KOREA FUND INC
Form N-CSR
September 07, 2007
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act file number 811-04058

The Korea Fund, Inc.

(Exact name of registrant as specified in charter)

4 Embarcadero Center, 30th Floor, San Francisco, CA 94111

(Address of principal executive offices) (Zip code)

Brian S. Shlissel - 1345 Avenue of the Americas, New York, New York 10105

(Name and address of agent for service)

Registrant s telephone number, including area code: 212-739-3369

Date of fiscal year end: June 30, 2007

Date of reporting period: June 30, 2007

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

ITEM 1. REPORT TO STOCKHOLDERS

Annual Report
June 30, 2007
Contents

The Korea Fund, Inc.
Portfolio Manager's Report
June 30, 2007 (unaudited)

In this interview on July 10, 2007, Raymond Chan, The Korea Fund, Inc.'s Lead Portfolio Manager based in Hong Kong, talks of the portfolio and the prospects of the Korean stock market.

Q: Please describe RCM and your team, investment style and process.

RC: RCM is headquartered in San Francisco where it was founded in 1970 by Claude Rosenburg as a specialist fund management entity driven by fundamental stock analysis. The firm has stuck by this approach and now maintains offices besides the US in London, Frankfurt, Hong Kong, Tokyo, and Sydney. Our Asian business is primarily run from Hong Kong, where I am based with my team. It would be fair to say that the RCM approach is to strive to deliver superior investment results through the use of innovative and proprietary fundamental and Grassroots[SM] research. Worldwide RCM has a team of over 200 investment professionals and 50 career analysts in addition to our non-financial market research team known as Grassroots. RCM's assets under management as at June 30 amounted to US$157 billion while those in Hong Kong amount to US$13.5 billion.

But more importantly for The Korea Fund, Inc. (the ''Fund'') let me tell you about our Asian operations in Hong Kong from where we manage the Fund. As I mentioned, research is the mainstay of our approach and in Asia we maintain a research team of 16 professionals whose job it is to identify the key drivers expected to support their favored stock picks. At the analysts' and Fund managers' discretion we engage our proprietary non-financial Grassroots[SM] research to investigate the services and products of particular companies. In this way we can dig deeper into the detail to stress test our earnings assumptions. This also provides a reality check on what we are hearing from a company's management. RCM's stock selection process at the research level is organized globally and can be described as comprising four main stages. Following on from our country macro analysis and secular/cyclical reviews we use extensive stock screening to identify possible corporate names. From there the country sector analysts prepare reports, engaging the Grassroots[SM] research team as considered relevant. Finally the country sector analysts are required to present their ideas to the investment committee. All ideas brought to this committee are ranked from 5 – a strong buy, to 1 – a sell. The portfolio construction is then the responsibility of the portfolio managers, utilizing the research developed in house by our analysts. In the case of the Fund, the portfolio managers are, besides myself, (and I have almost 20 years experience in the Asian markets), Sang Won Kim, who has recently relocated to Hong Kong from Seoul and has almost 10 years experience researching Korean stocks. We are supported by our portfolio assistants. My team and I make some 200 company visits each year in Seoul and monitor the research output on proprietary software that permits us to cross check our recommendations against the market. Further, a separate Risk Evaluation Team monitors all portfolios on a daily, weekly and monthly basis constantly monitoring performance idiosyncrasies.

Q: RCM began managing the portfolio on April 1, only 3 months before the fiscal year end, and were provided to the fiscal year end to substantially complete the transition of the portfolio to its own model. What did you do?

RC: Yes, but prior to beginning to manage the portfolio on April 1, our research, management and dealing team did a great deal of work reviewing the then current portfolio, its characteristics and particularly our ability to transition those stocks which we felt did not meet our investment criteria.

A major characteristic of RCM, given that we build our convictions based upon the work of our in-house research, is that we generally construct more focused portfolios—we build strong conviction on a relatively smaller number of stocks when compared with the broader market. Hence, in the quarter through which we transitioned the Fund, we reduced the number of holdings in the portfolio from over 70 to 41. In this transition we have more than doubled exposure to the industrial sector—particularly the shipbuilders as we believe Korea is in the midst of a capital intensive manufacturing cycle—and to the technology sector which we believe will see continued recovery in the forthcoming period.

Q: How has this positioned the Fund relative to the market?

RC: Relative to our benchmark, the KOSPI, the portfolio is growth oriented with a small premium to price/earnings. This is because we continue to believe that earnings in Korea have the potential to surprise on the upside.

Q: The transition period has been substantially completed—how did the Fund perform during this transition period?

RC: The portfolio is structured more heavily to the industrial sector, which has paced market returns for the recent three-month period. Shipbuilding and heavy industries sustained strong new-order volume, contributing to a multi-year backlog. The Fund's overweight position in industrials and underweighting of the telecom and utilities sectors contributed positively to performance versus the benchmark for the three-month period.

