

KOREA FUND INC
Form N-CSR
August 31, 2010

**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)
Lawrence G Altadonna 1345 Avenue of the Americas, New York 10105
(Name and address of agent for service)**

Registrant's telephone number, including area code: 212-739-3371

Date of fiscal year end: June 30, 2010

Date of reporting period: June 30, 2010

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, 100 F Street, NE, Washington, DC 20549-2001. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1: Report to Shareholders

June 30, 2010

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The Korea Fund, Inc. Portfolio Manager's Report

June 30, 2010 (unaudited)

During the past 12 months, the Korean equity market was largely driven by macro issues such as the sustainability of the global economic recovery, possible tightening measures and sovereign credit risk.

For the first half of the period, from July 2009 to December 2009, the KOSPI index continued its steep climb led by the continued macro economic recovery, better than expected corporate earnings and aggressive foreign investor buying. This contrasts with the strong market performance during the first half of 2009, which was largely driven by dissipating financial sector risks and was only partially driven by improving corporate earnings. We believe that auto and information technology companies' growth during the second half of 2009 exceeded market expectations, highlighting the growing presence of the leading Korean companies in the global economy. In addition, the finance and construction sectors experienced a significant increase in stock market performance following a reduction in global financial sector credit risks. Meanwhile, the shipbuilding sector performed poorly due to actual and perceived order delays and cancellations related to the industry overbuilding amidst weakened long-term industry prospects. The stock market rally was further supported by aggressive buying from overseas investors after the FTSE upgraded Korea to developed market status in September. Although Dubai declared a moratorium in November, the market only witnessed a temporary one day drop before quickly resuming its ascent. All in all, the KOSPI index climbed 21.06% in KRW and 32.44% in USD terms in the second half of 2009.

However, in the latter part of the period from January 2010 to June 2010, the market experienced increased volatility due to uncertainties relating to sustainability of the steep macro economic recovery, together with investor profit-taking. In particular, the geopolitical tension between South and North Korea coinciding with the sovereign debt crisis in Southern Europe, caused investors to exit from the equity market to safe haven assets. On May 24, 2010, South Korean president Myung-Bak Lee officially condemned North Korea for its sinking of the South Korean warship, Cheon-an. In response, North Korea announced a total freeze in relations with South Korea and taking a hawkish tone, threatened potential military action. However, we believe past experience shows that North Korea generally uses military provocation as a mechanism to increase economic aid rather than escalate actual military conflict. Hence, we think the North Korean risk is manageable at the moment. During the first half of 2010, the KOSPI was largely flat, up only 0.92% in KRW terms and falling -3.83% in USD terms, due to the rather sharp KRW depreciation against the USD.

Ultimately, the KOSPI rose 22.17% in KRW terms and advanced 27.37% in USD terms for the 12 months ending June 30, 2010.

The Korea Fund, Inc. Portfolio Manager's Report

June 30, 2010 (unaudited) (continued)

The macro economy showed solid recovery for the past 12 months and Korea's year-on-year real GDP growth rate went back into positive territory, starting in the third quarter of 2009 with a rise of 1.1%. The growth rate surged to 8.1% in the first quarter of 2010 and 7.2% during the second quarter of 2010, following the continued expansion in the export sector and recovering domestic demand. While GDP growth was largely driven by exports, we also observed an increase in domestic demand as export companies' earnings growth translated into higher wages and job creation in Korea.

In general the KRW has continued to appreciate against the USD until recently. We believe recent currency weakness is mainly due to risk aversion created by the European debt crisis, coupled with the ongoing geopolitical tensions. While we continue to believe that the KRW will appreciate over the long-term, it is likely to remain weak until Europe shows a concrete resolution that can be enforced by EU members. In light of this situation, as South Korea is an export-driven economy, we believe the current KRW level is favorable enough to maintain the price competitiveness of Korean exporters and thus to continue to drive economic growth.

Despite GDP growth, inflation has not been a concern during the past 12 months. Consumer Price Index growth was 2.7% in May, well within the Bank of Korea's inflation target range of 2% to 4%. Nonetheless, inflation is starting to pick up as the year progresses due to higher import prices and stronger demand. As such, the Bank of Korea raised policy rates by 25 basis points in July and we should not rule out further interest rate hikes during 2010.

Fund Performance

From July 2009 to June 2010, the total return of the Fund on an NAV basis was 31.04% (net of fees). The Fund outperformed its benchmark, KOSPI, by 367 basis points.

Performance Attribution Review & Fund Holdings Characteristics by Market Capitalization

From July 2009 to June 2010, the consumer discretionary, information technology and materials sectors outperformed the KOSPI while industrials, utilities and health care were the worst performing sectors. During the period, our stock picks worked well for the Fund's performance. For example, two of our top three performers, Orion and Korea Plant Service & Engineering in the industrials sector, helped the Fund to advance despite an underweighting in the sector as a whole. On the other hand, the Fund's information technology sector overweight position worked against the Fund's performance as Hynix Semiconductor's strong performance wasn't enough to offset our limited exposure to LED related names.

