

Edgar Filing: KOREA FUND INC - Form N-CSRS

KOREA FUND INC
Form N-CSRS
March 10, 2006
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: (212) 454-7190

Paul Schubert

345 Park Avenue

New York, NY 10154

(Name and Address of Agent for Service)

Date of fiscal year end: 6/30

Date of reporting period: 12/31/2005

ITEM 1. REPORT TO STOCKHOLDERS

The Korea Fund,
Inc.

**Semiannual
Report to
Stockholders**

**December 31,
2005**

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

The Korea Fund, Inc.

Investment Objective and Policies

long-term capital appreciation through investment in Korean securities

Investment Characteristics

a closed-end investment company investing in a broad spectrum of Korean securities

first United States investment company authorized to invest in Korean securities

a vehicle for international diversification through participation in the stock market

a vehicle providing investments in some less liquid Korean opportunities

	The Korea Fund, Inc. 345 Park Avenue
--	---

Executive Offices	New York, NY 10154
Automated Information Line	DWS Scudder Closed-End Fund Info Line 1-800-349-4281
Web Site	www.TheKoreaFund.com Obtain monthly fact sheets, financial reports, press releases and webcasts when available.
Transfer Agent and Registrar	DWS 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.
Legal Counsel	Debevoise & Plimpton LLP
Custodian	Brown Brothers Harriman & Co.
Subcustodian	Citibank Korea Inc.
Independent Registered Public Accounting Firm	PricewaterhouseCoopers LLP
New York Stock Exchange Symbol KF	

Contents

[Click Here](#)
Letter from the
Chairman of
the Board

[Click Here](#)
Portfolio
Management
Review

[Click Here](#)
Other
Information

[Click Here](#)
Investment
Summary

[Click Here](#)
Portfolio
Summary

[Click Here](#)

Investment
Portfolio

[Click Here](#)

Financial
Statements

[Click Here](#)

Financial
Highlights

[Click Here](#)

Notes to
Financial
Statements

[Click Here](#)

Dividend
Reinvestment
and Cash
Purchase Plan

[Click Here](#)

Stockholder
Meeting
Results

[Click Here](#)

Investment
Management
Agreement
Approval

[Click Here](#)

Privacy
Statement

Investments in funds involve risks. The fund focuses its investments in Korean issuers, thereby increasing its vulnerability to developments in Korea and its geographic regions. 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.

NOT FDIC/NCUA INSURED NO BANK GUARANTEE MAY LOSE VALUE NOT A DEPOSIT NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

Letter from the Chairman of the Board

Dear Stockholders,

Edgar Filing: KOREA FUND INC - Form N-CSRS

It is with pleasure that I write this, my first letter to you as Chairman of The Korea Fund, Inc. For those many stockholders that I have not as yet had the pleasure to meet, my experience spans some 35 years in the financial services industry, mainly in Asia. I have been involved in the closed-end fund industry since the 1970s, and have promoted, launched, administered, directed and/or chaired investment companies listed on the stock exchanges of New York, London, Hong Kong, Singapore and Sydney.

For a review and details of the investment performance of the fund over the past one-, three-, five- and 10-year periods, as well as the performance of the fund's benchmark over those periods I refer you to page 18 of this report.

In the summer, the fund conducted a successful in-kind tender offer for up to 50% of its outstanding shares. Further, and in accordance with the Board's previously announced plan of making six semiannual tender offers after the initial 50% offer, the Board announced in the fourth quarter of 2005 a measurement period to determine if the fund should make an offer to repurchase up to 10% of its outstanding shares. Each of these subsequent offers will be made, subject to regulatory approvals, fiduciary and other applicable requirements, if the fund's shares trade on the New York Stock Exchange at an average weekly discount from net asset value greater than 5% during the respective 13-week measurement periods. After trading at an average discount of 5.63% during the recent measurement period, the fund launched a tender offer this January for 10% of its outstanding shares at a price per share equal to 98% of the next asset value per share as of the business day after the day the offer expires. The tender offer is scheduled to close as this document goes to print, so the final results of the tender will be available through press releases issued by the fund towards the end of February.