Among industrials, the Fund's holdings in Daewoo Shipbuilding and Samsung Heavy contributed positively to performance. A position in Doosan Heavy was added to the Fund following a research trip in June.

The technology sector lagged for the three-month period and the Fund's overweight position in the sector detracted from relative returns. The Fund's underweight positions in the consumer discretionary and materials sectors also detracted from performance versus the benchmark.

In technology, shares of Hynix Semiconductor rallied in June but the company's relatively flat overall performance in the second quarter detracted from the Fund's relative performance for the period.

Q: What is your outlook for the Korean economy and stock market?

RC: We view the inflation and interest rate outlook as stable and see consumer confidence reviving. While the Korean economy has seen export-driven growth since 2004, future growth is expected to be more broad-based and balanced between export and domestic demand. We believe Korea is transitioning into a mature, service-oriented economy. We constantly look for companies that can benefit from such social and structural changes.

A further factor which we believe will support the Korean market going forward is a reduction in the 'Korean Discount'. Historically the Korean market has been traded at a discount to other markets. This has been attributed to the higher volatility of earnings—a characteristic that investors generally do not favor. Following the boom and bust markets at the turn of the century, Korea is witnessing much more balanced growth with many fewer structural impediments. This we believe will provide more stable growth and in turn further reduce the 'Korea discount'.

A summary of my review for the fiscal year ended June 30, 2007 and the three month period that RCM has managed the Fund is presented below:

- Korean equities rallied during the fiscal 12 months ended June 30, 2007. Average share prices, measured by the Korean Composite Stock Price Index (KOSPI), rose 38.24% in U.S. dollar terms, outpacing returns for U.S. and world equities. Robust global economic growth and expanding infrastructure development, especially in the Asia-Pacific region, contributed to the advance.
- RCM began managing the Fund on April 1, 2007. For the three-month period ended June 30, 2007, total return on a net-asset-value (NAV) basis was 18.05%. The Fund's share price advanced 8.97% during the three-month period, representing a discount of 7.00% to NAV as of June 30, 2007. The KOSPI advanced 22.21% for the three-month period.
- Industrials paced market returns for the three-month period. Shipbuilding and heavy industries sustained strong new-order volume, contributing to a multi-year backlog. The Fund's overweighting in industrials and underweighting in telecom and utilities contributed positively to performance versus the benchmark for the three-month period.

The Korea Fund, Inc.
Portfolio Manager's Report
June 30, 2007 (unaudited) (continued)

- Among industrials, Daewoo Shipbuilding, Samsung Heavy and SFA Engineering contributed positively to performance. Doosan Heavy was added following a research trip in June.
- Technology lagged for the three-month period as the Fund's overweighting in the sector detracted from relative returns. The Fund's underweighting in consumer discretionary and materials also detracted from performance versus the benchmark.
- In technology, shares of Hynix Semiconductor rallied in June but the company's relatively flat overall performance in the second quarter detracted from the Fund's relative performance for the period.
- We view the inflation and interest rate outlook as stable and see consumer confidence reviving. While the Korean economy has seen export-driven growth since 2004, future growth is expected to be more broad-based and balanced between export and domestic demand. Korea is transitioning into a mature, service-oriented economy. We constantly look for companies that can benefit from such social and structural changes.

The views expressed in the Portfolio Manager's Review reflect the views of the respective parties as of the date of this interview. These views are subject to change at any time based upon economic, market or other conditions, and the respective parties disclaim any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for the Fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of the Fund. References to specific company securities should not be construed as a recommendation or investment advice. Certain of these views that look forward in time involve risks and uncertainties and are forward looking statements within the meaning of the Private Securities Litigations Reform Act of 1995. Such risks and uncertainties include, without limitation, the adverse effect from a decline in the securities markets or a decline in the Fund's performance, a general downturn in the economy, competition from other companies, changes in government policy or regulation, inability to attract or retain key employees, inability to implement its operating strategy and/or acquisition strategy and unforeseen costs and other effects related to legal proceedings or investigations of governmental and self-regulating organizations.

The Korea Fund, Inc.
Performance & Statistics
June 30, 2007 (unaudited)

Total Return[1]	1 Year	5 Years	10 Years
Market Price	32.39%	26.76%	15.56%
Net Asset Value (''NAV'')	31.08%	23.01%	17.19%
KOSPI[2]	38.24%	25.04%	8.44%
MSCI Korea (Total Return)[3]	33.99%	25.11%	14.74%
MSCI Korea (Price Return)[3]	31.99%	23.16%	13.11%

Market Price/NAV Performance:

June 30, 1997 – June 30, 2007

Industry Breakdown as a % of net assets

Market Price / NAV:		
Market Price	$	39.59
NAV	$	42.57
Discount to NAV		(7.00)%

Ten Largest Holdings as a % of net assets	
Samsung Electronics Co., Ltd.	
Manufacturer of electronic parts	10.3%
POSCO	
Manufacturer of steel	7.1%
Hyundai Heavy Industries Co., Ltd.	
Manufacturer of ships	6.7%
Samsung Fire & Marine Insurance Co., Ltd.	
Provider of insurance products	5.3%
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	
Manufacturer of ships	5.2%
GS Engineering & Construction Corp.	
Contracts civil engineering and architectural works	4.4%
Kookmin Bank	
Provider of commercial banking services	4.2%
Shinhan Financial Group Co., Ltd.	
Provider of consumer and commercial banking services	4.1%
Samsung Heavy Industries Co., Ltd.	
Manufacturer of crude oil tankers, container vessels and passenger ferries	3.7%
Shinsegae Co., Ltd.	
Operator of discount stores	3.5%

(1)**Past performance is no guarantee of future results.** Total return is calculated by subtracting the value of an investment in the Fund at the beginning of the specified period from the value at the end of the period and dividing the remainder by the value of the investment at the beginning of the period and expressing the result as a percentage. The calculation assumes that all income dividends and capital gain distributions have been reinvested. Total return does not reflect broker commissions. Total return for a period of more than one year represents the average annual return.

(2)The Korea Composite Stock Price Index (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''). The KOSPI returns unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly in the index. Total return for a period of more than one year represents the average annual return.

(3)Morgan Stanley Capital International (MSCI) Korea Index is a market capitalization-weighted index of equity securities of companies domiciled in Korea. The index is designed to represent the performance of the Korean stock market and excludes certain market segments unavailable to U.S. based investors. The MSCI Korea (Total Return) returns assume reinvestment of dividends while the MSCI Korea (Price Return) returns do not and, unlike Fund returns, neither index reflects any fees or expenses. It is not possible to invest directly in the index. Total return for a period of more than one year represents the average annual return.

An investment in the Fund involves risk, including the loss of principal. Total return, market price and net asset value will fluctuate with changes in market conditions. This data is provided for information only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is total assets less total liabilities divided by the number of shares outstanding. Holdings are subject to change daily.

The Korea Fund, Inc.
Schedule of Investments
June 30, 2007

Shares		Value
		COMMON STOCK–100.0%
	Airlines–1.4%	
246,906	Korean Air Lines Co., Ltd. (b)	$ 14,031,028
	Auto Components–3.0%	
588,193	Hankook Tire Co., Ltd. (b)	10,568,819
216,756	Hyundai Mobis	20,599,856
		31,168,675
	Beverages–0.5%	
37,677	Hite Brewery Co., Ltd. (b)	4,893,911
	Capital Goods–1.0%	
1,171,880	ON*Media Corp. (a)	10,858,140
	Capital Markets–2.4%	
358,649	Korea Investment Holdings Co., Ltd. (b)	24,534,954
	Chemicals–1.1%	
129,609	LG Chem Ltd. (b)	10,956,825
	Commercial Banks–4.8%	
128,280	Hana Financial Group, Inc.	6,255,360

496,770	Kookmin Bank	43,608,862
		49,864,222
	Commercial Services & Supplies–1.6%	
310,109	S1 Corp.	16,733,164
	Construction & Engineering–5.5%	
376,428	GS Engineering & Construction Corp.	45,023,861
155,077	Hyundai Engineering & Construction Co., Ltd. (a)	11,347,302
		56,371,163
	Consumer Finance–4.1%	
12,020	Samsung Card Co., Ltd. (a)	739,012
691,594	Shinhan Financial Group Co., Ltd.	42,071,313
		42,810,325
	Diversified Consumer Services–3.3%	
413,260	LG Corp.	21,359,706
66,807	MegaStudy Co., Ltd.	13,016,464
		34,376,170
	Electrical Equipment–3.9%	
662,010	LG Philips LCD Co., Ltd. (a)	29,451,330
182,693	Seoul Semiconductor Co., Ltd. (b)	10,678,597
		40,129,927
	Electronic Equipment & Instruments–1.4%	
636,950	SE Co., Ltd. (a)(c)(f)	0
271,463	SFA Engineering Corp.	14,104,264
		14,104,264
	Food & Staples Retailing–3.5%	
54,749	Shinsegae Co., Ltd. (b)	35,675,595

Shares		Value	
	Hotels, Restaurants & Leisure–1.6%		
166,306	Hana Tour Service, Inc.	$	16,201,266
	Insurance–6.3%		
650,220	Korean Reinsurance Co.		10,170,135
285,242	Samsung Fire & Marine Insurance Co., Ltd.		54,958,138
			65,128,273
	Internet Software & Services–3.9%		
552,013	LG Dacom Corp. (b)		15,057,344
139,539	NHN Corp. (a)		25,450,367
			40,507,711
	Machinery–1.0%		

