CONFIDENTIAL **Name of Recipient; Copy No.**

AMENDED PRIVATE PLACEMENT MEMORANDUM

KOREA INTERNATIONAL INVESTMENT FUND LTD.

British Virgin Islands International Business Company

Korea International Investment Fund Ltd. (the "Fund") is a British Virgin Islands International Business Company. The principal objective of the Fund is to provide certain investors with the opportunity to invest in a portfolio of Korean equity and equity-related securities listed on the Korea Stock Exchange and KOSDAQ. The Fund or its Malaysian subsidiary Korea International Investment Holdings (L) Pte. Ltd. may also invest in Korean Securities listed in the London over-the-counter markets or other exchanges.

Offering of Additional Class A Shares of Common Stock

Offering Price: Net Asset Value per Share

Minimum Investment: U.S.$100,000

June 2005

Fund Advisor

International Investment Advisers, L.L.C.

THE SHARES OF THE FUND (THE "SHARES") DESCRIBED HEREIN HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE LAWS, AND THE FUND HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). ACCORDINGLY, SUCH SHARES MAY NOT BE OFFERED OR SOLD, EXCEPT PURSUANT TO EXEMPTIONS FROM REGISTRATION THEREUNDER.

Neither this Private Placement Memorandum (the "Amended Memorandum") nor the Shares described herein have been registered or qualified for offer or sale under the laws of any jurisdiction governing the offer or sale of mutual fund shares or other securities, and this Amended Memorandum shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of such Shares in any jurisdiction in which such offer, solicitation or sale is not authorized or to any person to whom it is unlawful to make such offer, solicitation or sale.

No person has been authorized to make any representations concerning the Fund or its Shares which are inconsistent with those contained in this Amended Memorandum.

Prospective investors should not construe the contents of this Amended Memorandum as legal, tax or financial advice. Each prospective investor should consult his own professional advisers as to the legal, tax, financial or other matters relevant to the suitability for such investor of an investment in the Shares of the Fund.

This Amended Memorandum is intended solely for the use of the person to whom it has been delivered by the Fund and whose name appears on the cover page hereof for the purpose of evaluating a possible investment by the recipient in the Shares described herein, and it is not to be reproduced or distributed to any other persons (other than professional advisers of the prospective investor receiving this document from the Fund).

An investment in the Fund involves risk factors that should be reviewed by potential investors. There can be no assurance that the Fund will achieve its investment objective. See "Risk Factors."

Neither the delivery of this Amended Memorandum nor any sale hereunder shall under any circumstance create any implication that there has been no change in the affairs of the Fund or the Korean economy since the date hereof or that the information contained herein is correct as of any date subsequent to the date hereof. The Advisor/Manager (defined herein) and the directors of the Fund have used their best efforts to obtain and provide accurate information for this Amended Memorandum, but no warranty, representation or guaranty is made or should be inferred with respect to the economic benefit that may accrue to an investor.

This Amended Memorandum sets forth information about the Fund. Investors are encouraged to read this Amended Memorandum carefully and retain it for future reference.

FOR UNITED KINGDOM SUBSCRIBERS

The Fund is an unregulated collective investment scheme for purposes of the Financial Services Act 1986 of the United Kingdom (the "FSA"). Accordingly, the Fund has not been authorized or otherwise approved by the Securities and Investment Board and, as an unregulated scheme, cannot be marketed in the United Kingdom to the general public. This Amended Memorandum can therefore be issued in the United Kingdom only to restricted categories of recipients, namely persons who fall within the categories of persons set out in Article 9(3) of the Financial Services (Investment Advertisements) (Exemptions) Order 1988 (As Amended) and being authorized persons, persons whose ordinary business is to buy or sell property of the same kind as the property to which the scheme relates and qualifying institutional investors and other categories of investors to whom unregulated collective investment schemes can be marketed without contravening Section 76(1) of the FSA by virtue of the Financial Services (Promotion of Unregulated Schemes) Regulations 1991. Transmission of this Amended Memorandum to any other person in the United Kingdom is unauthorized and may contravene the FSA.

FOR SWISS SUBSCRIBERS

The Fund has not been registered in Switzerland under the Swiss Investment Fund Act of March 18, 1994. The Fund will not undertake a public solicitation in or from Switzerland.

FOR KOREANS

Save as permitted to prescribed institutions and otherwise as permitted by Korean law, the Shares described herein subscribed or purchased by non-residents of the Republic of Korea ("Korea") may not be offered or sold, directly or indirectly, or offered or sold to any person for re-offering directly or indirectly, in Korea or to any resident of Korea.

FOR NETHERLANDS ANTILLES SUBSCRIBERS

None of the Shares may be offered or sold, directly or indirectly, in the Netherlands Antilles or to any citizen or inhabitant thereof (including any corporation, partnership or other entity created by or organized in the Netherlands Antilles or under the laws of the Netherlands Antilles) who is treated as a "resident," as defined in Section 1 of the Landsverordening Deviezenverkeer (Foreign Exchange Act) of the Netherlands Antilles, and who have not obtained a license or benefits from an exemption, from the Bank of the Netherlands Antilles, to Shares of the Fund.

FOR HONG KONG SUBSCRIBERS

Except as permitted by law, there may not, in or from Hong Kong, be distributed or issued or caused to have distributed or issued any invitation relating to this Amended Memorandum or the shares described herein or any other offering material relating to the shares in any such case other than to persons outside Hong Kong or to persons in Hong Kong whose business involves the acquisition, disposal, or holding of securities, whether as principal or as agent.

FOR JAPANESE SUBSCRIBERS

The Shares have not been and will not be registered under the Securities and Exchange Law of Japan nor have they qualified under the standards of selection of foreign mutual funds established by the Securities Dealers' Association of Japan. The shares described herein are not being offered, and may not be offered, sold or delivered, directly or indirectly, in Japan or to residents of Japan, except pursuant to an exemption in accordance with applicable Japanese laws and regulations.

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DIRECTORY

The Fund	Korea International Investment Fund Ltd. c/o: Butterfield Fund Services (Cayman) Ltd. P.O. Box 705 GT, Butterfield House, 68 Fort Street George Town,Grand Cayman Cayman Islands, British West Indies	Contact: Ian Morgan (Assistant Manager) Ian.Morgan@Butterfieldbank.ky Greg Bennett (Manager, Client Relationship) Greg.Bennett@Butterfieldbank.ky Telephone: 345-949-7055 Telecopier: 345-949-7004
	Registered Office/Agent: **Sable Trust Limited** 3rd Floor, Qwomar Complex P.O. Box 765 Road Town, Tortola British Virgin Islands	Contact: Peter Poole Telephone: 1 284-494-8086 Telecopier: 1 284-494-9474 Email: poole@sabletrust.com
Directors	John P. Clay R. Alex Hammond-Chambers Patrick Louppe Henry M. Seggerman	
Advisor/Manager	International Investment Advisers, L.L.C. Suite 1111 60 Madison Avenue New York, NY 10010 U.S.A. Attn: Henry M. Seggerman	Telephone: 212 977 9222 Telecopier: 212 977 6555
Administrator, Banker and Custodian	Butterfield Fund Services (Cayman) Limited P.O. Box 705 GT, Butterfield House, 68 Fort Street George Town,Grand Cayman Cayman Islands, British West Indies	Telephone: 345-949-7055 Telecopier: 345-949-7004
Legal Advisors	*In the United States* Katten Muchin Rosenman LLP 575 Madison Avenue New York, N.Y. 10022 Attn: Robert L. Kohl, Esq. Telephone: 212-940-6380 Telecopier: 212-940-6557	*In Korea* Kim & Chang Seyang Building 223 Naeja-Dong Chongro-Ku Seoul, Korea Telephone: 822-737-4455 Telecopier: 822-737-9091
	In Malaysia Shearn, Delamore & Company No. 2 Benteng 50050 Kuala Lumpur Malaysia Attn: Sidney Woodhull, Esq. Telephone: 603-230-0644 Telecopier: 603-238-5625	
	In BVI Harney, Westwood & Reigels Craigmuir Chambers PO Box 71 Road Town, Tortola Attn: Richard Parsons Telephone: 1 284-494-2233 Telecopier: 1 284-494-3547 / 4885 Email: mail@harneys.com	

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Auditors & Tax Preparers	KPMG P.O. Box 493 GT Century Yard Grand Cayman, Cayman Islands Telephone: 345-949-4800 Telecopier: 345-949-7164 (or such other internationally recognized auditing firm as the Directors of the Fund may engage)	Audit: Colin Nicholson colinnicholson@kpmg.ky Tax: Douglas Harrell DougHarrell@kpmg.ky
Malaysian Trust Company	Shearn Skinner Trust Company Ltd. Lot 2&3, Level 3, Wisma Lazenda Jalan Kemajuan, PO Box 81479 87000 W.P. Labuan, East Malaysia Telephone: 011 60 87 414073 Telecopier: 011 60 87 413281 Email: sstc@tm.net.my	Contact: Ms. Lillian Chau Trust Manager

KOREA INTERNATIONAL INVESTMENT FUND LTD.

SUMMARY OF TERMS OF OFFERING

The following information is qualified in its entirety by the more detailed information appearing elsewhere in this Amended Memorandum.

The Fund

Korea International Investment Fund Ltd. (the "Fund") is a British Virgin Islands International Business Company organized to provide certain investors the opportunity to invest in a portfolio of equity and equity-related securities, of Korean issuers listed on the Korea Stock Exchange and KOSDAQ or of government entities ("Korean Securities"). The Fund's investments are held through Korea International Investments Holdings (L) Pte. Ltd. (the "Subsidiary"), a subsidiary of the Fund organized in Malaysia, which is entitled to the benefits of the Republic of Korea ("Korea")-Malaysia tax treaty. The Fund may also invest directly or through the Subsidiary, as a non-Korean entity, and at a premium (if applicable), in Korean Securities in over-the-counter markets and/or non-Korean stock exchanges where Korean Securities are listed (such as the London Stock Exchange); provided that any premium of greater than 5% of the purchase price of the relevant Korean Securities will be subject to the approval of the Board.

Investment Restrictions

The Fund may not invest more than 25% of its assets in any class of securities of any one issuer, nor may shares of any class of securities of any issue held by the Fund exceed 5% of the securities of that class of the issuer's securities.

Risk Factors

Investing through the Fund in securities of Korean companies involves special investment considerations, which may include restrictions on foreign investment and on repatriation of capital, currency fluctuations, potential price volatility, lesser liquidity of the securities markets, governmental involvement in and influence on the private sector and other political and economic risks. See "Risk Factors."

Banking	Butterfield Fund Services (Cayman) Limited. (the "Administrator"), based in the Cayman Islands, will receive subscription funds, disburse redemption payments and process cash transactions not directly related to the Fund's investment portfolio.
Board of Directors of the Fund	The Board of Directors of the Fund (the "Board") and the Fund's Advisor/Manager (defined below) have broad authority over the operation and management of the Fund. However, the Board is not involved in the selection of Korean equity investments or in day-to-day administration of the Fund, which is the function of the Advisor/Manager and Administrator, respectively.
The Advisor/Manager	International Investment Advisers, L.L.C. acts as the Fund's Advisor and Manager (the "Advisor/Manager"). The Advisor/Manager coordinates investment of the Fund's assets in Korean Securities as well as investment of any cash balances maintained by the Fund. The Advisor/Manager is registered as an investment advisor under the U.S. Investment Advisers Act of 1940, as amended. See "Management – Advisor/Manager."
The Administrator	The Administrator, based in Grand Cayman, Cayman Islands, calculates the Fund's Net Asset Value (defined below) and the Fund's advisory, sponsorship, administrative and consulting fees, is responsible for the day-to-day administration of the Fund and serves as the Fund's registrar and transfer agent. All shareholder inquiries should be directed to the Administrator. See "Management - Administrator."
Shares of the Fund	The Fund has authorized the issuance of 5,000,000 Class A shares of the Fund's common stock, par value $.01 per share (the "Shares"). As of May 31, 2005 112,665.8482 Shares were issued and outstanding. The Fund has authorized the issuance of one Class B Share of the Fund's common stock, no par value (the "Class B Share"). This single Class B share is held by the Advisor/Manager. The Class B Share has no voting rights and provides for an annual

allocation (the "Performance Allocation") equal to 15% of any increase in the Net Asset Value (defined below) of the Fund in each year over the highest previous year-end Net Asset Value. See "Shares of the Fund – Performance Allocation."