Although the repurchase program as originally announced contemplated in-kind repurchase offers, in which tendering stockholders would receive a pro rata share of the fund's portfolio rather than cash, the Board determined that a cash tender offer will be more beneficial to fund stockholders at this time. The Board intends to evaluate on a case-by-case basis the consideration for any future offers under the repurchase program, in light of its experience and the then-prevailing market and economic conditions.

As you may be aware, the intention of this ongoing exercise is to maintain a share price that deviates less from the fund's net asset value and thereby provides enhanced value to all stockholders. As announced in December, the Board is conducting a further review of mechanisms intended to manage the discount on which we shall update you.

Over the recent past your Board has taken significant actions to improve the fund's corporate governance and streamline its own functioning which, it believes, further demonstrates your Board's long-term commitment to the fund and to the highest level of corporate governance.

In October and effective from the time of the December annual meeting of stockholders, the Board voted to reduce its size from seven members to five in connection with the reduction of the fund's size through the proposed tender offers. Then-Chairman Robert J. Callander tendered his resignation as director effective as of the close of business on October 12. At the December meeting of stockholders, Director Kesop Yun was reelected, and Director William H. Luers retired from the Board. I would like to take this opportunity to express the Board's thanks to both Mr. Callander and Mr. Luers for their contributions to the fund over the years. After the October meeting the Board's directors, all of whom are independent of the fund's investment manager, elected me to serve as Chairman of the Board.

In December, the Board reconfirmed its commitment to pursue best practices of corporate governance, investor relations and the enhancement of stockholder value. Among issues agreed upon were:

A clarification of the fund's investment policy to "seek long-term capital growth through seeking to outperform the fund's benchmark by active management across the large-, medium- and small-cap sectors of the Korean equity market";

That the benchmark be retained as the Korea Stock Price Index (KOSPI) adjusted to include income;

Recognizing the preeminent role of stockholders in determining the future of the fund, the percentage of shares required to demand a Special Meeting has been reduced to 33% from 50%;

While reaffirming the previously announced tender offer program, the Board instigated a further review of mechanisms to manage the discount and ways to further enhance investor relations and stockholder value;

The formation of an investment committee to monitor performance of the fund and a broad peer group; and

The establishment of a proactive investor relations program aimed at improving the direct relationship with stockholders

In response to several stockholder queries of the fund's fair valuation methodology, I draw your attention to the statement of the fund's valuation policy set out on page 32 of this report.

These changes, combined with the fund's good performance in 2005, have made this past period, we believe, a special one for your fund. We thank you for your ongoing support.

Yours very sincerely,

Julian Reid, Chairman

Portfolio Management Review

In the following interview, Lead Portfolio Manager Terrence Gray discusses the market environment, fund performance and the strategy for managing The Korea Fund, Inc., during the six-month period ended December 31, 2005.

Q: How did South Korea's stock market perform during the semiannual period?

A: Korea¹ delivered an outstanding performance during the period, capping a year in which it was not only the top-performing market in Asia but also one of the leading markets in the world. The KOSPI index returned 40.23% for the six-month period and 59.04% for the year, closing at an all-time high of 1,379.37.² Korea's six- and 12-month returns were far ahead of both the MSCI Emerging Markets Index (26.62%, 34.54%) and the MSCI World Index (10.25%, 9.49%).³ US dollar investors were also helped by the rising value of the Korean won. While at the beginning of the year 1,047.50 won were required to purchase one dollar, the exchange rate improved to 1,032.10 at midyear and 1,010.85 by year-end.

Korea has long traded at a discount to other global markets for a variety of reasons, including the influence of the industrial conglomerates, opaque management practices and the lack of stockholder-friendly corporate policies. Although the process of resolving these issues has been under way for years, a more recent problem has been the high level of consumer credit card debt, which dampened consumption and weighed on market sentiment. Once it became clear that this problem had begun to dissipate, Korea, with its low valuations and attractive fundamentals, was a natural beneficiary of the liquidity-fueled surge of investment flows into emerging markets in 2005. The result was that the long-standing "Korea discount" began to narrow, with the market's price-to-earnings ratio climbing from about eight times earnings at the start of the year to 10.5 times by the close. Together with sharply rising corporate earnings, this multiple expansion led to a robust gain in Korea's stock market.

¹ Please note that for the purposes of this report, the term "Korea" refers to South Korea. North Korea is identified as such.