109,189	Doosan Heavy Industries and Construction Co., Ltd.	10,471,554
	Media–1.6%	
52,938	Cheil Communications, Inc.	16,302,280
	Metals & Mining–8.0%	
298,105	Dongkuk Steel Mill Co., Ltd.	9,696,439
152,495	POSCO	73,206,183
		82,902,622
	Pharmaceuticals–1.0%	
55,470	Yuhan Corp. (b)	10,387,303
	Retail–1.1%	
93,278	Hyundai Department Store Co., Ltd.	11,005,360
	Road & Rail–1.7%	
164,755	Korea Express Co., Ltd. (a)	17,708,688
	Semi-conductors–14.3%	
712,740	Hynix Semiconductor, Inc. (a) (b)	25,729,154
173,061	Samsung Electronics Co., Ltd. (e)	106,026,440
301,170	Samsung Techwin Co., Ltd.	15,875,931
		147,631,525
	Shipbuilding–15.6%	
940,000	Daewoo Shipbuilding & Marine Engineering Co., Ltd.	53,214,266
185,677	Hyundai Heavy Industries Co., Ltd.	69,338,708
788,000	Samsung Heavy Industries Co., Ltd.	38,553,445
		161,106,419
	Tobacco–1.9%	
280,626	KT&G Corp.	19,744,212
	Wholesale–1.5%	
321,804	Samsung Corp.	15,779,316
	Wireless Telecommunications Services–3.0%	
135,958	SK Telecom Co., Ltd. (b)	31,346,056
	Total Common Stock (cost–$487,544,484)	1,032,730,948

The Korea Fund, Inc.
Schedule of Investments
June 30, 2007 (continued)

Principal Amount (000)		Value
	CONVERTIBLE BONDS–0.0%	
	Consumer Staples–0.0%	
WON 2,161	Haitai Confectionery Loan Certificates, zero coupon, 11/28/09 (a)(d)(f) (cost–$0)	$ 0
Shares		
	SHORT-TERM INVESTMENT–6.2%	

	Collateral Invested for Securities on Loan–6.2%		
64,501,013	BNY Institutional Cash Reserves Fund, 5.315% (g) (cost–$64,501,013)		64,501,013
	Total Investments (cost–$552,045,497)–**106.2%**		1,097,231,961
	Liabilities in excess of other assets–(6.2)%		(64,015,816)
	Net Assets–100.0%	$	1,033,216,145

Notes to Schedule of Investments:

(a)Non-income producing.
(b)All or portion of security on loan. Aggregate market value of loaned securities is $61,404,602; cash collateral of $64,501,013 was received with which the Fund purchased short-term investments.
(c)The Fund may purchase securities that are subject to legal or contractual restrictions on resale (‘‘restricted securities’’). Restricted securities are securities which have not been registered with the Securities and Exchange Commission under the Securities Act of 1933. The Fund may be unable to sell a restricted security and it may be more difficult to determine a market value for a restricted security. Moreover, if adverse market conditions were to develop during the period between the Fund’s decision to sell a restricted security and the point at which the Fund is permitted or able to sell such security, the Fund might obtain a price less favorable than the price that prevailed when it decided to sell. This investment practice, therefore, could have the effect of increasing the level of illiquidity of the Fund. The future value of these securities is uncertain and there may be changes in the estimated value of these securities.

Restricted Security	Acquisition Date	Cost ($)	Value ($)	% of Net Assets
SE Co., Ltd.	12/22/00	1,616,637	0	0

(d)Company in restructuring process, principal only subject to repayment.
(e)At June 30, 2007, 10.26% of the Fund’s net assets were invested in Samsung Electronics Co., Ltd.
(f)Fair-valued security–Securities with an aggregate value of $0, representing 0.00% of net assets, have been fair valued.
(g)Security purchased with the cash proceeds from securities on loan.

Glossary:

WON–Korean Won

The Korea Fund, Inc.
Statement of Assets and Liabilities
June 30, 2007

Assets:

Investments, at value, including securities on loan of $61,404,602 (cost–$552,045,497)	$	1,097,231,961
Cash (including foreign currency with a cost and value of $9,627,696 and $9,627,557, respectively)		10,228,946
Receivable for investments sold		4,704,336
Dividends and interest receivable		784,478
Securites lending interest receivable (net)		116,514
Prepaid expenses		121,534
Total Assets		1,113,187,769
Liabilities:		
Payable for collateral for securities on loan		64,501,013
Payable for investments purchased		14,368,424
Investment management fee payable		605,742
Accrued expenses		496,445
Total Liabilities		79,971,624
Net Assets	$	1,033,216,145
Net Assets:		
Common Stock:		
Par value ($0.01 per share, applicable to 24,270,617 shares issued and outstanding)	$	242,706
Paid-in-capital in excess of par		134,436,177
Undistributed net investment income		1,874,633
Accumulated realized gain		351,494,276
Net unrealized appreciation of investments and foreign currency transactions		545,168,353
Net Assets	$	1,033,216,145
Net Asset Value Per Share	$	42.57