Ten Class C shares of the Fund's common stock, no par value (the "Class C Shares"), have been authorized and have been issued to the Advisor/Manager. Class C Shares do not participate in the profits of the Fund. Holders of Class C Shares must approve any transfer of Class A or Class B Shares and certain disabling events with respect to holders of Class C Shares may affect dissolution of the Fund. See "Shares of the Fund - Transfers" and "Additional Information - Dissolution of the Fund and Subsidiary."

Subscriptions

The Fund is offering additional Shares. The purchase price of each Share subscribed for will be based on the Net Asset Value (defined below) calculated on the Valuation Date (defined below) immediately preceding the Fund's acceptance of each subscription on the relevant Subscription Date (defined below under "Subscriptions - Subscription Terms").

The Fund may reject any subscription in whole or in part in its sole discretion.

Investor Eligibility

Shares will not be registered or qualified for sale in any jurisdiction, and offers of the Class A Shares will be made only as permitted under applicable securities law. Subscriptions will be accepted only from an investor who qualifies as an "accredited investor" pursuant to Regulation D under the Securities Act. See the Supplemental Disclosure Statement for U.S. Investors in the Fund attached to this Amended Memorandum as Appendix B for certain special considerations for U.S. investors. The Fund may decline to accept a subscription from any investor, in its sole discretion, if it would be appropriate to keep the Fund from having to register under the U.S. Investment Company Act of 1940, as amended, or if the Advisor/Manager, the Fund or the Fund's investors would become subject to adverse regulatory or tax consequences as a result of such subscription or for any other reason. To subscribe for Shares, an eligible investor must complete the Subscriber Information Form and the Subscription Agreement (attached as Appendix A to this Amended Memorandum).

Net Asset Value Determination

The Administrator calculates net asset value ("Net Asset Value") on a weekly basis as of the close of business on each Monday that is a Business Day (as defined under "Shares of the Fund - Net Asset Value Determination") (the "Valuation Date"). Net Asset Value on any Valuation Date is calculated by subtracting all accrued expenses, fees, including an Advisory/Management Fee (defined below), and liabilities of the Fund from the fair value of all assets held by the Fund on such Valuation Date. Net Asset Value per Share is calculated by dividing Net Asset Value on any Valuation Date by the total number of Shares outstanding at the close of business on such Valuation Date.

Transfer of Shares

Shares of the Fund are not transferable without the prior written consent of the holder of the Class C Shares, which consent may be denied for any reason, in its sole discretion. The Fund generally does not permit any transfer that would result in either the transferor or the transferee of any Class A Shares owning fewer than 1,000 Class A Shares.

Dividends

The Fund does not pay, and does not anticipate paying, regular dividends or distributions to its Shareholders. See "Dividends and Distributions."

Fees and Expenses

The Fund bears all fees and expenses associated with its investments, including the Advisory/Management Fee (defined below) the Administration Fee (defined below), brokerage, banking and custody charges, interest, taxes, duties, professional fees of its auditors, legal counsel and consultants and administrative fees. There are no other management or advisory fees payable by the Fund.

The Fund pays the Advisor/Manager an Advisory/Management Fee which is calculated and payable quarterly and in arrears, at an annual rate which equals 1.585% of the average weekly Net

Asset Value of the Fund during that quarter (together with the Performance Allocation, the "Advisory/Management Fee"). The Advisor/Manager is also entitled to an annual Performance Allocation through its ownership of the Class B Share. See "Fees and Expenses" and "Shares of the Fund – Performance Allocation of Profit and Loss."

The fee payable to the Administrator is based on its standard schedule of fees charged by the Administrator for similar services.

The Fund also pays each of its two custodian banks a fee calculated at the annual rate of .045% of the average weekly Net Asset Value of the Fund. (Total custodial fees .09%.)

Redemption of Shares

Class A Shares may be redeemed by their holders on a Valuation Date with at least seven days' prior written notice to the Administrator, at the Net Asset Value per Share as of such day. Settlement of redemptions are ordinarily made within nine days after the date of redemption.

The Fund may compel the redemption of any Shares if such redemption would be appropriate to keep the Fund from having to register under the Investment Company Act or in order to protect the Fund, its investors or the Advisor/Manager from adverse tax or regulatory consequences. Although the Memorandum and Articles of Association does not so provide, under certain circumstances, the Fund may request the suspension of the right of redemption. See "Redemption of Shares - Compulsory Redemptions" and "Suspension of Redemptions."

Tax Considerations

All persons interested in purchasing Shares bear the responsibility of informing themselves of any income tax or other tax consequences relevant to their particular circumstances in connection with the subscription, holding or redemption of Shares or the receipt of dividends, if any, paid thereon. Prospective investors are not to construe the contents of this Amended Memorandum or any prior or subsequent communications from the Fund or any of its directors, officers or agents as legal or tax advice. Each investor should consult his or her own financial adviser, counsel and accountant as to tax matters and related matters concerning his or her investment. See "Taxation and Other Regulations" and Appendix B hereto for disclosure regarding United States Federal Income Tax Considerations for U.S. investors.

ERISA Considerations and Tax Considerations for U.S. Shareholders

Investment in the Fund is generally open to institutions, including pension and other funds subject to the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Fiduciaries of employee benefit plans subject to Title I of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code") (together, "ERISA Plans" or "Plans" or, singularly, "ERISA Plan" or "Plan"), in consultation with their advisers, should carefully consider the impact of ERISA, the Code and the regulations, rules, procedures and judicial decisions thereunder on an investment in Shares of the Fund. Among other matters, a fiduciary of an ERISA Plan should consider: (i) whether the investment is prudent and in accordance with the documents and instruments governing such ERISA Plan, (ii) the composition of the ERISA Plan's portfolio with respect to diversification; (iii) the cash flow needs of the ERISA Plan and the effect thereon of the illiquidity of the investment; (iv) the ERISA Plan's funding objectives; (v) the tax effects of the investment described in this Amended Memorandum; (vi) the fact that the shareholders in the Fund may consist of a diverse group of investors (including taxable and tax-exempt entities) and Advisor/Manager does not take the particular objectives of any investor or class of investors into account; and (vii) the risks of an investment in Shares of the Fund discussed in "Risk Factors" of this Amended Memorandum. See Appendix B hereto for disclosure regarding ERISA Considerations and Tax Considerations for U.S. investors.

Reports

Each shareholder receives annual reports including audited financial statements of the Fund and quarterly reports including unaudited financial statements of the Fund.

KOREA INTERNATIONAL INVESTMENT FUND LTD.

THE FUND

The Fund was incorporated as a British Virgin Islands International Business Company on November 5, 1992 and commenced operations on November 27, 1992. The registered office of the Fund is c/o Sable Trust Limited, Tortola, British Virgin Islands. The principal office of the Fund is c/o Bank of Butterfield International (Cayman) Ltd., P.O. Box 705 GT, Butterfield House, 68 Fort Street, George Town, Grand Cayman, Cayman Islands, British West Indies. Neither the Fund nor the Administrator maintains an office or place of business in the United States.

INVESTMENT PORTFOLIO

Investment Objective and Policies

The Fund's investment objective is to obtain long-term capital appreciation through investment in equity and equity-related securities which are listed on the Korea Stock Exchange and KOSDAQ. The Fund may also invest in fixed-income securities issued by listed Korean companies or by government entities.

The Fund, through the Subsidiary, invests Korean Securities. The Fund invests directly or through the Subsidiary, as a non-Korean entity, and at a premium (if applicable), in Korean Securities on the Korea Stock Exchange and KOSDAQ or in over-the-counter markets and/or non-Korean stock exchanges where Korean Securities are listed (such as the London Stock Exchange); provided that any premium of greater than 5% of the purchase price of the relevant Korean Securities shall be subject to the approval of the Board.

In order to fund redemptions of Shares, pay expenses or make distributions, the Fund may maintain a portion of its assets in cash or cash equivalents, and may invest such cash in money market or equivalent short term investment instruments.

In the future, the Fund and/or the Subsidiary may, upon the advice of the Advisor/Manager and upon the approval of the Board in the case of the Fund or the Subsidiary, invest in options, contracts to purchase Korean Securities, currency futures, related indices and similar transactions for speculative and/or hedging activities. In such event, the Advisor/Manager may be subject to the requirements of the Commodities Exchange Act, as amended, including registering as CPOs and/or CTAs under such Act. The Advisor/Manager has agreed that it will not cause the Fund or the Subsidiary to invest in futures unless the Fund will continue to be in compliance with all relevant U.S. laws, including, without limitation, the Commodities Exchange Act.

The Fund may not invest more than 25% of its assets in any class of securities of any one issuer, nor may shares of any class of securities of any issue held by the Fund exceed 5% of the securities of that class of the issuer's securities. Accordingly, the Fund's portfolio may be highly concentrated with a significant percentage of the Fund's assets being allocated to relatively few positions. Although this technique could result in greater profits for the Fund if such Korean Securities perform favorably, such technique may increase the volatility of the Fund and create a greater risk of loss in the event such Korean Securities do not perform as expected.

Borrowing

The Fund is prohibited from borrowing in connection with its operations or investments. The Fund intends to avoid making any investment, incurring any liability or otherwise taking any action which would result in the realization of "unrelated business taxable income" by any shareholder which is a tax-exempt organization for purposes of U.S. Federal income taxation.

Banking, Custody and Brokerage

An account is maintained on behalf of the Fund by the Administrator with Butterfield Bank (Cayman) Limited. in the Cayman Islands for purposes of receiving subscription funds, disbursing redemption payments and processing cash transactions not directly related to the investment of the Fund's assets through the Subsidiary.

THE FUND'S PERFORMANCE RECORD

The following table shows the year over year cumulative change in the Fund's Net Asset Value per share for the one, three and five-year periods ended December 27, 2004, as well as the compound annual growth rate of Net Asset Value per share for the three and five-year periods ended December 27, 2004. In all cases, the amounts are net of all expenses and are based on Net Asset Values calculated by the Fund's Administrator.

	ABSOLUTE RETURNS			**ANNUALIZED RETURNS**	
	1YR	**3YR**	**5YR**	**3YR**	**5YR**
KIIF I	18.0%	54.1%	-12.2%	15.5%	-2.6%

Past performance is not indicative of future performance, and the Fund makes no representation that it will increase in Net Asset Value in the future.

RISK FACTORS

Investments in the Fund entails risks atypical of investments in the United States and other developed markets. These risks may take many forms and include, but are not limited to, the possibility that the Fund's investments may be affected negatively by uncertainties such as political change, foreign exchange and currency fluctuations, currency repatriation or conversion restrictions, foreign investment or trading restrictions, unexpected taxes or fees, and other adverse developments in Korea. The Fund is also susceptible to the political environment, which affects issuers located in Korea.