During the fiscal year ended June 30, 2010, the Fund increased its weighting in mid and small cap stocks from 8% to 19% with a corresponding decrease in the percentage of large cap holdings from 92% of investments to 81%.

The Korea Fund, Inc. Portfolio Manager's Report

June 30, 2010 (unaudited) (continued)

Market Outlook

For the rest of 2010 and beyond, we believe normalization of macro economic growth and increasing possibilities of tightening policy could be a short-term stock market overhang. As such, we expect investors to position themselves more defensively, taking profits from cyclical technology and auto sectors to build positions in more domestic consumption related names. As we argued previously, we expect strong exporters' earnings will increase domestic income levels via wage increases and job creation, thereby boosting domestic consumer purchasing power.

Against this backdrop, we will maintain our overweight position in consumer discretionary, mostly across the retail and duty free sub-sectors. Given the technology and automotive sectors' strong outperformance year to date, we believe the relative performance will soften following high year-on-year comparisons, the diminishing impact of government subsidies globally and a slower-than-expected consumer spending and corporate investment trend. Thus, we will maintain underweight positions in both sectors for the time being, at least until we get better visibility over the consumption outlook, especially for the developed economies. Although the corporate investment trend has not yet been robust, we see increasing infrastructure investments, such as power plant construction by developing and Middle Eastern countries, as a long term sustainable business opportunity for Korean heavy machinery and construction companies. We will therefore try to gradually build exposure to this sector of the market. We can see a slowly improving outlook for the construction sector especially given recent restructuring measures for financially weak companies. With more valuation merit and investors' low appetite for the sector, we believe that there could at least be some tactical investment opportunities and we will look for possibilities to increase active positions. Finally, we plan to add more weight to the consumer staples sector by seeking companies with solid overseas growth potential. Regarding utilities and telecommunications, we will remain neutral to underweight given the unchanged fundamental views.

The information contained herein has been obtained from sources believed to be reliable but RCM and its affiliates do not warrant the information to be accurate, complete or reliable. The opinions expressed herein are solely those of the Fund's Portfolio Manager and are subject to change at any time and without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Investors should consider the investment objectives, risks, charges and expenses of any mutual fund carefully before investing. This and other information is contained in the Fund's annual and semi-annual reports, proxy statement and other Fund information, which may be obtained by contacting your financial advisor or visiting the Fund's website at www.thekoreafund.com.

The Korea Fund, Inc. Portfolio Manager's Report

June 30, 2010 (unaudited) (continued)

This information is unaudited and is intended for informational purposes only. It is presented only to provide information on investment strategies and opportunities. The Fund seeks long-term capital appreciation through investment in Korean securities. Investing in non-U.S. securities entails additional risks, including political and economic risk and the risk of currency fluctuations, as well as lower liquidity. These risks, which can result in greater price volatility, will generally be enhanced in less diversified funds that concentrate investments in a particular geographic region. The Fund is a closed-end exchange traded management investment company. This material is presented only to provide information and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. After the initial public offering, shares are sold on the open market through a stock exchange, where shares may trade at a premium or a discount. Holdings are subject to change daily.

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The Korea Fund, Inc. Performance & Statistics

June 30, 2010 (unaudited)

Total Return⁽¹⁾	1 Year	5 Year	10 Year
Market Price	26.65%	6.17%	12.83%
Net Asset Value (NAV ⁽²⁾)	31.04%	5.35%	8.87%
KOSPI ⁽³⁾	27.37%	7.34%	6.56%
MSCI Korea (Total Return) ⁽⁴⁾	31.92%	8.95%	8.91%
MSCI Korea (Price Return) ⁽⁴⁾	30.55%	7.58%	7.42%

Premium (Discount) to NAV:

June 30, 2000 to June 30, 2010

Industry Breakdown (as a % of net assets):**Market Price/NAV:**

Market Price	\$	34.74
NAV	\$	38.54
Discount to NAV		(9.86)%

Ten Largest Holdings (as a % of net assets):

Samsung Electronics Co., Ltd. Manufacturer of electronic parts	12.5%
Orion Corp. Food, entertainment and sports conglomerate	4.7%
Hyundai Motor Co. Manufacturer of automobiles	4.5%
Lotte Shopping Co., Ltd. Department store chain operator	4.4%
LG Chemical Ltd. Manufacturer of petrochemical goods and electronic materials	3.8%
Samsung SDI Co., Ltd. Manufacturer of digital display devices	3.4%
Shinhan Financial Group Co., Ltd. Provides financial products and services	3.2%
Hyundai Department Store Co., Ltd. Department store chain operator	3.1%
Hotel Shilla Co., Ltd. Operates hotels and duty free shops	3.0%
Kolon Industries, Inc.	

Holding company

2.9%

- (1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends and capital gain distributions if any, have been reinvested. Total return does not reflect broker commissions or sales charges. Total return for a period of more than one year represents the average annual total return.