The Korea Fund, Inc.
Statement of Operations
For the year ended June 30, 2007

Investment Income:		
Dividends (net of foreign withholding taxes of $3,333,081)	$	16,795,764
Dividends from investments in Affiliates (net of foreign withholding taxes of $134,577)		681,040
Securities lending income		1,247,941
Interest (net of foreign withholding taxes of $16,730)		215,272
Total investment income		18,940,017
Expenses:		
Investment management fees		5,795,652
Custodian fees		1,078,298
Directors’ fees and expenses		787,535
Accounting agent fees		466,772
Legal fees		432,000

Stockholder communications		354,548
Audit and tax services		113,437
Insurance expense		91,102
Transfer agent fees		67,409
New York Stock Exchange listing fees		30,284
Miscellaneous		84,557
Total expenses		9,301,594
Expense reductions		(5,505)
Net expenses		9,296,089
Net investment income		9,643,928
Realized and Change in Unrealized Gain (Loss):		
Net realized gain (loss) on:		
Investments		327,847,250
Redemption-in-kind		73,732,966
Investments in Affiliates		64,782,425
Foreign currency transactions		(1,594,605)
Net change in unrealized appreciation/depreciation of:		
Investments		(210,861,973)
Foreign currency transactions		(145,704)
Net realized and change in unrealized gain on investments and foreign currency transactions		253,760,359
Net Increase in Net Assets Resulting from Investment Operations	$	263,404,287

The Korea Fund, Inc.
Statement of Changes in Net Assets

	Year ended June 30, 2007	2006
Investment Operations:		
Net investment income	$ 9,643,928	$ 10,147,400
Net realized gain on investments, redemption-in-kind, investments in Affiliates and foreign currency transactions	464,768,036	451,791,633
Net change in unrealized appreciation/depreciation of investments and foreign currency transactions	(211,007,677)	(115,325,191)
Net increase in net assets resulting from investment operations	263,404,287	346,613,842
Dividends and Distributions to Stockholders from:		
Net investment income	(10,994,589)	(14,981,852)
Net realized gains	(161,812,200)	(10,487,297)
Total dividends and distributions to stockholders	(172,806,789)	(25,469,149)
Capital Share Transactions:		
Cost of shares tendered	(105,467,939)	(573,899,756)
Total decrease in net assets	(14,870,441)	(252,755,063)

Net Assets:		
Beginning of year	1,048,086,586	1,300,841,649
End of year (including undistributed net investment income of $1,874,633 and $4,886,729, respectively)	$ 1,033,216,145	$ 1,048,086,586
Other Information:		
Shares outstanding at beginning of year	26,967,347	44,701,493
Shares tendered	(2,696,730)	(17,734,146)
Shares outstanding at end of year	24,270,617	26,967,347

The Korea Fund, Inc.
Notes to Financial Statements
June 30, 2007

1. Organization and Significant Accounting Policies

The Korea Fund, Inc. (the ''Fund'') is registered under the Investment Company Act of 1940, as amended (the ''1940 Act''), as a closed-end, non-diversified management investment company organized as a Maryland corporation.

The Fund seeks long-term capital appreciation through investment in securities, primarily equity securities, of Korean companies.

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates.

In the normal course of business, the Fund enters into contracts which provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet been asserted. However, the Fund expects the risk of any loss to be remote.

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, ''Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109'' (the ''Interpretation''). The Interpretation establishes for all entities, including pass-through entities such as the Fund, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. The Interpretation is effective for fiscal years beginning after December 15, 2006, and is to be applied to all open tax years as of the date of effectiveness. Management has recently begun to evaluate the application of the Interpretation to the Fund, and is not in a position at this time to estimate the significance of its impact, if any, on the Fund's financial statements. On December 22, 2006, the Securities & Exchange Commission announced that it would not object if a fund implements the Interpretation in its NAV calculation as late as its last NAV calculation in the first required financial statement reporting period for its fiscal year beginning after December 15, 2006. Consequently, the Fund will be required to comply with the Interpretation by December 31, 2007.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (''SFAS'') 157, Fair Value Measurements, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. At this time, the Fund is in the process of reviewing the Standard against its current valuation policies to determine future applicability.

The following is a summary of significant accounting policies followed by the Fund:

(a) Valuation of Investments

Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Portfolio securities and other financial instruments, for which market quotations are not readily available or if a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to guidelines established by the Board of Directors. The Fund’s investments are valued daily using prices supplied by dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the last quoted mean price for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days. The prices used by the Fund to value securities may differ from the value that would be realized if the securities were sold and the differences could be material to the financial statements. The Fund’s net asset value is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange (‘‘NYSE’’) on each day the NYSE is open for business.