² KOSPI is an unmanaged, capitalization-weighted index of all common shares on the Stock Market Division of the Korea Exchange (formerly the "Korea Stock Exchange"). Index returns from June 30, 1995 forward assume reinvestment of all dividends. Prior to that date, the return is price change only. 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.

Edgar Filing: KOREA FUND INC - Form N-CSRS

³ The Morgan Stanley Capital International (MSCI) Emerging Markets Index is an unmanaged, capitalization-weighted index of companies in a universe of 26 emerging markets.

The Morgan Stanley Capital International (MSCI) World Index is an unmanaged, capitalization-weighted measure of global stock markets, including the United States, Canada, Europe, Australia and the Far East.

MSCI indices are calculated using closing market prices and convert to US dollars using the London close foreign exchange rates. Index returns assume reinvestment of dividends and, unlike fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Another notable development during 2005 was the increased participation of retail investors. Relatively unattractive yields on fixed-income securities, along with rising investor confidence, sparked heavy inflows of retail money into the market. Koreans are accessing the market in a variety of ways: through mutual funds, directly via brokerage accounts, and through automatic participation programs in which money is deducted from paychecks and invested in the market. We believe these trends indicate the continued development of an "investor class" in Korea, which over time should shift even greater power into the hands of stockholders.

Q: How did the fund perform?

A: For the six months ended December 31, 2005, the net asset value (NAV) total return of The Korea Fund was 37.69%. Its share price quoted on the NYSE returned 32.99% to close at \$35.60 per share, representing a discount of (9.21)% to NAV. The fund underperformed the benchmark by a slight margin during the semiannual period. (Please see pages 18 through 19 for more complete performance information. Past performance is no guarantee of future results.) However, we continue to take advantage of the fund's closed-end structure by looking for stocks we can hold for at least a three- to five-year period. This is the most important aspect of our investment process, and it has held the fund in good stead over time. As a result, we believe the fund's long-term track record is, and will continue to be, a better measure of its performance than its results during a six-month time frame.

Q: What factors helped and hurt performance?

A: The fund was hurt by its underweight position in banks and brokers, the top-performing area of the market during the period.

While we saw a fundamental rerating of Korean equities in 2005, we believe these sectors moved ahead of fundamentals, given that many stocks reached all-time highs on a price-to-book basis. This leaves limited upside, in our view. Given the fund's long-term investment approach, we have not repositioned the portfolio to take advantage of the short-term market environment. However, we did capitalize on the rally in financials through our holdings in Jeonbuk Bank Ltd., a regional bank, as well as Korea Investment Holdings Co., Ltd. and Daishin Securities Co., Ltd, both of which capitalized on the rising participation of retail investors. All three stocks delivered outstanding returns and outperformed the benchmark during the second half of the year. Also in financials, the fund's positions in the insurance stocks Meritz Fire & Marine Insurance Co. Ltd. and Samsung Fire & Marine Insurance Co. Ltd. both delivered market-beating returns.

We continue to look for opportunities among small- and mid-cap stocks. Approximately 36% of the fund's assets are now invested outside of the large-cap area. In our view, this is another benefit of the fund's closed-end status—the ability to take long-term positions in less liquid equities. A notable winner for the fund among smaller companies was Taegu Department Store Co. Ltd., a regional retailer benefiting from rising consumer purchasing. Phicom Corp., which returned nearly 95% for the period, was another top performer. The company, which makes fabrication equipment for liquid crystal displays, benefited from the surge in capital spending as companies ramp up their production capacity for LCDs.

A notable detractor from performance was S-Oil Corp., an oil refiner that had performed well in the past but took a breather in 2005. We believe S-Oil, which has a high dividend yield, is one of the most efficiently run refining companies in the global markets, and we continue to hold it in the portfolio. Other notable detractors from

performance were the fund's holdings in Interflex Co. Ltd., a printed circuit board manufacturer that has experienced rising competition, and Crown Confectionary Co. Ltd., one of Korea's leading snack food companies. Crown experienced some issues with labor unions due to the recent acquisition of a competitor, but we felt this was a short-term phenomenon with no impact on the long-term investment case.