Prospective investors should give careful consideration to the following factors in evaluating the merits and suitability of an investment in the Fund's Class A Shares:

Concentration of Investments. While the Fund previously followed a policy of investing not more than 10% of its Net Asset Value in any one issuer, the Fund increased this percentage to up to 25% of its Net Asset Value in order to acquire the desired level of certain Korean Securities. Accordingly, the Fund's portfolio may be highly concentrated with a significant percentage of the Fund's assets being allocated to relatively few positions. Although this technique could result in greater profits for the Fund if such Korean Securities perform favorably, such technique may increase the volatility of the Fund and create a greater risk of loss in the event such Korean Securities do not perform as expected.

Korean Stock Market Volatility. The Korean Stock Market has experienced significant volatility on occasion during the lifetime of the Fund. This volatility has been a result of the following factors among others: a significant decline in the price of DRAM memory chips, one of Korea's major exports, an increase in the price of imported oil; the depreciation of the U.S. dollar, cooling of China's economy, tension with North Korea and Korean consumer credit card defaults.

Adverse Currency Fluctuations. Because assets of the Fund are invested primarily in Korean Securities, and because the great majority of the Fund's revenues are received in Won, the U.S. Dollar equivalent of the Fund's net assets and distributions will be adversely affected by reductions in the value of the Won relative to the U.S. Dollar to the extent that the Fund does not successfully hedge against such reductions. Such changes also affect the Fund's income. If the value of the Won falls relative to the U.S. Dollar between receipt of income and the making of Fund distributions, the Fund may be required to liquidate securities in order to make distributions if the Fund has insufficient cash in U.S. Dollars to meet distribution requirements. Similarly, if the exchange rate for the Won declines between the time the Fund incurs expenses in U.S. Dollars and the time cash expenses are paid, the amount of Won required to be converted into U.S. Dollars in order to pay expenses in U.S. Dollars could be greater than the equivalent amount of such expenses in Won at the time they were incurred. The Fund or the Subsidiary may employ from time to time certain investment techniques which are designed principally to hedge against currency exchange rate risks but which themselves may involve additional risks. There can be no guarantee that instruments suitable for hedging currency or market shifts will be available at the time they would be useful, or that at any particular time the Fund will be appropriately or effectively hedged.

Foreign Investments Entail Special Risks. The economy of Korea may differ unfavorably from the U.S. economy in such respects as growth of gross domestic product or gross national product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position. For example, the Korean economy is heavily dependent upon international trade and, accordingly, had been and may continue to be affected by economic conditions in the U.S. and other countries with which it trades, trade barriers, managed adjustments in the value of the Won and other protectionist measures imposed or negotiated by the U.S. and other countries with which it trades.

Investments in foreign securities involve special considerations due to limited information, higher brokerage costs, different accounting standards and thinner trading markets. They may also entail certain other risks, such as the possibility of one or more of the following: imposition of dividend or interest withholding or taxes; currency blockages or transfer restrictions; expropriation, nationalization or other adverse political economic developments; less government supervision and regulation of securities exchanges, brokers and listed companies, as compared to the United States; and the difficulty of enforcing obligations in other countries.

Purchases of Korean securities may be made in foreign currencies and as a result, the Fund may incur currency conversion costs and may be affected unfavorably by changes in the value of foreign currencies against the U.S. dollar. Further, it may be more difficult for the Fund's agents to keep currently informed about corporate actions which may affect the prices of portfolio securities. Communications between the United States and Korea are less reliable than within the United States, thus increasing the risk of delayed settlements of portfolio transactions. The ability and decision to purchase and sell securities may be affected by laws or regulations relating to the convertibility of currencies and repatriation of assets.

Hedging Transactions May Entail Risks. Hedging transactions have risks associated with them including possible default by the other party to the transaction, illiquidity and, to the extent the Advisor/Manager's view as to certain market movements is incorrect, the risk that the use of such hedging transactions could result in losses greater than if they had not been used. The use of currency transactions can result in the Fund incurring losses as a result of a number of factors, including the imposition of exchange controls, suspension of settlements, or the inability to deliver or receive a specified currency. Losses resulting from the use of hedging transactions would reduce Net Asset Value, and possibly income, and such losses can be greater than if the hedging transactions had not been utilized.

There Are Korea Geopolitical Risks. Although in 1999, The Republic of Korea's President, D. J. Kim, initiated a constructive dialogue with North Korea's leader, Kim Jong-Il, The Republic of Korea, while highly developed compared to North Korea, has been subjected, for at least a generation, to continuous low-level threats, and occasional high visibility threats, of military action from North Korea.

Substantial Government Involvement in the Private Sector. The Korean government has historically exercised and continues to exercise substantial influence over many aspects of the private sector. The Korean government from time to time has informally influenced the payment of dividends and the prices of certain products, encouraged companies to invest or to concentrate in particular industries, induced mergers between companies in industries suffering from excess capacity and induced private companies to publicly offer their securities. In addition, the government has in the past sought to minimize excessive price volatility on the Korea Stock Exchange through various steps, including the imposition of limitations on daily price movements of securities. Such actions by the government in the future could have a significant effect on the market prices and dividend yields of Equity Securities.

Less Liquid Korean Securities Market. The Korean securities market is relatively small as compared to the securities markets of the United States, Japan and certain European countries, although it has been, with certain exceptions, generally characterized by growth. The development of the Korean securities markets may be attributed to, among other things, the Korean government's extensive involvement in the private sector. Trading on the Korea Stock Exchange has averaged about U.S.$3 billion in value daily in the past 6 months.

Lesser Corporate Disclosure Standards. Issuers of securities in Korea are not subject to the same degree of regulation as are United States issuers with respect to such matters as insider trading rules, restrictions on market manipulation, shareholder proxy requirements and timely disclosure of information. Korean accounting, auditing, governance and financial standards are not equivalent to United States standards in important respects and, therefore, less information is generally available to investors in publicly-traded Korean securities than to investors in publicly-traded U.S. securities.

Over-the-Counter Securities. As described above, the Fund and the Subsidiary may also pay premiums to purchase Korean Securities, including, without limitation, in over-the-counter markets and/or non-Korean stock exchanges where Korean Securities are listed (such as the London Stock Exchange). The amounts of such premiums may fluctuate significantly; accordingly, if after the Fund or the Subsidiary pays a premium for a Korean Security, the premium attainable in connection with such security decreases, the Fund or the Subsidiary may experience a loss even if the price of the Korean Security with respect to which such premium was paid remains the same or increases. Therefore, the purchase of securities at a premium may add an additional element of risk to the Fund's trading activities.

Futures and Options. The Fund and the Subsidiary are trading in futures and options related to Korean Securities. Trading futures is leveraged and volatile. In the speculative trading of futures contracts, the Fund and the Subsidiary may not be required to deposit funds equal to the value of the futures contract; rather the Fund and the Subsidiary need only make a deposit, called an "initial margin deposit," equal to a small percentage of the Fund's and the Subsidiary's overall commitment under the futures contract. As a result, a relatively small adverse move in the price of a futures contract may result in a much larger adverse effect on the Fund's and the Subsidiary's overall commitment under such contract and, accordingly, result in immediate and substantial losses to the Fund and the Subsidiary.

The premiums paid for options increase the Fund's and the Subsidiary's transaction costs. In addition, in certain situations, such premiums may result in such a high reduction in the spread between the acquisition price of the Korean Securities with respect to which the Fund or the Subsidiary holds an option and the anticipated value of such Korean Securities that the Adviser/Manager determines to cause the Fund or the Subsidiary not to exercise such option. Since options expire on specified dates, if the consummation of a transaction is delayed beyond the expiration of an option held by the Fund or the Subsidiary, the Fund or the Subsidiary may lose the anticipated benefit of the option or incur additional premium costs in the purchase of similar options which expire at a later date.

There Are Potential Conflicts of Interest. As described above, the Advisor/Manager receives a Performance Allocation and an Advisory/Management Fee, which are calculated as a percentage of the increase in value of the Fund or in the Net Asset Value of the Fund. This arrangement may create an incentive for the Advisor/Manager to cause the Fund to purchase Korean Securities that are riskier than would be the case in the absence of this fee arrangement in order to increase the value of the Fund.

Finally, the Advisor/Manager advises funds other than the Fund. The records of any such advisory services are not be available for inspection by the Fund or the shareholders. The methods and strategies that the Advisor will utilize in advising the Fund may be utilized by the Advisor/Manager in advising other funds. When the Advisor/Manager advises that Korean Securities be purchased, all such funds may be competing for the same or similar securities and, depending upon which fund purchases such securities first, the difference in timing may result in the acquisition of Korean Securities by some funds and not others.

Indemnification of the Advisor/Manager. The Operating Agreement provides, to the extent permitted by applicable law, that the Advisor/Manager shall not be liable to the Fund or its shareholders for acts or omissions in the performance of its services in the absence of gross negligence, willful misconduct or reckless disregard of its duties, and contains provisions for the indemnification of the Advisor/Manager by the Fund against liabilities to third parties arising in connection with the performance of the Advisor/Manager's services under the Operating Agreement.

Disposition of Shares. There is no secondary market for the Shares, and they are subject to restrictions on transferability as described herein. Consequently, shareholders may be able to dispose of their Shares only by means of redemption. The risk of any decline in the Net Asset Value of the Shares during the period from the date of notice of redemption until the redemption date is borne by the shareholder. The Shares have not been registered under the securities laws of any jurisdiction. The Shares may not be transferred unless the holder(s) of Class C Shares, which is currently the Advisor/Manager, permits transfer, and unless the sale is registered under applicable securities laws or an appropriate exemption from such laws is available. Under certain circumstances, the Fund may require the involuntary redemption of Shares or suspend the right of redemption.

Illiquidity of Investments. Although liquidity will be considered an important criteria of investment selections, investments will be intended in certain cases to be long term in nature and may require considerable delay before they are saleable. Realization of value from such investments may be difficult in the short term, or may have to be made at a substantial discount compared to other freely tradeable investments. Currently, the Fund may invest up to 25% of its assets in any class of securities of any one issuer, up to 5% of such class of the issuer's securities. Moreover, in general, the Korea Stock Exchange does not afford the liquidity found on the U.S. equity exchanges. Trading on the Korea Stock Exchange has averaged about U.S.$3 billion in value daily in the past 6 months.

Adverse Effects of Substantial Redemptions; Suspension of Redemptions. While the Advisor/Manager uses its best efforts to provide liquidity in the Fund sufficient to satisfy redemption requests, substantial redemptions by holders within a short period of time could require the liquidation of positions more rapidly than would otherwise be desirable, which could adversely affect the value of the remaining Shares. In addition, regardless of the period of time in which withdrawals occur, the resulting reduction in the Fund's assets could make it more difficult to generate a positive rate of return or recoup losses due to a reduced equity base. Further, redemptions may be suspended under certain circumstances. See also "Redemption of Shares – Suspension of Redemptions." In light of the Fund's investment objective and its anticipated portfolio, the Fund should be considered as a vehicle for diversification and not as a balanced investment program, and investors should be investing in the Fund on a long-term basis. See also "Redemption of Shares - Compulsory Redemptions".

Enforcement of Civil Liabilities and Judgments. There is uncertainty whether the courts of the British Virgin Islands, Malaysia or Korea would enforce a judgment obtained in the United States or any other country based upon violation of U.S. securities laws, or entertain an original action brought in such jurisdictions on that basis.

Lack of Protection Under the Investment Company Act. The Fund is an open-end investment company (a mutual fund) that is engaged in the business of investing in, holding and trading securities and permits periodic redemptions of its Shares. The Fund has not and will not register under the Investment Company Act of 1940 (the "Investment Company Act") in reliance upon the exclusion from the definition of an "investment company" provided by Section 3(c)(1) of the Investment Company Act. Accordingly, the provisions of the Investment Company Act which, among other things, require that a fund's board of directors, including a majority of disinterested directors, approve certain of the fund's activities and contractual relationships, and prohibit the fund from engaging in certain transactions with its affiliates, will not be applicable.