The prices of certain equity securities or other financial instruments may be determined at a time prior to the close of regular trading on the NYSE. When fair valuing securities, the Fund may, among other things, consider significant events (which may be considered to include changes in the value of U.S. securities or securities indices) that occur after the close of the relevant market and before the time the Fund’s net asset value is calculated. With respect to Korean equity securities, the Fund may fair value securities using modeling tools provided by third-party vendors. The

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1. Organization and Significant Accounting Policies (continued)

Fund has retained a statistical research service to assist in determining the fair value of Korean equity securities. This service utilizes statistics and programs based on historical performance of markets and other economic data to assist in making fair value estimates. Fair value estimates used by the Fund for Korean equity securities may differ from the value realized from the sale of those securities.

(b) Investment Transactions and Investment Income

Investment transactions are accounted for on a trade date. Interest income is recorded on the accrual basis net of foreign withholding taxes. Realized gains and losses on investments are recorded on the identified cost basis.

Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Korean-based corporations have generally adopted calendar year-ends, and their interim and final corporate actions are normally approved, finalized and announced by their boards of directors and stockholders in the first and third quarters of each calendar year. Generally, estimates of their dividends are accrued by management on the ex-dividend date principally in the prior December and/or June period ends. These dividend announcements are recorded by the Fund on such ex-dividend dates. Any subsequent adjustments thereto by Korean corporations are recorded when announced. Presently, dividend income from Korean equity investments is earned primarily in the last calendar quarter of each year, and will be received primarily in the first calendar quarter of each year. Certain other dividends and related withholding taxes, if applicable, from Korean securities may be recorded subsequent to the ex-dividend date as soon as the Fund is informed of such dividends and taxes.

(c) Federal Income Taxes

The Fund intends to distribute all of its taxable income and to comply with the requirements of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required.

Under the United States-Korea Income Tax Treaty (the ‘‘Treaty’’), as presently in effect, the government of Korea imposes a nonrecoverable withholding tax and resident tax aggregating 16.5% on dividends and 13.2% on interest earned by the Fund from Korean issuers. Under the Treaty, there is no Korean withholding tax on realized capital gains.

The Fund was subject to a securities transaction tax aggregating $524,495 due to the tender offer and redemption-in-kind of the Fund’s Korean securities that occurred on September 27, 2006 (see Notes 1(d) and 8). This tax and related fees of $50,000 were charged to net realized gain (loss) on investments.

(d) Foreign Investment and Exchange Controls in Korea

The Foreign Exchange Transaction Act, the Presidential Decree relating to such Act and the regulations of the Minister of Finance and Economy issued thereunder impose certain limitations and controls which generally affect foreign investors in Korea. Through August 18, 2005, the Fund had a license from the Ministry of Finance and Economy to invest in Korean securities and to repatriate income received from dividends and interest earned on, and net realized capital gains from, its investments in Korean securities or to repatriate from investment principal up to 10% of the net asset value (taken at current value) of the Fund (except upon termination of the Fund, or for expenses in excess of Fund income, in which case the foregoing restriction shall not apply). Under the Foreign Exchange Transaction Act, the Minister of Finance and Economy has the power, with prior public notice of scope and duration, to suspend all or a part of foreign exchange transactions when emergency measures are deemed necessary in case of radical change in the international or domestic economic situation. The Fund could be adversely affected by delays in, or the refusal to grant, any required governmental approval for such transactions.

In order to complete its tender offer (See Note 8), however, the Fund relinquished its license from the Korean Ministry of Finance and Economy effective August 19, 2005. The Fund had engaged in negotiations with the Korean Ministry of Finance and Economy concerning the feasibility of the Fund’s license being amended to allow the Fund to repatriate more than 10% of Fund capital. However, the Ministry of Finance and Economy advised the Fund that the license cannot be amended as a result of a change in the Korean regulations. As a result of the relinquishment of the license, the Fund is subject to the Korean securities transaction tax equal to 0.3% of the fair market value of any portfolio securities transferred by the Fund on the Korea Exchange and 0.5% of the fair market value of any portfolio securities transferred outside of the Korea Exchange. The Fund does not anticipate that the relinquishment will otherwise affect the Fund’s operations.

Various restrictions currently apply with respect to investing in equity securities of Korean banks and certain designated public corporations and telecommunications corporations listed on the Korea Exchange. As of

1. Organization and Significant Accounting Policies (continued)

June 30, 2007, the Fund and its affiliates would require the approval of the Financial Supervisory Commission (the ''FSC'') before obtaining aggregate beneficial ownership of more than 10% of the outstanding voting shares of a national bank such as Kookmin Bank or 15% of the outstanding voting shares of a regional bank such as Jeonbuk Bank, and additional FSC approvals would be required before specified higher ownership percentages could be exceeded. With respect to certain public and telecommunications corporations, the Fund's holdings in SK Telecom Co., Ltd. were subject to a foreign ownership limit of 49% as of June 30, 2007.

