecom Co., Ltd.	329,990	62,797,556	
Total Common Stocks (Cost \$355,310,288)		968,728,607	
			Principal
			Amount (\$) Value (\$)
Convertible Bond 0.4%			
Consumer Staples 0.0%			
Haitai Confectionery Loan Certificates, Zero Coupon, 11/28/2009 (d) (f) (g)	15,820,881	14,108	
Financials 0.4%			
LG Card Co., Ltd., 3.0%, 2/12/2009	6,000,000,000	4,868,624	
Total Convertible Bond (Cost \$2,617,328)		4,882,732	
	Shares	Value (\$)	
Preferred Stocks 15.2%			
Consumer Discretionary 5.6%			
Automobiles 5.6%			
Hyundai Motor Co. 144A (GDR)	3,020,000	42,280,000	
Hyundai Motor Co. (2nd)	738,593	22,153,509	
		64,433,509	
Hotels Restaurants & Leisure 0.0%			
Hotel Shilla Co., Ltd.	32,070	150,251	
Consumer Staples 1.4%			
Beverages 0.0%			
Nam Yang Dairy Products Co., Ltd. (b)	1,160	246,522	
Food Products 1.3%			
CJ Corp.	297,200	10,220,556	
CJ Corp. (2nd)	50,335	2,645,116	
CJ Corp. (3rd) (convertible)	30,201	1,554,978	
		14,420,650	
Household Products 0.1%			
LG Household & Health Care Ltd.	46,788	881,343	
Energy 0.5%			
Oil & Gas			
S-Oil Corp.	156,040	5,441,503	
Financials 2.2%			
Diversified Financial Services 0.5%			
Daishin Securities Co., Ltd.	665,500	5,753,695	
Insurance 1.7%			
Samsung Fire & Marine Insurance Co., Ltd.	533,850	20,060,631	
Information Technology 5.1%			
Electronic Equipment & Instruments 0.2%			
Samsung SDI Co., Ltd.	34,318	2,201,232	
Semiconductors & Semiconductor Equipment 4.9%			

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Samsung Electronics Co., Ltd. (j)	198,201	57,151,273
Materials 0.4%		
Chemicals		
LG Chemical Ltd.	193,003	4,716,940
Total Preferred Stocks (Cost \$38,781,505)		175,457,549
Investment Fund 0.1%		
Hankang Restructuring Fund (d) (h) (i) (Cost \$1,644,658)	1,724,310	1,465,797
Cash		