REPUBLIC OF KOREA AND KOREAN FINANCIAL MARKETS

See Appendix C for a description of the Republic of Korea and the Korean Financial Markets.

MANAGEMENT

Board of Directors of the Fund

The Board of the Fund consists of four members, and has, pursuant to applicable law, ultimate responsibility for managing the Fund. The Board currently consists of the following members:

John P. Clay – John Clay is Director and Chairman Emeritus of Clay Finlay, Inc., an international investment management company serving large institutional clients. Prior to forming Clay Finlay, Inc. in 1982, Mr. Clay served as Deputy Chairman of Vickers de Costa, a leading international brokerage, research and fund-management company. While at Vickers de Costa, Mr. Clay set up the first Japanese securities investment fund for foreign institutions, negotiated the first Euro-dollar convertible issue for a Japanese borrower, and established the first investment management company in Hong Kong with HongKong Bank. Mr. Clay is a graduate of Oxford University.

R. Alex Hammond-Chambers - Alex Hammond-Chambers served as Chairman of the Board of the Edinburgh-based investment management firm Ivory & Sime from 1985 to 1991. He joined Ivory & Sime in 1964, became a partner in 1969 and a director in 1975. At Ivory & Sime, he was responsible for the establishment and marketing of a number of highly specialized investment projects and joint ventures. He also managed Atlantic Assets Trust from 1970 through 1974, and British Assets Trust and Edinburgh American Assets Trust from 1969 through 1985. From 1984 to 1987 he served as the first overseas governor of the NASD. Since retiring from Ivory & Sime, Mr. Hammond-Chambers started his own company, providing non-executive directorship services to numerous companies, with a particular emphasis on funds management. He has served as chairman of American Opportunity Investment Trust and director of Finsbury Income and Growth Investment Trust among others. He is currently on the board of directors of a number of international investment funds including both Korea International Investment Funds, of which he is Chairman. Mr. Hammond-Chambers is a graduate of Cambridge University.

Patrick Louppe – Until his retirement, Patrick Louppe was Director of Marketing for IBM's European headquarters ("IBM Europe"). Mr. Louppe has also served in numerous other managerial capacities at IBM Europe including Director of the mid-range computer product line division, Regional Manager of the workstation marketing, European Manager of Marketing Strategy and Field Operations Manager for the United Kingdom and Italy. Mr. Louppe is a graduate of the Business School of Paris and the Business School of Michigan State University. He serves on the boards of both Korea International Investment Funds.

Henry M. Seggerman - Henry Seggerman is President of the Adviser/Manager. He joined International Investment Advisers in 1996 and worked very closely with Harry G. A. Seggerman in the research and analysis of Korean equities. He has visited more than 100 Korean listed companies as well as Korean government and industry officials. Mr. Seggerman has been in business management for twenty five years. He is a graduate of the University of Michigan with a Masters degree from New York University. Mr. Seggerman worked first as an advertising account executive in New York City. Subsequently, he was hired as Vice President of Acquisitions for Paramount Pictures, where he remained for seven years. Following this tenure, Mr. Seggerman was producer, executive producer, or production executive of numerous projects for media companies including HBO, Polygram, Paramount, and Twentieth Century-Fox. He is a director of both Korea International Investment Funds.

The Board meets at least once a year to review the investment and administrative affairs of the Fund. The Board is not responsible for the day-to-day operations and administration of the Fund. The Board is, however, responsible for the approval of any premium of greater than 5% of the purchase price of Korean Securities acquired in over-the-counter markets and/or non-Korean stock exchanges where Korean Securities are listed (such as the London Stock Exchange).

The Fund reimburses each director for travel and other reasonable out-of-pocket expenses incurred in connection with his services. The Chairman and each director are also Chairman and a Director, respectively, of another Korean investment fund advised by the Advisor/Manager, and the Fund, along with the other Korean investment fund advised by the Advisor/Manager, pays each director a fee of $10,000 per annum and pays the Chairman a fee of $20,000 per annum. The actual amounts in respect of fees paid by each Fund is based on the Net Asset Value of such Fund. The Fund's Memorandum and Articles of Association provide that the directors shall not be liable to the Fund for any acts or omissions in the performance of their duties in the absence of willful misconduct, gross negligence, reckless disregard of his duties or as otherwise required by law, and contain certain provisions for the indemnification of the directors by the Fund, to the extent permitted by law, against liabilities to third parties arising in connection with the performance of their services.

Advisor/Manager

International Investment Advisers, L.L.C. acts as Manager as well as advisor to the Fund and the Subsidiary pursuant to the terms of an Operating Agreement. The Advisor/Manager coordinates investment of the Fund's and the Subsidiary's assets, as well as investment of any cash balances maintained by the Fund or the Subsidiary. International Investment Advisers, L.L.C. is a private investment management firm located in New York, registered as an investment adviser with the Securities and Exchange Commission. The firm together with its predecessor has been in the investment advisory business for 20 years. Currently, the firm focuses exclusively on investment opportunities in Korea and manages one other Korea investment fund.

The Operating Agreement provides, to the extent permitted by applicable law, that the Advisor/Manager shall not be liable to the Fund or its shareholders for acts or omissions in the performance of its services in the absence of gross negligence, willful misconduct or reckless disregard of its duties, and contains provisions for the indemnification of the Advisor/Manager by the Fund against liabilities to third parties arising in connection with the performance of the Adviser's services under the Operating Agreement.

Administrator

Butterfield Fund Services (Cayman) Limited, a Cayman Islands company based in Grand Cayman, Cayman Islands, has been appointed as the Fund's administrator, registrar and paying agent (the "Administrator"). The Administrator and its affiliates provide administrative services for many offshore investment funds.

The Administrator is a licensed Mutual Fund Administrator under the Mutual Funds Law (2003 Revision) of the Cayman Islands. The Administrator was incorporated in the Cayman Islands as Butterfield Fund Managers (Cayman) Ltd on 12 June 1996 and by a resolution of the shareholders changed it's name to Butterfield Fund Services (Cayman) Limited on 6th August 2004. It is a wholly owned subsidiary of Butterfield Bank (Cayman) Ltd., a licensed Bank and Trust Company, which in turn is a wholly owned subsidiary of The Bank of N.T. Butterfield & Son Ltd., Bermuda (the **"Bank"**). The registered office of the Administrator is at Butterfield House, 68 Fort Street, P.O. Box 705 GT, George Town, Grand Cayman, Cayman Islands, B.W.I.

Pursuant to the Administration Agreement, the Administrator is responsible, under the ultimate supervision of the Fund's Board of Directors, for maintaining the Fund's principal office and for certain matters pertaining to the administration of the Fund, including: (i) maintaining the Fund's accounts, (ii) calculating the Fund's net asset value ("NAV") (iii) maintaining the Fund's principal corporate records, (iv) communicating with Shareholders, (v) accepting the subscriptions of new Shareholders, (vi) making redemptions of the Shares, and (vii) ensuring compliance with Cayman Islands law and regulation (including but not limited to anti-money laundering regulations). The Fund and the Administrator have entered into an Administrative Services Agreement concerning these duties and responsibilities. The fee payable to the Administrator is based on its standard schedule of fees charged by the Administrator for similar services.

The Administration Agreement is governed by Cayman Islands law and subject to termination by the Administrator or by the Fund upon 90 days' written notice. Under the Administration Agreement between the Fund and the Administrator, the Fund will indemnify the Administrator against, and hold it harmless from, any expense, loss, liability or damage arising out of any claim asserted or threatened to be asserted by any third party in connection with the Administrator's serving or having served as such pursuant to the Administration Agreement; provided however, that the Administrator will not be indemnified with respect to any expense, loss, liability or damage which was caused by its own gross negligence, willful default or fraud. The Administrator will not be responsible for valuing the Fund's investments and, in providing services to the Fund, will not act as guarantor or offeror of the Shares in any respect nor will the Administrator be responsible for monitoring any investment restrictions or compliance with the investment restrictions and therefore will not be liable for any breach thereof.

The Administrator has no responsibility with respect to trading activities, the Investment Manager, the management or performance of the Fund, or the accuracy or adequacy of this Offering Memorandum.

SUBSCRIPTIONS

Subscription Terms

The Fund is offering to potential shareholders Additional Shares. The purchase price of each Additional Share subscribed for pursuant to this offering will be based on the Net Asset Value calculated on the Valuation Date immediately preceding the Fund's acceptance of each subscription on the relevant Subscription Date (as defined below). Subscriptions will be eligible for acceptance by the Fund on each Tuesday (or if such Tuesday is not a Business Day, on the next day that is a Business Day) during the Offering Period (each such Tuesday or following Business Day hereinafter a "Subscription Date"). Completed Subscription Documents must be received at least two Business Days prior to any Subscription Date for such subscription to be accepted on that Subscription Date.

The minimum investment in the Fund by each new investor is U.S.$100,000; however, the Fund may, upon the advice of the Advisor/Manager, in its sole discretion, modify the minimum investment requirement or accept a lesser subscription amount.

Eligible Investors

Shares may be acquired directly or indirectly only for the account or benefit of a person to whom the offer or sale of such Shares would not be restricted under the laws of the jurisdiction of such subscriber. The Administrator, on behalf of the Fund, will accept subscriptions for Shares from an investor only if the Fund determines that the offer and sale of Shares to such an investor is exempt from registration under the securities laws of any applicable jurisdiction, does not subject the Fund or the Advisor/Manager to regulation under the laws of any jurisdiction and will result in no adverse tax consequences to the Fund, its shareholders, or the Advisor/Manager.

Each subscriber must complete and submit, for approval by the Fund, the subscription documents attached as Appendix A, establishing the eligibility of such subscriber to subscribe for Shares. Subscriptions will be accepted only from an investor who qualifies as an "Accredited Investor" as defined in Rule 501(a) of Regulation D under the Securities Act, and from an investor who is not a U.S. Person.

A "U.S. Person" is (i) any natural person resident in the United States; (ii) any partnership or corporation organized or incorporated under the laws of the United States; (iii) any estate of which any executor or administrator is a U.S. Person; (iv) any trust of which any trustee is a U.S. Person; (v) any agency or branch of a foreign entity located in the United States; (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. Person; (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; and (viii) any partnership or corporation if: (A) organized or incorporated under the laws of any foreign jurisdiction and (B) formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by "accredited investors" who are not natural persons, estates or trusts.

The Fund may refuse to accept any subscription for Shares, and may require the redemption by any shareholder, if as a result of such shareholder holding Shares of the Fund, the Fund would be subject to registration as an investment company under the Investment Company Act or if such shareholder would render the Advisor/Manager ineligible to receive a performance fee under Rule 205-3 promulgated under the U.S. Investment Advisers Act of 1940, as amended. See also "Redemption of Shares - Compulsory Redemptions" for additional circumstances in which investors may be deemed ineligible.