(e) Dividends and Distributions

The Fund generally declares dividends from net investment income and distributions of net realized capital gains, if any, annually. The Fund records dividends and distributions to its stockholders on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. These ''book-tax'' differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their income tax treatment; temporary differences do not require reclassification. To the extent dividends and/or distributions exceed current and accumulated earnings and profits for federal income tax purposes, they are reported as dividends and/or distributions of paid-in capital in excess of par.

The timing and characterization of certain income and capital gains distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to investments in passive foreign investment companies, foreign denominated securities and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

(f) Foreign Currency Translation

The Fund's accounting records are maintained in U.S. dollars as follows: (1) the foreign currency market value of investments and other assets and liabilities denominated in foreign currency are translated at the prevailing exchange rate at the end of the period; and (2) purchases and sales, income and expenses are translated at the prevailing exchange rate on the respective dates of such transactions. The resulting net foreign currency gain or loss is included in the Statement of Operations.

The Fund does not generally isolate that portion of the results of operations arising as a result of changes in the foreign currency exchange rates from the fluctuations arising from changes in the market prices of securities. Accordingly, such foreign currency gain (loss) is included in net realized and unrealized gain (loss) on investments. However, the Fund does isolate the effect of fluctuations in foreign currency exchange rates when determining the gain or loss upon the sale or maturity of foreign currency denominated debt obligations pursuant to U.S. federal income tax regulations; such amount is categorized as foreign currency gain or loss for both financial reporting and income tax reporting purposes.

At June 30, 2007, the exchange rate for Korean won was WON 923.85 to US $1.

(g) Securities Lending

The Fund may engage in securities lending. The loans are secured by collateral at least equal, at all times, to the market value of the loaned securities. During the term of the loan, the Fund will continue to receive any dividends or amounts equivalent thereto, on the loaned securities while receiving a fee from the borrower and/or earning interest on the investment of the cash collateral. Securities lending income is disclosed as such in the Statement of Operations. Income generated from the investment of cash collateral, less negotiated rebate fees paid to borrowers and transaction costs, is allocated between the Fund and securities lending agent. Cash collateral received for securities on loan is invested in securities identified in the Schedule of Investments and the corresponding liability is recognized as such in the Statement of Assets and Liabilities. Loans are subject to termination at the option of the borrower or the Fund.

Upon termination of the loan, the borrower will return to the lender securities identical to the loaned securities. The Fund may pay reasonable finders', administration and custodial fees in connection with a loan of its securities and may share the interest earned on the collateral with the borrower. The Fund bears the risk of delay in recovery of, or even loss of rights in, the securities loaned should the borrower of the securities fail financially. The Fund also bears the risk of loss in the event the securities purchased with cash collateral depreciate in value.

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1. Organization and Significant Accounting Policies (continued)

(h) Concentration of Risk

Investing in the Korean market may involve special risks and considerations not typically associated with investing in the United States of America. These risks include revaluation of currency, high rates of inflation, Korean taxes, repatriation restrictions on income and capital, corporate bankruptcy and future adverse political, social and economic developments. Moreover, securities issued in this market may be less liquid and subject to government ownership and/or controls, delayed settlements and their prices may be more volatile than those of comparable securities in the United States of America.

2. Investment Manager/Sub-Adviser/Administrator and Related Parties

On January 25, 2007, the Fund's Board of Directors approved an interim and long-term investment management and administration agreement, sub-advisory agreement and sub-administration agreement with RCM Capital Management

LLC (the ‘‘Investment Manager’’), RCM Asia Pacific Limited (the ‘‘Sub-Adviser’’) and Allianz Global Investors Fund Management LLC (the ‘‘Sub-Administrator’’), respectively, to be effective April 1, 2007 (for the interim agreements) and upon stockholder approval (for the long-term agreements). The long-term agreements were approved by the Fund’s stockholders at a Special Meeting of Stockholders on April 11, 2007 (other than the sub-administration agreement, for which stockholders approval is not required). Subject to the supervision of the Board of Directors, the Investment Manager is responsible for managing, either directly or through others selected by it, the Fund’s investment activities, business affairs, and other administrative matters.

Raymond Chan, CFA, is the lead portfolio manager of the Fund. He has been the lead portfolio manager of the Fund since 2007 and the Chairman of the Hong Kong Balanced Investment Committee of the Sub-Adviser since 1998. Sang Won Kim has been the co-portfolio manager of the Fund since 2007. Prior to joining the Sub-Adviser in 2007, Mr. Kim was an investment analyst for Schroder Investment from 2005 to 2007. Prior to that, he was an equity research analyst for Samsung Securities from 2003 to 2005 and a management consultant advising on Korean companies’ strategic issues from 1998 to 2001.