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

A: After three years of exceptional gains for Korean equities, we are naturally more cautious on the short-term market outlook. While earnings momentum remains strong, and the market as a whole is still attractively valued within both a global and a regional context, certain sectors have begun to look more expensive. That said, we retain our long-standing positive view on the long-term potential of Korean stocks. All of the factors we have cited in the past such as improved corporate performance, the expansion of the retail investor base and Korea's entrepreneurial spirit continue to support strong long-term market performance. Despite these positives, as well as the strong performance of the market in 2005, the valuation gap between Korea and other global markets continues to exist. We believe the foundation is firmly in place for this gap to close still further in the years ahead, and we will seek to take advantage of this by maintaining our long-term approach to investing.

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 Investment Management Americas Inc. and DWS 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., DWS Global High Income Fund, Inc., DWS Global Commodities Stock Fund, Inc., The European Equity 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.

Tender Offers and Fee Reductions

The fund's Board of Directors has recently approved a series of measures designed to enhance stockholder value and to maintain the fund's viability.

On December 15, 2004, the fund announced its approval, subject to fiduciary and other applicable requirements and regulatory approvals, of a purchase of 50% of outstanding shares at a price equal to 98% of the NAV per share as of the day after the date such offer expired. The fund also announced its approval of a plan to conduct six subsequent semiannual purchase offers in accordance, each for 10% of the then-outstanding shares at a price equal to 98% of NAV per share as of the day after the date each such offer expires, if shares trade on the NYSE at an average weekly discount from NAV greater than 5% during a 13-week measuring period ending the last day of the preceding half-year. Payment for any shares purchased pursuant to the repurchase program would be made in-kind through a *pro rata* distribution of securities from the fund's portfolio on the day after the date such offer expires.

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 as of June 30, 2005, this represents an overall reduction of approximately 42% in the management fee.

On July 8, 2005, the fund commenced a tender offer for up to 22,350,747 shares, representing approximately 50% of its issued and outstanding shares of common stock in exchange for portfolio securities of the fund at a price per share equal to 98% of the net asset value per share as of the day after the day the offer expires. On August 25, 2005, the fund announced that it had accepted, after adjusting for fractional shares in accordance with the terms of the offer, the tender of 14,737,788 shares. This represented approximately 33% of the fund's outstanding shares.

The average weekly discount of the fund during the 13-week measuring period ending December 31, 2005 was 5.63%. On January 11, 2006, the Board met to consider a 10% repurchase offer pursuant to the repurchase program. The Board determined that although the repurchase program originally contemplated in-kind purchase offers in which tendering stockholders would receive a pro rata share of the fund's portfolio, rather than cash, the fund would conduct this tender offer for cash consideration. The Board believes that using cash consideration will facilitate participation by smaller stockholders and result in lower transaction costs. The Board intends to evaluate on a case-by-case basis the consideration for any future offers under the repurchase program, in light of its experience and then-prevailing market and economic conditions.

On January 19, 2006, the fund commenced a tender offer for cash for up to 2,996,371 of its shares of common stock, representing approximately 10% its outstanding shares, at a price per share equal to 98% of the net asset value per share as of the day after the day the offer expires. The tender offer will remain open through February 16, 2006, unless extended.

The fund's report is not an offer to purchase or the solicitation of an offer to sell shares of the fund. The tender offers referred to in the fund's report 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 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.TheKoreaFund.com. An offer to purchase will not be made to, nor will tenders pursuant to an 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.

There can be no assurance that this offer or any other actions taken by the Board will reduce or eliminate any market price discount from NAV of the fund's shares. The market price of the fund shares will also be determined by, among other things, the relative demand for and supply of fund shares in the market, the fund's investment performance, the fund's dividends and yield, and investor perception of the fund's overall attractiveness as an investment as compared with other investment alternatives.

Annual Meeting of Stockholders

On July 26, 2005, the Board of Directors of the fund announced that the annual meeting of stockholders of the fund, normally held in October, would be held on December 14, 2005. The later meeting date reflected a decision by the board to defer action on the Board's nominees for election at the meeting until the results of the then-pending tender offer, with the attendant possible changes in the fund's ownership, were known.

Changes in Officers

On December 14, 2005, the Board of Directors elected Vincent Esposito as President and Chief Executive Officer, replacing Julian Sluyters. Additionally, Elisa Metzger was elected as Chief Legal Officer of the fund, replacing Daniel Hirsch and John Millette was elected as Secretary of the fund, replacing Carole Coleman.