Investment in the Fund generally is open to institutions, including pension and other funds subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Fiduciaries of employee benefit plans subject to Title I of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code") (together, "ERISA Plans" or "Plans" or, singularly, "ERISA Plan" or "Plan"), in consultation with their advisers, should carefully consider the impact of ERISA, the Code and the regulations, rules, procedures and judicial decisions thereunder on an investment in Shares of the Fund. Among other matters, a fiduciary of an ERISA Plan should consider: (i) whether the investment is prudent and in accordance with the documents and instruments governing such ERISA Plan, (ii) the composition of the ERISA Plan's portfolio with respect to diversification; (iii) the cash flow needs of the ERISA Plan and the effect thereon of the illiquidity of the investment; (iv) the ERISA Plan's funding objectives; (v) the tax effects of the investment described in this Amended Memorandum; (vi) the fact that the shareholders in the Fund may consist of a diverse group of investors (including taxable and tax-exempt entities) and the Advisor/Manager does not take the particular objectives of any investor or class of investors into account; (vii) the risks of an investment in Fund Shares discussed in "Risk Factors" of this Amended Memorandum; and (viii) the fact that, as discussed below, investment in the Fund by Benefit Plan

Investors (as defined in Appendix B hereto under "Certain ERISA Considerations") may be significant, and, therefore, that certain ERISA regulations, described in further detail below, may be applicable to the Fund, its managers and the named Plan fiduciaries. See Appendix B hereto for disclosure regarding certain ERISA Considerations for U.S. investors.

SHARES OF THE FUND

The Fund's Share Capital

The Fund has an authorized capital of U.S.$50,000, consisting of 5,000,000 Class A Shares, par value U.S.$.01 per Share, one Class B Share, no par value and 10 Class C Shares, no par value.

Net Asset Value Determination

Net Asset Value and Net Asset Value per Share are determined by the Administrator as of the close of business on the Korea Stock Exchange on each Monday that is a Business Day. If such Monday is not a Business Day, the Valuation Date will be the next Business Day. The term "Business Day" means any day on which trading is conducted on the Korea Stock Exchange or any other stock exchange in Korea. The Fund's Net Asset Value is calculated on a weekly basis by the Administrator and equals the value of the Fund's assets, including unamortized organizational expenses as of the Valuation Date, after deducting from the total value of the Fund's assets all accrued debts and liabilities of the Fund, including (i) fees of the Administrator and any service provider to the Fund earned but not yet paid, (ii) amortization of the Fund's organization costs, (iii) any allowance for the Fund's estimated annual audit, consulting and legal fees, (iv) any contingencies for which reserves are determined to be required, (v) the Advisory /Management Fee, and other fees, including directors' fees and (vi) any other liabilities or expenses to be borne by the Fund. Net Asset Value per Share is calculated by dividing Net Asset Value on any Valuation Date by the total number of Shares outstanding at the close of business on the Valuation Date. Net asset valuations are expressed in U.S. dollars, and any items denominated in other currencies are translated at prevailing exchange rates as determined by the Administrator.

The assets of the Funds are valued at the last sale price reported on the Valuation Date on the principal securities exchange or market on which such assets are traded. In the absence of reported sales prices on the Valuation Date, assets are valued at the last reported bid quotation, in the case of assets held long, or at the last reported offer quotation, in the case of securities held short. In the absence of reported bid and offer quotations, such assets are valued from the broker bids of at least one market maker. In the absence of current broker bids, or if it is concluded that such broker bids are not indicative of the fair value of such assets, the value of assets will be recorded at their fair value as determined by the Board of Directors in consultation with the Advisor/Manager. The Net Asset Value is available on the Advisor/Manager's website: www.iiafunds.com and also may be obtained by contacting the Administrator.

Allocation of Profit and Loss

Fifteen percent of the "new net profit" of the Fund for each year is allocated to the Class B Share. For this purpose, the "net profit" of the Fund is based on the change in the unrealized appreciation or depreciation of investments as well as net investment income or loss and net realized gain or loss. The annual 15 percent allocation of net profit is made to the Class B Share only to the extent that the year-end Net Asset Value of the Class A Shares is higher than the highest previous year-end Net Asset Value per share of the Class A Shares. The highest year-end Net Asset Value per Class A Share was $426.25; the Net Asset Value per Class A Share at May 30, 2005 was $447.81. The annual special allocation of profit to the Class B Share is referred to herein as the "Performance Allocation". The amount at any time by which the cumulative annual Performance Allocations to the outstanding Class B Share since the Fund's inception exceeds the cumulative distributions with respect to such Class B Share is referred to herein as the "Undistributed Performance Balance" and the holder of the Class B Shares is entitled to 10% interest thereon. The holder of the Class B Shares may convert the Undistributed Performance Balance attributable to its share into Class A Shares based on the Net Asset Value as of such date.

The sole issued and outstanding Class B Share is held by the Advisor/Manager which receives the Performance Allocation. The Adviser/Manager may issue membership interests in the Adviser to certain investors in the Fund or persons who assist the Fund in placing Shares of the Fund with investors, and such persons may share in the Performance Allocation indirectly through their interest in the Advisor/Manager.

Any net profit of the Fund remaining after the Performance Allocation and any net loss of the Fund for each accounting period is allocated to the Class A Shares and the Class B Share in proportion to capital contributed to the Fund by each such Share. Class C Shares do not participate in profits or losses of the Fund.

Voting and Other Rights

Each Class A shareholder is entitled to ten votes for each Class A Share held, the Adviser is entitled to one vote for the Class B Share, and the Advisor/Manager and any other class C shareholder are entitled to one vote for each Class C Share held, on any matter presented to a meeting of shareholders. Meetings of the Fund's shareholders may be convened by the directors from time to time or upon written request of shareholders holding 25% or more of the outstanding voting shares of the Fund. Shareholders will receive at least 30 days' notice of any shareholders' meeting (or ten days' notice, if the Board of Directors determines that prompt shareholder action is advisable) and will be entitled to vote their shares either personally or by proxy. If the proxy sent with the notice of meeting is not completed and returned prior to the meeting, and the shareholder does not personally attend the meetings, such Shares will be voted in the discretion of the proxy and the attorney-in-fact designated in the Subscription Agreement executed by such shareholder.

Limited Liability of Owners of Shares

The Fund is a limited liability Company and intends to issue only fully paid up Shares. Accordingly, shareholders cannot be called upon to make any payments beyond the sum subscribed by them upon liquidation or in any other circumstances.

Transfers

Transfers of Class A and the Class B Share are permitted only with the prior written consent of the holders of Class C Shares, which may be given or withheld in their absolute discretion. Shares may be transferred only in round lots as issued to the shareholder requesting the transfer. Any transferee is required to furnish to the Administrator the same information that would be required in connection with a direct subscription in order for a transfer application to be considered.

The Fund generally will not permit any transfer that would result in either the transferor or the transferee of any Class A Shares owning fewer than 1000 Class A Shares.

Violation of applicable ownership and transfer restrictions may result in compulsory redemption.

Registration of Shares and Certificates

Shares of the Fund will be issued only in registered form; the Fund does not anticipate issuing bearer shares. The Administrator maintains a current list of the registered names and addresses of the Fund's shareholders at the Fund's principal office in the Cayman Islands. The shareholder register is not required by any current law to be furnished on a regular basis to any governmental authority in any jurisdiction. Certificates representing Shares will be issued, without charge, only if requested by a shareholder. Since certificates must be returned to the Administrator prior to the processing of redemption requests, the Fund discourages shareholders from requesting certificates.

DIVIDENDS AND DISTRIBUTIONS

Any dividend and interest income received by the Fund, net of applicable Korean withholding tax, will ordinarily be used to pay the operating expenses of the Fund and the Subsidiary, and, to the extent not required or reserved for that purpose, will be used to reduce or eliminate any Undistributed Performance Balance with respect to the Class B Share. Since distributions in Korea are subject to a 15 percent Korean withholding tax on dividends or interest income, reliance on such distributions to fund the Performance Allocation and other fees and expenses of the Fund may be regarded as increasing the effective cost of the Performance Allocation or other fees or expenses. The Undistributed Performance Balance may also be satisfied out of any cash held by the Fund or retained capital or by the sale of additional Shares of the Fund. If the Performance Allocation for any year exceeds available cash, the Fund may liquidate a sufficient number of securities to fund the balance of the Performance Allocation, or such balance may be added to any existing Undistributed Performance Balance, which is accumulated with interest until sufficient cash is available. The Advisor/Manager may also elect to convert the Undistributed Performance Balance attributable to the Class B Share into Class A Shares based on the Net Asset Value of the Class A Shares as of such date.

Any current income of the Fund not required by the Fund to satisfy the Performance Allocation for the current year and any Undistributed Performance Balance from prior years may, in the discretion of the Fund's directors, be reinvested in securities, retained against future Performance Allocations or distributed to shareholders. The Fund does not expect to make regular dividends or distributions to shareholders.

FEES AND EXPENSES

Organizational Expenses

Each of the Fund, the Subsidiary and the custodial banks has incurred stamp duties, filing fees, legal, accounting and consulting fees and other expenses in connection with their respective organization, including costs relating to the establishment of the Fund in the British Virgin Islands, the Subsidiary in Malaysia and the custodian in Korea and the U.S., the preparation of the constituent documents of each entity, and various costs incurred by the Advisor/Manager in connection with the formation of the Fund and the Subsidiary. The organizational expenses of the Fund and the Subsidiary have been amortized over the first five fiscal years of the Fund and the Subsidiary and represented a deduction for purposes of calculating Net Asset Value.

Fees and Expenses of the Fund and the Subsidiary

As an investor (through the Subsidiary), the Fund and the Subsidiary bear a pro rata share of the cost of the fees and expenses. The Fund pays its Korean custodian and its U.S. custodian quarterly custodial fees at an annual rate of .045% each (.09% combined), of the average daily Net Asset Value of the Fund's investment portfolio. The Fund bears all other costs of its investment program including brokerage, banking charges, paying agent fees, sales charges, interest, taxes and duties as well as professional fees of its auditors and legal counsel.

Pursuant to the Operating Agreement, the Fund pays the Advisor/Manager a quarterly advisory/management fee at an annual rate of 1.585% of the average weekly Net Asset Value of the Fund's investment portfolio during that quarter. The Advisor/Manager is also entitled to the Performance Allocation by virtue of its ownership of the Class B Share. See "Shares of the Fund – Allocation of Profit and Loss," above.

The Advisor/Manager believes that the above-described arrangement, under which the Performance Allocation is charged for the management of the Fund's investments, based on the performance of the Fund, is equitable. Furthermore, the Advisor/Manager believes the foregoing Performance Allocation arrangement to be in compliance with the SEC's Rule 205-3 concerning incentive fee arrangements between registered investment advisers and their clients.

Pursuant to the Administrative Services Agreement, the Fund pays the Administrator an annual administration fee that is calculated and accrued on each Valuation Day and billed quarterly in arrears based on its standard schedule of fees charged by the Administrator for similar services. The Administrator and the Advisor/Manager are entitled to reimbursement of actual out-of-pocket expenses incurred on behalf of the Fund. All fees paid to the Administrator are borne by the Fund. The Administrator is responsible for providing all office personnel, office space and office facilities required for the performance of its services.

The Fund and the Subsidiary bear all other expenses incidental to their operations, including, but not limited to, (i) brokerage commissions and charges incurred in connection with cash management and in investing in the over-the-counter markets or other markets to purchase Korean Securities; (ii) fees and charges of custodians and clearing agencies; (iii) income taxes, withholding taxes, transfer taxes and other governmental charges and duties; (iv) fees of legal advisers, consultants, independent auditors and other professionals; (v) directors' fees and expenses and board meeting expenses; (vi) the costs of maintaining the Fund's registered office in the British Virgin Islands and the Subsidiary's registered office in Labuan, Malaysia; (vii) the costs of printing and distributing any offering materials and any reports and notices to shareholders and (viii) all fees related to the undertaking of any other duties necessary for the proper administration of the Fund and the Subsidiary as direct in writing by the Directors.

REDEMPTION OF SHARES

Voluntary Redemptions

Class A Shares are eligible for redemption at the option of a shareholder on the first Business Day of each week (the "Weekly Redemption Date") at the Net Asset Value per Class A Share as determined on the close of business on such day.