The Investment Manager has retained its affiliates, the Sub-Adviser and the Sub-Administrator, to manage the Fund’s investments and provide administrative services to the Fund, respectively. Pursuant to an Investment Management Agreement with the Fund, the Investment Manager receives an annual fee, payable monthly, at the annual rate of 0.75% of the value of the Fund’s average daily net assets up to $250 million; 0.725% of the next $250 million of average daily net assets; 0.70% of the next $250 million of average daily net assets; 0.675% of the next $250 million of average daily net assets and 0.65% of average daily net assets in excess of $1 billion. The Investment Manager, and not the Fund, pays a portion of the fee it receives to the Sub-Adviser and Sub-Administrator in return for their services. The Investment Manager, Sub-Adviser and Sub-Administrator are indirect wholly-owned subsidiaries of Allianz SE, a publicly traded insurance and financial services company.

For the fiscal period July 1, 2006 through March 31, 2007, Deutsche Investment Management Americas Inc. (‘‘DeIM’’) and Deutsche Investment Trust Management Company Limited (‘‘DeITMC’’), wholly-owned subsidiaries of Deutsche Bank AG, served as the Fund’s investment manager/administrator and sub-adviser, respectively. The Fund paid DeIM a management fee, payable monthly, at the annual rate of 0.60% of the Fund’s month-end net assets up to $250 million, 0.575% of the next $250 million of such net assets, 0.55% of the next $250 million of such net assets, 0.525% on the next $250 million of such net assets and 0.50% of such net assets in excess of $1 billion.

For the year ended June 30, 2007, the Fund paid Investment Management fees at an effective rate of 0.60% of the Fund’s average daily net assets.

Prior to April 1, 2007, certain affiliates of DeIM received fees from the Fund for providing or securing the provision of certain services to the Fund. For the period July 1, 2006 through March 31, 2007, the Fund paid affiliates of DeIM $12,150, $343,615, and $11,250 in connection with fund accounting, transfer agent/stockholder servicing and stockholder communication services. In addition, during this period, DeIM reimbursed the Fund $5,505, representing a portion of the fee savings realized by DeIM in connection with the outsourcing by DeIM of certain administrative services to an unaffiliated service provider.

3. Changes to the Fund’s Non-Fundamental Investment Restrictions

In connection with the transition to the new Investment Manager, the Board and the Investment Manager reviewed the Fund’s historical investment policies as stated in the Fund’s most recent registration statement. The Board and the Investment Manager noted that the registration statement included numerous technical restrictions that largely

The Korea Fund, Inc.
Notes to Financial Statements
June 30, 2007 (continued)

3. Changes to the Fund's Non-Fundamental Investment Restrictions (continued)

originated with regulatory restrictions that are no longer applicable. In order to avoid unnecessarily constraining the Investment Manager in pursuing the Fund's investment objectives, on March 27, 2007, the Board eliminated all Fund investment restrictions other than those that cannot be changed without shareholder approval.

4. Investment in Securities

During the year ended June 30, 2007, purchases and sales of investment securities (excluding short-term investments and in-kind redemptions) aggregated $487,077,992 and $640,110,898, respectively.

In connection with the tender offer (see Note 8), the Fund distributed Korean portfolio securities and cash as payment for the tendered shares (in-kind redemption). For financial reporting purposes, the Fund recognizes a gain on in-kind redemptions to the extent the value of the distributed securities exceeds their cost. Gains realized on in-kind redemptions are not recognized for federal income tax purposes, and were reclassified from accumulated net realized gain (loss) to paid-in capital at year-end. During the year ended June 30, 2007, the Fund realized $73,732,966 of net gain on such in-kind redemptions.

5. Transactions in Securities of Affiliated Issuers

An affiliated issuer is a company in which the Fund has ownership or control of, or the power to vote at least 5% of the voting securities. During the year ended June 30, 2007, transactions in affiliated issuers were:

Affiliate	Common/ Preferred Shares	Cost	Proceeds	Realized Gain (Loss)	Dividend Income**	Value June 30, 2007
Samsung Climate Control Co., Ltd.*	—	—	$ 4,590,034	$ 2,177,376	$ 13,604	—
Samsung Fire & Marine Insurance Co., Ltd.*	285,242	—	30,003,820	24,710,088	362,227	$ 54,958,138
Seoul Semiconductor Co., Ltd.*	182,693	—	39,638,417	30,142,872	76,861	10,678,597
Taegu Department Store Co.*	—	—	13,374,244	7,752,089	228,348	—

*Not affiliated at June 30, 2007.
**Net of foreign withholding taxes.

6. Income Tax Information

The tax character of dividends and distributions paid were:

	Years Ended June 30, 2007		Years Ended June 30, 2006	
Ordinary Income	$	11,164,483	$	14,981,852
Long-Term Capital Gains	$	161,642,306	$	10,487,297

At June 30, 2007, the tax character of distributable earnings was comprised of $1,874,633 of ordinary income and $351,494,276 of long-term capital gains.

For the year ended June 30, 2007, permanent ‘‘book-tax’’ differences were primarily attributable to foreign currency and redemption-in-kind transactions, tax equalization and tender offer costs. These adjustments were to decrease undistributed net inv