Changes in the Board of Directors

On October 11, 2005, the Board of Directors of the fund voted to reduce the number of Directors of the fund from seven to five and to reduce the number of Class II Directors from three to one, effective as of the annual meeting. On that date the Board also voted to nominate Kesop Yun, a current Class II Director, for reelection at the annual meeting. Robert J. Callander resigned as chairman of the Board and director on October 12, 2005. William H. Luers retired from the Board as of the 2005 annual meeting of stockholders of the fund. Stockholders reelected Kesop Yun to the Board at the annual meeting. Julian Reid was elected as the new chairman of the Board as of December 14, 2005.

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 41. 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.

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 www.dws-scudder.com (click on "proxy voting" at the bottom of the page) 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 1-800-621-1048.

Share Repurchases

The Board of Directors of The Korea Fund, Inc. has 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 twelve months ended December 31, 2005, 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. 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*.

DWS Scudder

Effective February 6, 2006, Scudder Investments changed its name to DWS Scudder and certain Scudder funds were renamed DWS funds. The DWS Scudder name represents the alignment of Scudder with all of Deutsche Bank's mutual fund operations around the globe. In addition, the Web site for The Korea Fund, Inc. will remain www.TheKoreaFund.com.

Investment Summary as of December 31, 2005

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, 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.theKoreaFund.com for the Fund's most recent performance.

Historical Information as of 12/31/05								
	Total Return (%) ^d							
	Market Value ^a		Net Asset Value ^a		Index ^b		Index ^c	
	Cumulative	Average Annual	Cumulative	Average Annual	Cumulative	Average Annual	Cumulative	Average Annual
Current Quarter	9.10		14.66		16.79		13.09	
One Year	51.18		55.28		59.04		54.13	
Three Year	173.89	39.91	152.14	36.11	161.52	37.73	121.07	30.24
Five Year	332.86	34.05	293.63	31.53	257.38	28.97	187.96	23.53

Edgar Filing: KOREA FUND INC - Form N-CSRS

Ten Year	122.95	8.35	169.58	10.43	30.65	2.71	71.85	5.56
----------	--------	------	--------	-------	-------	------	-------	------

Per Share Information and Returns (a)										
Yearly periods ended December 31										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Net Asset Value (\$)	13.55	4.44	9.59	23.13	12.79	15.89	16.56	20.97	25.80	39.21
Income Dividends (\$)					.17	.01	.18	.30	.45	.50
Capital Gains Distributions (\$)	.60					1.53	.67		.20	.35
Total Return (%)	-30.01	-66.50	115.99	141.19	-44.24	42.71	9.39	28.84	26.03	55.28

^a Total return based on net asset value reflects changes in the Fund's net asset value during each period. Total return based on market value reflects changes in market value. Each figure assumes that dividend and capital gains, if any, were reinvested. These figures will differ depending upon the level of any discount from or premium to NAV at which the Fund's shares traded during the period.

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

^c KOSPI in local terms.

^d Returns less than one year are not annualized.

KOSPI is an unmanaged capitalization-weighted index of all common shares on the Stock Market Division of the Korea Exchange (formerly the "Korea Stock Exchange"). Index returns from June 30, 1995 forward assume reinvestment of all dividends. Prior to that date, the return is price change only. 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, 2005

Asset Allocation		
(Excludes Securities Lending Collateral)	12/31/05	6/30/05
Common Stocks	81%	84%
Preferred Stocks	19%	16%
	100%	100%
Sector Diversification		
(Sector breakdown of the Fund's equity securities)	12/31/05	6/30/05
Information Technology	27%	28%
Financials	21%	17%
Consumer Discretionary	20%	19%
Consumer Staples	10%	11%
Materials	8%	9%
Energy	5%	8%
Industrials	5%	4%
Telecommunications Services	3%	3%
Health Care	1%	1%
	100%	100%

Asset allocation and sector diversification are subject to change.