Each holder of Shares has the right to request redemption of all or a portion of his Shares as of any specified Weekly Redemption Date by giving not less than seven days prior written notice to the Administrator; provided, however, that partial redemptions will not be permitted if the aggregate remaining value of the Shares owned by the redeeming Shareholder is less than $500,000 after the redemption is effected, or such Shareholder's initial subscription, if lower. Such redemption notice shall be deemed given on the date of receipt by the Administrator. A request for redemption, once submitted to the Administrator, may not be withdrawn except with the consent of the Administrator, except during any period of suspension or deferral of redemption as described below. Redemption proceeds normally are remitted within nine days after the applicable Weekly Redemption Date without interest for the period from such Weekly Redemption Date to the payment date. Redemption payments will be made in U.S.

dollars, and will be remitted either by wire transfer to an account designated by the shareholder or by check posted at the shareholder's risk (as specified by the shareholder in his written redemption notice). If Class A Shares are held in certificated form, the redemption payment will not be remitted until the certificates have been tendered to the Administrator, and no interest will accrue on the redemption proceeds pending the payment date.

The redemption price is equal to the Net Asset Value of the Class A Shares at the close of business on the first Business Day of each week as of which the redemption is effective. Net Asset Value determinations include a net asset valuation of Korean Securities purchased and held by the Fund or the Subsidiary as of such day, and after deducting all accrued debts and liabilities of the Fund and the Subsidiary, including any contingencies for which reserves are determined to be required, any accrued but undistributed Performance Allocation to the Class B Share, and any fees earned but not yet paid to the Administrator. In the case of redemptions as of a date other than the last day of a year, a performance accrual of fifteen percent of the increase in Net Asset Value attributable to the results of operations from the beginning of the year through the redemption date will be determined in the same manner as the annual Performance Allocation to the Class B Share is computed at the end of each year and will be deducted from the Net Asset Value of the Class A Shares redeemed.

The Fund's obligation to redeem Shares is subject to suspension or deferral as set forth below under "Suspension of Redemptions."

Compulsory Redemptions

The Fund has the right to require the compulsory redemption of all or part (on a pro-rata basis if the relevant shares are held by more than one shareholder) of the Class A Shares held by a shareholder to avoid any adverse tax or regulatory consequences or where the ownership of Shares by any person is unlawful or may be harmful or injurious to the business or reputation of the Fund or where the shareholder holds less than the minimum investment of Shares as may be provided by the directors of the Fund.

Compulsory redemptions may be made as described under "Voluntary Redemptions", above, as of the next Weekly Redemption Date after which a notice of compulsory redemption is issued to the shareholder.

Suspension of Redemptions

Although the Memorandum and Articles of Association does not so provide, the Fund reserves the right to request the suspension of the redemption of Shares upon the occurrence of any of the following circumstances:

(1) when the Korea Stock Exchange or any securities exchange or organized interdealer market on which a significant portion of the Fund's investments is regularly quoted or traded is closed (other than for holidays) or trading thereon has been restricted or suspended;

(2) whenever a state of affairs exists as a result of which disposal of the assets of the Fund or other transactions in the ordinary course of the Fund's business involving the sale, transfer, delivery or withdrawal of securities or funds is not reasonably practicable without being detrimental to the interests of shareholders, or if for any other reason the Fund is not able to obtain sufficient cash to honor redemption requests;

(3) it is not reasonably practicable to determine the Net Asset Value of the Shares on an accurate and timely basis; or

(4) if the Fund's Board has adopted a resolution calling for the liquidation and dissolution of the Fund.

If payment to any person whose Class A Shares have been tendered for redemption has been suspended, such suspension will be in effect until such suspension has been lifted, and the redemption will be effected as of the first Valuation Date after such suspension is ended on the basis of the Net Asset Value at that time.

TAXATION

Introduction

This Summary of the principal tax consequences applicable to the Fund and its shareholders is based upon advice received from British Virgin Islands, Cayman Islands, Malaysian, Korean and United States legal and tax advisors. Such advice is based upon factual representations made by the Administrator and the Advisor/Manager concerning the conduct of the activities carried out by them on behalf of the Fund. The conclusions summarized herein could be adversely affected if any of the material factual representations on which they are based should prove to be inaccurate. Moreover, while this summary is considered to be a correct interpretation of existing laws in force on the date of this Private Placement Memorandum, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with the interpretations or that changes in such laws will not occur.

PROSPECTIVE INVESTORS IN THE FUND ARE URGED TO CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE TAX CONSEQUENCES TO THEM OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF SHARES IN THE FUND. NO TAX RULINGS HAVE BEEN SOUGHT, AND NEITHER THE UNITED STATES INTERNAL REVENUE SERVICE NOR ANY OTHER TAXING AUTHORITY HAS OPINED ON THE TAX CONSEQUENCES OF THIS INVESTMENT.

British Virgin Islands

The Fund should not be subject to any income or other taxes in the British Virgin Islands. However, it is subject to an annual license fee and an annual license recognition fee. Shareholders of the Fund who are not residents of the British Virgin Islands will not be subject to any British Virgin Islands taxation (by withholding or otherwise) on distributions by the Fund or in respect of gains realized on a disposition or redemption of Fund Shares. An individual shareholder who is not a resident of the British Virgin Islands will not be subject to estate or inheritance tax in the British Virgin Islands by reason of owning shares at the time of his death.

Cayman Islands

The Fund will not be subject to taxation in the Cayman Islands. Under the system of taxation presently in force in the Cayman Islands, no taxes will be chargeable on any income, profits or capital gains of the Fund or on any dividends payable by the Fund. In addition, investors will not be subject to any tax in the Cayman Islands in respect of any Shares owned by them.

Malaysia

The Fund holds its investments through the Subsidiary, which is organized in Labuan, Malaysia. The Malaysian Labuan Offshore Business Activity Tax Act 1990, Act 445 of the Laws of Malaysia (the "1990 Act"), established a separate Malaysian income tax regime for offshore companies incorporated in Labuan, Malaysia ("Labuan companies"). The 1990 Act and associated legislation provides that Labuan companies cannot be used for investments into Malaysia, save where specific approval is given for a collective investment fund. A Labuan company is required to file an annual tax return with respect to its offshore activities. Currently, through its Labuan domicile, the Subsidiary is compliant with the procedures for claiming any applicable benefits under the double tax treaty between Korea and Malaysia. The Subsidiary will comply with all regulatory requirements to preserve this status.

No Malaysian withholding tax is imposed on dividend distributions (or other distributions) to shareholders of Labuan companies, as long as the income with respect to which such distributions are made has been generated outside of Malaysia. The Subsidiary anticipates that it will generate all of its income outside of Malaysia and hence no withholding should be imposed on distributions made by the Subsidiary to the Fund."

Korea

Under current Korean legislation, neither the Fund or the Subsidiary should be subject to any form of Korean taxation on income or capital gains other than in relation to withholding taxes on payments made to the Subsidiary in respect of dividends and interest. Based on the double tax treaty between Korea and Malaysia, there is no capital gains tax although dividends or other distributions to the Subsidiary in respect of interest are subject to a Korean withholding tax at a rate of 15 percent.

United States

Each of the Fund and the Subsidiary should be treated as partnerships for U.S. Federal income tax purposes. The Fund will provide annual partnership information statements in compliance with U.S. tax law.

Provided that the Fund is not deemed to be engaged in a trade or business in the United States, in general the only U.S. Federal income taxation potentially applicable to the Fund or the Subsidiary, or non-U.S. shareholders of the Fund would be withholding tax on certain U.S. source investment income, if any. The Fund and Subsidiary expect that they will not be treated as engaged in U.S. trade or business.

A more detailed description of United States tax aspects of investment in the Fund is provided in a Supplemental Disclosure Statement for U.S. Investors attached as Appendix B.

Other Jurisdictions

In other jurisdictions where the Fund may invest, foreign taxes may be withheld at source on dividend and interest income derived by the Fund at rates ranging typically up to 30%.

Anti-Money Laundering Regulations

As part of the Fund's responsibility for the prevention of money laundering, the Fund, the Fund Administrator, its affiliates, subsidiaries or associates require a detailed verification of the applicant's identity and the source of the payment. Depending on the circumstances of each application, a detailed verification might not be required where:

(a) the applicant is a recognized financial institution which is regulated by a recognized regulatory authority and carries on business in a country listed in Schedule 3, Money Laundering Regulations 2000.

(b) the application is made through a recognized intermediary which is regulated by a recognized regulatory authority and carries on business in a country recognized in Schedule 3, Money Laundering Regulations 2000. In this situation the Fund may rely on a written assurance from the intermediary that the requisite identification procedures on the applicant for business have been carried out.

(c) a prospective investor makes the Payment from an account held in the prospective investor's name at a recognized financial institution.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognized as having sufficient anti-money laundering regulations.

The Fund and the Fund Administrator reserve the right to request such information as is necessary to verify the identity of an applicant. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Fund Administrator will refuse to accept the application and the subscription monies relating thereto.

If any person who is resident in the Cayman Islands (including the Fund Administrator) has a suspicion that a payment to the Company (by way of subscription or otherwise) contains the proceeds of criminal conduct that person is required to report such suspicion to The Proceeds of Criminal Conduct Law (2004 Revision).

ADDITIONAL INFORMATION

Reports to Shareholders

The Fund furnishes annual audited reports to its shareholders containing financial statements of the Fund examined by independent auditors. The Fund also furnishes quarterly reports containing an unaudited condensed balance sheet and a statement of operations. Net Asset Value quotations for Shares as of the most recent weekly Valuation Date are available on the Advisor/Manager's website: www.iiafunds.com and also may be obtained by contacting the Administrator.

Fiscal Year

The Fund has a September 23rd fiscal year-end.

Available Documents

This Amended Memorandum is not intended to provide a complete description of the documents summarized herein. Copies of the Operating Agreement and Memorandum and Articles of Association are available for inspection by shareholders and prospective investors during normal business hours at the Fund's principal office in George Town, Grand Cayman and will be furnished to shareholders upon written request.

Inquiries

Inquiries concerning the Fund and the Shares (including information concerning subscription and redemption procedures and current Net Asset Values) should be directed to the office of the Administrator (at the address set forth in the Directory).

Enforcement of Civil Liabilities and Judgments

The Fund is a British Virgin Islands company, and all of its assets and operations are located, and all of its revenues are derived, outside the United States. However, it may not be possible for investors to enforce outside the United States judgments against the Fund obtained in the United States in any civil actions, including actions predicated upon the civil liability provisions of the United States federal securities laws. In addition, certain of the directors of the Fund are non-residents of the United States, and all or a substantial portion of the assets of such persons are or may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, or to enforce against them judgments obtained in the United States courts, including judgments predicated upon the civil liability provisions of the United States federal securities laws. The Fund has been advised by its British Virgin Islands and Korean counsel that there is uncertainty as to whether the courts of British Virgin Islands or Korea, as applicable, would enforce (i) judgments of United States courts obtained against the Fund or such persons predicated upon the civil liability provisions of the United States federal and state securities laws or (ii) in original actions brought in the British Virgin Islands, or Korea, as applicable, liabilities against the Fund or such persons predicated upon the United States federal and state securities laws. A final and conclusive judgment in Federal or State courts of the United States under which a definite sum of money is payable (not being a sum payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty or multiple damages) may be subject to enforcement proceedings as a debt in the Court of the British Virgin Islands under the common law doctrine of obligation. Among other things, it is necessary to demonstrate that the court which gave the judgment was competent to hear the action in accordance with private international law principles as applied in the British Virgin Islands and that the judgment is final and conclusive on the merits and is not contrary to public policy in the British Virgin Islands, has not been obtained by fraud or in proceedings contrary to natural justice and was not based on error in British Virgin Islands law.