Performance at market price will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares, or changes in Fund dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price and NAV 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 onetime public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. NAV is equal to total assets less total liabilities divided by the number of shares outstanding. Holdings are subject to change daily.

- (2) See Note 8 to the Financial Statements.
- (3) 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.
- (4) 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 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.

The Korea Fund, Inc. Schedule of Investments

June 30, 2010

Shares		Value
COMMON STOCK 96.4%		
	Auto Components 1.5%	
445,360	Halla Climate Control Corp.	\$ 5,921,693
	Automobiles 6.6%	
150,055	Hyundai Motor Co.	17,557,746
319,430	Kia Motors Corp.	8,463,729
		26,021,475
	Capital Markets 2.8%	
213,610	Daewoo Securities Co., Ltd.	3,486,553
804,170	Hyundai Securities Co.	7,613,443
		11,099,996
	Chemicals 8.0%	
69,578	Cheil Industries, Inc.	5,331,744
224,742	Kolon Industries, Inc. (b)	11,458,124
59,040	LG Chemical Ltd.	14,806,675
		31,596,543
	Commercial Banks 8.4%	
377,881	Daegu Bank Ltd.	4,292,965
146,777	KB Financial Group, Inc.	5,626,074
1,036,583	Korea Exchange Bank	10,564,374
337,302	Shinhan Financial Group Co., Ltd.	12,415,787
		32,899,200
	Commercial Services & Supplies 2.1%	
151,068	Korea Plant Service & Engineering Co., Ltd.	8,357,535
	Construction & Engineering 2.2%	
186,690	Hyundai Engineering & Construction Co., Ltd.	8,583,695
	Diversified Telecommunication Services 1.9%	
208,233	KT Corp.	7,689,565
	Electric Utilities 2.3%	

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343,710	Korea Electric Power Corp. (b)	8,869,404
	Electronic Equipment, Instruments & Components 4.2%	
104,300	LG Display Co., Ltd.	3,430,419
94,350	Samsung SDI Co., Ltd.	13,204,172
		16,634,591
	Food Products 0.6%	
59,474	Bingrae Co., Ltd.	2,452,421
	Hotels, Restaurants & Leisure 5.9%	
574,020	Grand Korea Leisure Co., Ltd.	11,213,532
592,500	Hotel Shilla Co., Ltd.	11,890,865
		23,104,397
	Industrial Conglomerates 4.7%	
61,483	Orion Corp.	18,501,775

The Korea Fund, Inc. Schedule of Investments

June 30, 2010 (continued)

Shares		Value
	Insurance 6.3%	
571,360	Hyundai Marine & Fire Insurance Co., Ltd.	\$ 11,322,457
37,254	Samsung Fire & Marine Insurance Co., Ltd.	5,913,562
91,223	Samsung Life Insurance Co., Ltd.	7,726,556
		24,962,575
	Internet & Catalog Retail 0.8%	
479,463	YES24 Co., Ltd. (d)	3,084,693
	Internet Software & Services 0.5%	
12,467	NHN Corp. (b)	1,854,205
	Media 1.3%	
266,480	CJ CGV Co., Ltd.	5,111,738
	Metals & Mining 3.9%	
28,400	Korea Zinc Co., Ltd. (d)	5,014,641
26,984	POSCO	10,224,528
		15,239,169
	Multi-line Retail 8.5%	
127,472	Hyundai Department Store Co., Ltd.	12,177,467
499,400	Hyundai Greenfood Co., Ltd.	3,858,335
60,460	Lotte Shopping Co., Ltd.	17,360,866
		33,396,668
	Oil, Gas & Consumable Fuels 1.2%	
149,580	GS Holdings	4,658,813
	Personal Products 0.8%	
3,819	Amorepacific Corp.	3,249,156
	Pharmaceuticals 2.1%	
80,815	Dong-A Pharmaceutical Co., Ltd.	8,134,640
	Semiconductors & Semiconductor Equipment 15.5%	
277,498	Duksan Hi-Metal Co., Ltd. (b)(d)	4,227,471
124,529	Hynix Semiconductor, Inc. (b)(d)	2,517,112
78,247	Samsung Electronics Co., Ltd.	49,077,602

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79,130	Silicon Works Co., Ltd. (b)	5,109,277
		60,931,462
	Software 1.0%	
161,308	Gamevil, Inc. (b)	3,782,565
	Trading Companies & Distributors 2.4%	
226,850	Samsung C&T Corp.	9,578,397
	Wireless Telecommunication Services 0.9%	
27,634	SK Telecom Co., Ltd.	3,621,553
	Total Common Stock (cost \$277,830,851)	379,337,924

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The Korea Fund, Inc. Schedule of Investments

June 30, 2010 (continued)

Shares		Value
SHORT-TERM INVESTMENTS 2.1%		
	Collateral Invested for Securities on Loan (c) 1.9%	
7,383,773	BNY Institutional Cash Reserves Fund, 0.02% (cost \$7,383,773)	\$ 7,383,773
Principal Amount (000s)		