Ten Largest Equity Holdings at December 31, 2005 (60.5% of Net Assets)	
1. Samsung Electronics Co., Ltd.	18.1%
Manufacturer of electronic parts	
2. Samsung Fire & Marine Insurance Co., Ltd.	9.6%
Provider of insurance products	
3. Hyundai Motor Co.	8.4%
Manufacturer of motor vehicles	

4. Kookmin Bank	4.4%
Provider of commercial banking services	
5. POSCO	4.3%
Manufacturer of steel	
6. S-Oil Corp.	3.8%
Refines crude oil and sells petroleum and related products	
7. Hankook Tire Co., Ltd.	3.6%
Manufacturer of tires, tire tubes and aluminum alloy wheels	
8. Shinsegae Co., Ltd.	3.4%
Operator of discount stores	
9. SK Telecom Co., Ltd.	2.7%
Provider of mobile telecommunication services	
10. Seoul Semiconductor Co., Ltd.	2.2%
Manufactures parts for electric products	

Portfolio holdings are subject to change.

For more complete details about the Fund's investment portfolio, see page 22. 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, 2005 (Unaudited)
Common Stocks 81.0%
Consumer Discretionary 12.1%
Auto Components 6.3%
Hankook Tire Co., Ltd.
Hyundai Mobis
Nexen Tire Corp.
Samsung Climate Control Co., Ltd. (a)
Hotels Restaurants & Leisure 2.3%
Hotel Shilla Co., Ltd.
Kangwon Land, Inc.
Internet & Catalog Retail 0.4%
GS Home Shopping, Inc.
Media 1.3%
Cheil Communications, Inc.
Yedang Entertainment Co., Ltd.*
Multiline Retail 1.5%

Edgar Filing: KOREA FUND INC - Form N-CSRS

Taegu Department Store Co., Ltd.* (a)
Textiles, Apparel & Luxury Goods 0.3%
BYC Co., Ltd. (a)
Consumer Staples 8.9%
Beverages 0.4%
Hite Brewery Co., Ltd. (b)
Food & Staples Retailing 3.4%
Shinsegae Co., Ltd.
Food Products 3.1%
CJ Corp. (a)
Crown Confectionary Co., Ltd. (a)
Nam Yang Dairy Products Co., Ltd.
Nhong Shim Co., Ltd.
Tobacco 2.0%
KT&G Corp.
Energy 4.5%
Oil, Gas & Consumable Fuels
S-Oil Corp.
SK Corp.
Financials 18.3%
Banks 6.0%
Jeonbuk Bank Ltd. (a)
Kookmin Bank
Kookmin Bank (ADR) (b)
Capital Markets 1.6%
Korea Investment Holdings Co., Ltd.
Samsung Securities Co., Ltd.
Consumer Finance 0.9%
LG Card Co., Ltd.*
Insurance 9.8%
Korean Reinsurance Co.
Meritz Fire & Marine Insurance Co. (a)
Samsung Fire & Marine Insurance Co., Ltd. (a)
Health Care 0.7%
Pharmaceuticals
Choongwae Pharma Corp.
Yuhan Corp.
Industrials 4.7%
Air Freight & Logistics 1.4%
Korea Express Co., Ltd.*
Building Products 0.2%
Samwoo EMC Co., Ltd. (a)
Commercial Services & Supplies 1.7%
Insun ENT Co., Ltd. (c)
S1 Corp.
Construction & Engineering 0.2%
Samho International Co., Ltd.
Electrical Equipment 0.8%
KL Tech, Inc.*
LG.Philips LCD Co., Ltd. (ADR)* (b)
Machinery 0.4%

Edgar Filing: KOREA FUND INC - Form N-CSRS

Korea Iron & Steel Co., Ltd.
Information Technology 21.7%
Communications Equipment 0.3%
INTOPS Co., Ltd.
Electronic Equipment & Instruments 3.7%
Ace Digitech Co. Ltd.*
Interflex Co., Ltd. (a)
Jahwa Electronics Co., Ltd.
NEPES Corp.*
Phoenix PDE Co., Ltd.
Samsung SDI Co., Ltd.
SE Co., Ltd. (a) (c) (d)
Simm Tech Co., Ltd.
Wooree ETI Co., Ltd.*
Internet Software & Services 0.8%
NHN Corp.*
Semiconductors & Semiconductor Equipment 16.7%
Mtekvision Co., Ltd.
Phicom Corp. (a)
Samsung Electronics Co., Ltd. (e)
Seoul Semiconductor Co., Ltd. (a)
SFA Engineering Corp. (a)
Software 0.2%
Ahnlab, Inc.
Materials 7.5%
Chemicals 1.5%
LG Chemical Ltd.
Samsung Fine Chemicals Co., Ltd.
Construction Materials 0.3%
Sungshin Cement Co., Ltd. (a)
Containers & Packaging 0.3%
Youlchon Chemical Co., Ltd.
Metals & Mining 5.4%
Dongkuk Steel Mill Co., Ltd.
POSCO
SODIFF Advanced Materials Co., Ltd.
Telecommunication Services 2.6%
Wireless Telecommunication Services
SK Telecom Co., Ltd.
Total Common Stocks (Cost \$257,431,261)
Preferred Stock 19.7%
Consumer Discretionary 8.4%
Automobiles
Hyundai Motor Co.
Hyundai Motor Co. (2nd)
Consumer Staples 1.5%
Food Products
CJ Corp.
CJ Corp. (2nd)
CJ Corp. (3rd) (Convertible)