APPENDIX C

REPUBLIC OF KOREA
AND
KOREAN FINANCIAL MARKETS[1/]

Background

AREA AND POPULATION. South Korea is a country of eastern Asia at the southern end of the Korean peninsula. The Korean peninsula is a site of an ancient civilization dating to the 12th century B.C., the peninsula was united as a kingdom in the 7th century A.D. and despite a Mongol invasion (13th century) remained unified until the Japanese occupation of 1910 to 1945. After World War II the Soviet- and U.S.-occupied territories formed separate republics, and a North Korean invasion of the south led to the Korean War (1950-1953), leaving the peninsula divided along much the same line as before. Ruled by a series of authoritarian military leaders, South Korea developed a prosperous economy on the strength of trade ties with Japan and the United States. Seoul is the capital and the largest city with a population of about 48 million people.

GOVERNMENT. Governmental authority in Korea is highly centralized and is concentrated in a strong presidency. The President, who is the Chief of State and head of the government, is also Chairman of the State Council (cabinet) which consists of the Prime Minister, who is appointed by the President with the consent of the National Assembly, and other members appointed by the President on the recommendation of the Prime Minister. The Prime Minister, by order of the President, is responsible for the overall coordination of the various ministries and agencies. The President has the right to veto new legislation and to take emergency measures in case of natural disaster, serious fiscal or economic crisis, and a state of war or a similar condition. The present Constitution provides that the President is elected by popular vote for a term of five years, after which he may not be reelected.

The current President, Roh Moo-Hyun, the 16th in the republic's history, was elected in February 25, 2003. The Roh administration set forth three goals: "Democracy with the People," "Society of Balanced Development," and "Era of Peace and Prosperity in Northeast Asia." The policy of peace and prosperity is an outgrowth of President Roh Moo-hyun's strategic vision.

Modern political parties based on democratic principles were first introduced to Korea only after it was liberated from the Japanese colonial government in 1945. Initially, there were Hanmindang, Handok-dang and numerous other parties which were little more than small groups of relatives, acquaintances, schoolmates and townsfolk. The Liberal Party, founded in 1951, was the first to establish a nationwide

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1/ Source: Korea.net, January 2005

organization. The Democratic Party, the Democratic Republican Party (DRP) and the New Democratic Party (NDP) appeared later, and like the Liberal Party, it also organized local branches around the country.

INTERNATIONAL RELATIONS. Korea maintains diplomatic relations with most nations, but its strongest ties are with the United States. Korea and the United States have entered into several agreements designed to promote Korea's economy and a mutual defense treaty. Korea also maintains strong ties with Japan, and Japan constitutes Korea's leading source of imported capital goods, technology and foreign direct investment. Since the beginning of 1989, Korea has established diplomatic relations with Bulgaria, the Czech Republic, Slovakia, Hungary, Mongolia, Poland, Romania, Russia, the Federal Republic of Yugoslavia and Croatia. Diplomatic relations with the People's Republic of China were officially established in August 1992.

In the 1990s, rapid changes occurred in Socialist bloc countries, which politically influenced the Korean Peninsula. Of note, in 1990, the South-North High Level Talks between the Prime Ministers from both sides started and in 1991 produced the "South-North Basic Agreement." It recognized that the South and North were in a "temporary special relationship" in the process toward reunification. The "Joint Declaration of Denuclearization" was signed and took effect as of February 1992.

The Administration of President Kim Dae-jung (1998-2002) ushered in another era of reconciliation and cooperation with North Korea. Underscoring his "Sunshine Policy," President Kim visited Pyongyang in 2000 to hold the first-ever summit with his North Korean counterpart, Kim Jong-il. The historic June 15 Joint Declaration was signed emphasizing the promotion of mutual understanding, developing inter-Korean relations, and achieving peaceful reunification. Projects of mutual interests were discussed and reunions of separated families have been held in Seoul and Pyongyang. President Kim Dae-jung received the 2000 Nobel Peace Prize in recognition of his years of struggle to improve democracy and human rights in his native land and his efforts for reconciliation between South and North Korea.

The Roh administration continues to broaden and deepen inter-Korean exchange and cooperation. South Korea will lay a foundation for a prosperous community through the expansion and development of inter-Korean economic cooperation projects and focus on restoring national homogeneity by expanding social and cultural exchanges. Relations with Japan will also continue to improve with the incumbent, particularly as the two governments make progress in the free-trade negotiations.

DOMESTIC ECONOMY

GENERAL. Korea's goal is to solve the problems rooted in its past and create an economic structure suitable for an advanced economy meeting the challenges of the 21st century. The journey to industrialization began in the early 1960s with the introduction of First Five-Year Economic Development Plan. It was at this point that the government made a conscious policy shift from the inward-looking growth strategy of import substitution to the outward-looking growth strategy of export promotion. The essence of growth strategy was to promote exports of light manufactured goods in which Korea possessed comparative advantage given its cheap labor cost. The government utilized various macroeconomic mechanisms at its disposal in implementing this strategy, such as maintaining high interest rates to mobilize domestic savings, and enacting the Foreign Capital Promotion Act to encourage the inflow of foreign investment.

The government's export promotion strategy did not receive warm acceptance at first. Conservative economists argued that such strategy would endanger national independence through excessive reliance on foreign capital. Indeed, foreign capital made up 83% of total Korean investment in 1962, and it was not until late in the decade that Korea raised its exports enough to attain a credible foreign debt servicing capability.

Since its founding in 1948, the Republic of Korea has been committed to the concepts of democracy and a free-market economy, but its foreign relations have undergone significant changes since its founding. Primary responsibility for formulating Korea's economic policies, including the development and implementation of a series of successive economic and social development plans (the "Economic Plans") which have guided economic policy since 1962, is with the government's Economic Planning Board, headed by the Deputy Prime Minister. The emphasis of the Economic Plans has changed from the development of import substitution industries and the infrastructure to a focus on economic stabilization, liberalization of the economy, reduction of restrictions on direct foreign investment and improvements in social conditions. Since the establishment of the Economic Plans, Korea has made significant progress toward the transformation of its economy from one characterized by agricultural production and the export of raw materials, textiles and clothing to that of a modern industrial state. Korea's exports now include ships, motor vehicles, integrated circuits and consumer electronics.

Korea has been rapidly integrating itself into the world economy since the onset of the 1997 crisis. The government has advanced a new paradigm that involves upgrading business practices to international standards, promoting human resources and technology development and enhancing institutional efficiency. The nation became the 29th member country of the Organization for Economic Cooperation and Development (OECD) in 1996.

With a history as one of the fastest growing economies in the world, Korea is working to become the focal point of a powerful Asian economic bloc during the 21st century. The Northeast Asian region commands a superior pool of essential resources that are the necessary ingredients for economic development. These include a population of 1.5 billion people, abundant natural resources, and large-scale consumer markets. The 30 largest business groups of related companies in terms of total consolidated assets commonly referred to as "chaebol" -- the four largest of which are Hyundai, Samsung, Daewoo and LG -- are engaged in a wide range of businesses and play a significant role in the Korean economy. Some development in outside monitoring of corporate management can also be cited as one of the significant achievements. The so-called "big-deals" to exchange duplicate investments among chaebols on the basis of newly grouped lines of business was the hallmark of the first-round of restructuring that eliminated wasteful competition.

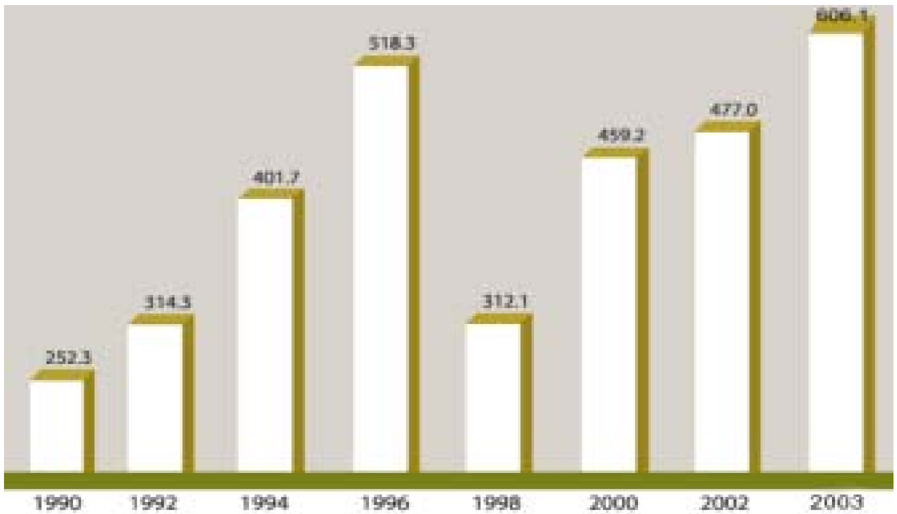
GROSS NATIONAL PRODUCT. Korean GDP, a measure of economic size, was estimated at $667.4 billion in 2004, up from $605.2 billion in 2003. Korea, once known to be one of the world's poorest agrarian societies, has undertaken economic development in earnest since 1962. In less than four decades, it achieved what has become known as the "economic miracle on the Hangang River" a reference to the river that runs through Seoul-an incredible process that dramatically transformed the Korean economy while marking a turning point in Korea's history. South Korea became the world’s 10th biggest country in terms of gross domestic product (GDP) in 2004, according to the Ministry of Commerce, Industry and Energy (MOCIE).

Korea developed rapidly from the 1960s, fueled by high savings and investment rates, and a strong emphasis on education. For the past three decades, the Korean economy has maintained a GNP growth rate of 9 percent. In 2001, Korea's exports recorded US$1504.4 billion, a surge of 188 times more than the US$8 million export value in 1970. South Korea's ranking in terms of its gross domestic product (GDP) and per-capita gross national income (GNI) among major industrial nations stood at 13th, in 2000, and $605.2 billion in 2003 when Korea ranked 11th in world GDP. The major factors contributing to this remarkable and sustained growth trends are high-quality manpower and an outward-looking development strategy.

In the process of economic growth, primary industries' share in the total industrial structure decreased steadily from 27.1 percent in 1970 to 14.8 percent in 1980 and to 4.4 percent in 2001. The manufacturing industries' share increased from 21.5 percent in 1970 to 29.2 percent in 1990 and to 30.3 percent in 1996. However, it dipped to 28.9 percent in 1997, reflecting constraints leading to the economic crisis late in the year. Construction and SOC (Social Overhead Capital) increased steadily from 6.7 percent in 1970 to 13.7 percent in 1997 and dipped to 11.1 percent in 2001 with a slumped construction industry after the 1997 crisis. The share of the service industries was 54.1 percent in 2001, which by far was the greatest growth sector in the economy.