Stockholders of the Company will not have any preemptive rights with respect to the additional shares being authorized. approval by stockholders would be necessary prior to the issuance of any additional shares of Common Stock or Preferred Stock may be required by law or applicable New York Stock Exchange rules. In certain circumstances, generally relating to the number of shares to be issued and the identity of the recipient, the rules of the New York Stock Exchange require stockholder authorization in connection with the issuance of such additional shares. Subject to law and the rules of the New York Stock Exchange, the Board of Directors has the sole discretion to issue additional shares of Common Stock and Preferred Stock on such terms and for such purposes as may be determined by the Board of Directors. All of the Preferred Stock of the Company shall have such voting rights, designations, preferences, qualifications, limitations or restrictions thereon as shall be set by the Board of Directors pursuant to authority vested in the Articles of Incorporation of the Company. The issuance of any additional shares of Common Stock or Preferred Stock may have the effect of diluting the percentage of stock ownership of the present stockholders of the Company.

The affirmative vote of holders of at least two-thirds of all outstanding shares of Common Stock of the Company entitled to vote thereon at this meeting is required in order for the proposed amendment to the Articles of Incorporation to be adopted. The Board of Directors believes that it would be in the best interests of the Company to amend the first paragraph of Article FOURTH of the Articles of Incorporation to give effect to this proposal.

The Board of Directors recommends a vote FOR authorization and approval of the amendment to the Articles of Incorporation.

3. APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Company has selected Ernst & Young LLP as the independent registered public accounting firm for the fiscal year ending December 31, 2007. A representative of Ernst & Young LLP is expected to be present at the meeting with the opportunity to make a statement if such representative so desires and to respond to appropriate questions.

Audit and Non-Audit Fees

The following table presents fees for professional audit services rendered by Ernst & Young LLP for the audit of the Company's financial statements for the years ended December 31, 2005 and 2006 and fees billed for other services rendered by such firm during the periods:

	2006	2005
	Actual Fees	Actual Fees
Audit fees (1)		
Audit of consolidated financial statements and internal controls	\$ 516,000	\$465,000
Quarterly reviews	90,000	90,000
SEC filings, including comfort letters and consents	167,500	128,000
Total Audit Fees	773,500	683,000
Audit-Related Fees (2)		
Audits and accounting consultations in connection with acquisitions	403,373	197,000
Total Audit-Related Fees	403,373	197,000
All Other Fees	0	0

	<u>2006</u> <u>Actual Fees</u>	<u>2005</u> <u>Actual Fees</u>
Total Fees	\$1,176,873	\$880,000

- (1) Includes fees and expenses related to the annual audit and interim reviews, notwithstanding when the fees and expenses were billed or when the services rendered.
- (2) Includes fees and expenses for services rendered from January through December, notwithstanding when the fees and expenses were billed. Such fees include audits of acquisitions required by the rules of the Securities and Exchange Commission.

All audit-related services and other services were pre-approved by the Audit Committee, which concluded that the provision of such services by the Company's auditors was compatible with the maintenance of that firm's independence in the conduct of its audit and other non-audit functions. The policy of the Audit Committee provides for pre-approval of the yearly audits, quarterly reviews and tax compliance audits on an annual basis. As individual engagements arise, they are approved on a case-by-case basis. The Audit Committee may delegate some of its members pre-approval authority with respect to permitted services.

Audit Committee Consideration of these Fees

The Company's Audit Committee has considered whether the provisions of the services covered under the categories of Audit-Related Fees and All Other Fees are compatible with maintaining the independence of Ernst & Young LLP.

The Board of Directors of the Company recommends a vote FOR the ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company.

4. OTHER MATTERS

Stockholder Proposals

Proposals of stockholders intended to be presented at the Company's 2008 Annual Meeting of Stockholders must be received by the Company on or prior to December 29, 2007 to be eligible for inclusion in the Company's Proxy Statement and form of Proxy Statement in connection with such meeting. Any notice of stockholder proposals received after this date is considered untimely.

OTHER BUSINESS

At the date of this Proxy Statement, the only business which the Board of Directors intends to present or knows that others intend to present at the Meeting is that hereinabove set forth. If any other matter or matters are properly brought before the meeting, or at any adjournment thereof, it is the intention of the persons named in the accompanying form of Proxy to vote the Proxy on such matters in accordance with their judgment.

Leo S. Ullman
Chairman of the Board
 Dated: April 27, 2007

CEDAR SHOPPING CENTERS, INC.

2007 ANNUAL MEETING OF STOCKHOLDERS JUNE 12, 2007

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned stockholder of Cedar Shopping Centers, Inc., a Maryland corporation, hereby appoints Leo S. Ullman and J. Walker and each of them the proxies of the undersigned with full power of substitution to vote at the Annual Meeting of Stockholders of the Company to be held at 4:00 PM on June 12, 2007, and at any adjournment or adjournments thereof (the Meeting), with the same force and effect which the undersigned would have if personally present, hereby revoking any proxy heretofore given. The undersigned hereby acknowledges receipt of the proxy statement for the Meeting and instructs the proxies to vote as directed on the reverse side.

(Continued and to be signed on the reverse side)

ANNUAL MEETING OF STOCKHOLDERS OF

CEDAR SHOPPING CENTERS, INC.

JUNE 12, 2007

**PLEASE DATE, SIGN AND MAIL
YOUR PROXY CARD IN THE
ENVELOPE PROVIDED AS SOON AS POSSIBLE.**

- Please detach along perforated line and mail in the envelope provided. -

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF DIRECTORS AND "FOR" PROPOSALS 2 AND 3.
PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.
PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE [X]

1. To elect 7 nominees for Directors:

NOMINEES:

- | | |
|--|---|
| <input type="checkbox"/> FOR ALL NOMINEES

<input type="checkbox"/> WITHHOLD
AUTHORITY
FOR ALL NOMINEES

<input type="checkbox"/> FOR ALL EXCEPT
(see instructions below) | <input type="checkbox"/> James J. Burns
<input type="checkbox"/> Richard Homburg
<input type="checkbox"/> Paul G. Kirk, Jr.
<input type="checkbox"/> Everett B. Miller, III
<input type="checkbox"/> Leo S. Ullman
<input type="checkbox"/> Brenda J. Walker
<input type="checkbox"/> Roger Widmann |
|--|---|

INSTRUCTION: To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and fill in the circle next to each nominee you wish to withhold, as show here. (X)

To change the address on your account, please check the box at right and indicate your new address in the address space above

note that changes to the registered name(s) on the account may not be submitted via this method. []

- | | | | | |
|----|--|------------|----------------|----------------|
| 2. | To amend the Articles of Incorporation to increase authorized common stock and preferred stock | FOR
[] | AGAINST
[] | ABSTAIN
[] |
| 3. | To ratify the appointment of Ernst & Young LLP as independent registered public accounting firm for the fiscal year ending December 31, 2007 | [] | [] | [] |
| 4. | With discretionary authority upon such other matters as may properly come before the Meeting | | | |

THIS PROXY, WHEN PROPERLY SIGNED, WILL BE VOTED IN THE MANNER DIRECTED, IF NO SPECIFICATION THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINEES SET FORTH HEREIN, FOR PROPOSAL 2, RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP FOR THE FISCAL YEAR ENDING DECEMBER AND IN THE DISCRETION OF THE PROXY HOLDERS AS TO ANY OTHER MATTERS WHICH MAY PROPERLY COME BEFORE THE MEETING.

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE

MARK HERE IF YOU PLAN TO ATTEND THE MEETING []

Signature of Stockholder _____ Date: _____

Signature of Stockholder _____ Date: _____

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please give corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.