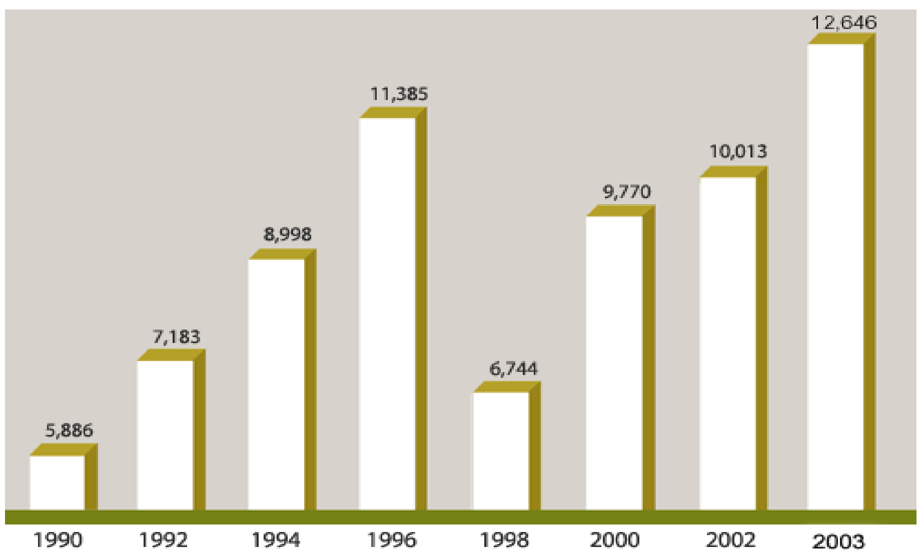
An outward-oriented economic development strategy, which used exports as the engine of growth, contributed greatly to the radical economic transformation of Korea. Based on such a strategy, many successful development programs were implemented. As a result, from 1962 to 2003, Korea's Gross National Income (GNI) increased from US$2.3 billion to US$606.1 billion, with its per capita GNI soaring from US$87 to about US$12,646. The following charts clearly indicate the magnitude of success that these economic programs have brought about.

Gross National Income (in US$ billion)



Source: The Bank of Korea

Per Capita GNI

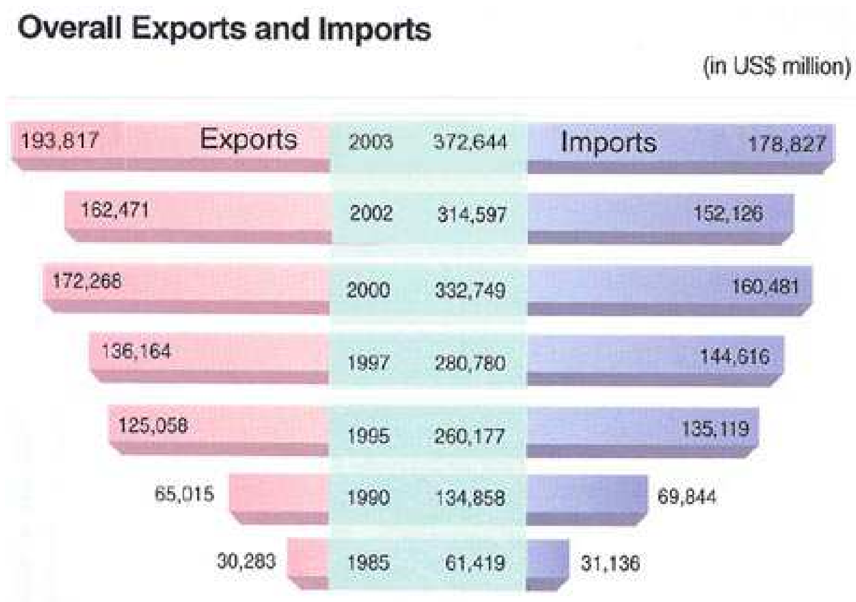


Source: The Bank of Korea

GNI and per capita GNI drastically dropped to US$312 billion and US$6,744 in 1998 due to the fluctuation in foreign exchange rates but these figures returned to the pre-economic crisis level in 2002. Korea's $9,628 marking 36th in the world was up from $5,886 in 1990, according to the BOK. Korean income earners marked 68.1 percent in the ratio of their wages to their gross incomes, lower than Japan's 89.7 percent, Britain's 82.5 percent and the United States' 79 percent. Per capita gross national product (GNP) was also expected to reach $16,900 in 2004, up from $12,030 in 2003, when Korea's world per capita GNP ranked 50th.

"Considering the growth rate of per capita GNP in the past, the country could enter an era of $20,000 in per capita GNP in 2008. In that year, the figure is forecast to hit $21, 068," according to the MOCIE its report on the "Korean Economy in the World".

The high rate of growth of the Korean economy was due primarily to previously rapid growth in the exports of goods and services and in domestic fixed capital formation. The former grew 16.8% in 1994 and 30.3% in 1995 and the latter at 11.8% in 1994 and 12.4% in 1995. The growth in the volume of exports has been achieved by geographical diversification of markets and a shift in emphasis in the composition of exports from agricultural products, raw materials and textile products to manufactured goods, particularly electronics products, ships, machinery and steel.



Source: Ministry of finance and Economy

Korean exports, which made a big contribution to the nation's economic growth amid the consumption slump in 2003, are expected to be ranked 12th in 2004. Korean imports have steadily increased due to the nation's liberalization policy and increasing per capita income levels. As one of the largest import markets in the world, the volume of Korea's imports exceeded those of China in 1995, and were comparable to the imports of Malaysia, Indonesia, and the Philippines combined.

PRICES, WAGES AND EMPLOYMENT. Consumer prices increase in Korea stabilized between the years of 1983 to 1987, remaining at a stable level of approximately 3%. However, from 1988 to 1989, widespread concern about inflation, due to an increase in real estate prices, wage hikes and a rise in the cost of foreign raw materials, resulted in a considerable increase of CPI by 8.6% in 1990 and 9.3% in 1991. Since then, due to the government's strong efforts to stabilize the overheated economy, the CPI recorded a 6.2% increase in 1992 and 4.8% in 1993. Although consumer prices stabilized to a more modest 4.4% increase in 1997 and appeared to have reached a relatively stable level in the 1990s, the outbreak of the economic crisis towards the end of November adversely affected the foreign currency rate and as a result, consumer prices soared substantially in 1998, recording an increase rate of 7.5%, the highest since 1991. In 1999, the consumer price index recorded a marginal increase of 0.8%, largely due to the drop in foreign currency rate, oil prices and oil-based products as well as stabilized prices of industrial goods and personal service costs. In 2000, consumer prices showed a modest increase of 2.3%. In 2001, consumer prices moved upward by 4.1%, up 1.8%p over the preceding year. The slightly higher increase in consumer prices was prompted by the rise in the foreign currency rate that continued from the second half of the preceding year, rise in health insurance premiums and housing prices. The CPI stabilized in the second half of the year, which was attributable to a decline in international oil prices as well as stabilized agricultural and public utility prices.

The Producer Price Index recorded a relatively high rate of increase during the early 1960s but the increase rate slowed in the years following 1962 when the industrial production capacity expanded and exports increased through the successful implementation of the economic development plan. In the aftermath of two oil crises in the 1970s, Korea recorded double-digit increase in the PPI during the mid- to late 1970s. The PPI steadily maintained a one-digit increase rate from 1982 owing to rich harvests of agricultural products and a drop in the cost of foreign raw materials. Due to the unsuccessful crop of 1991, higher farm-livestock-fishery prices boosted the producer price index to 4.8%; however, from then until 1994, the PPI steadily remained within the 3% range. In 1995, a substantial rise in industrial products in comparison to other goods brought the PPI up by 4.7% but, from 1996 to 1997, the total index increase remained stable within 3% although service costs, which were added to the PPI for the first time, recorded a notable rise.

In the following year of 1998, the outbreak of the economic crisis caused the foreign exchange rate to shoot up and industrial products including oil as well as electricity, gas and water costs skyrocketed causing the PPI to record a two-digit increase of 12.2% for the first time in the 1990s. In 1999, despite the sharp rise in farm-livestock-fisheries prices due to the nation being hit hard by a strong typhoon, the declining prices of raw materials as well as stabilized wages, prompted by a decline in foreign currency rate, led to a decline in the price of industrial goods and service costs, serving to lower the PPI by 2.1% from the previous year. In 2000, the PPI rose by 2.0%. In 2001, prices of electricity, gas and water rose by 7.3% while prices of agricultural, forestry and fisheries products recorded a modest increase of 1.0%. The prices of manufactured products showed an increase of 1.5%, down from the preceding year mainly due to a decline in international prices and sluggish demand at home and abroad. The PPI in 2001 registered an increase of 1.9%, a slightly lower margin than the preceding year.

The following table shows selected price and unemployment rate indices for the periods indicated.

	PRODUCER PRICE INDEX	INCREASE OVER PREVIOUS YEAR	CONSUMER PRICE INDEX	INCREASE OVER PREVIOUS YEAR	UNEMPLOYMENT RATE
Dec-04	108.4	5.3%	115.4	3.0%	3.6
Dec-03	102.9	3.1%	112	3.4%	3.5
Dec-02	99.8	2.3%	108.3	3.7%	3.0
Dec-01	97.6	-2.5%	104.4	3.2%	3.4
Dec-00	100.1	0.6%	101.2	2.7%	4.1
Dec-99	99.5	0.9%	98.5	1.4%	4.8
Dec-98	98.6	3.6%	97.1	4.0%	7.9
Dec-97	95.2	9.6%	93.4	6.5%	3.1
Dec-96	86.9		87.7		2.3

Source: Bloomberg Analytics and the World Bank

INCOME. In 2001, the average monthly income of salary and wage earners in urban areas was 2.63 million won, an increase of 10.0% or 238,200 won over 2000 which amounted to 2.39 million won. The current income per household increased by 10.3% (228,000 won) amounting to 2.44 million won while non-current income amounted to 183,000 won, indicating a 5.9% (10,300 won) increase. The median income, indicating the income of households ranked in the middle value in terms of income level amounted to 2.22 million won, up 9.3% from 2.03 million won in 2000. The earned income of salary and wage earners in urban areas amounted to 2.21 million won, an increase of 10.1% over the previous year which stood at 2.01 million won. As regarding the source of earned income, income earned by the household head averaged 1.79 million won, which is an 8.9% increase (146,300 won) over the previous year whereas income earned by spouses and other family members increased by 15.7% and 14.4%, respectively.

Korea's labor force is one of the economy's principal assets. In the period from 1991 to 1995, the economically active population of Korea increased by 12.8% to 20.3 million, while the number of employees increased 13.0% to 19.8 million. The economically active population over 15 years old as a percentage of the total population over 15 years old has remained fairly stable at between 58% and 62% over the past decade. The labor force is well-educated, with literacy being almost universal among workers under 50.

EXPENDITURE. In 2001, the average monthly expenditure per household living in urban areas amounted to 1.75 million won, an increase of 8.5% over the previous year. In 2001, spending on furniture & household utensils, housing, transportation & communication registered a relatively high increase whereas spending on culture & recreation, food, fuel, light & water charges, clothing and footwear increased at a marginal rate. Expenses for furniture and household utensils showed the highest increase of 16.0% over the preceding year among expenditure of each category prompted by the increase in the purchase of home appliances such as refrigerators, air conditioners and washing machines as well as increased spending on educational expenses. On the other hand, expenses for culture and recreation showed a modest increase of 0.5% year-on-year owing to reduced spending in computers, VTRs and audio system.

INDUSTRY. South Korea's industrial production increased a moderate 5.7 percent from a year ago in October. The Korean economy appeared to be in the process of recovery. Industrial production increased and some economic indicators also improved with the rapid growth of exports from September 2003. As a result of structural reforms in the economy following the 1997-98 upheavals, Korea was able to build a strong industrial foundation, especially in the areas of semiconductors, automobiles, shipbuilding, and petrochemicals. For example, Korea's shipbuilding industry holds 32. 3 percent of the world market share, competing neck and neck with Japan, followed by the People's Republic of China with 6.8 percent in 2001.

High technology products, including semiconductors, telecommunications equipment and computers, fared quite well compared with the lower value-added products. According to a recently published survey, the top 10 export products in the first half of 2001 were: semiconductors, automobiles, computers, wireless telecommunication equipment, ships, oil products, synthetic fibers, visual display devices, steel plates and clothing. Those items accounted for 55.4 percent of the nation's total export revenue during the period. Compared with the top 10 item list made in 1982, only five items - clothing, ships, steel plates, semiconductors and visual display devices remained on top. Semiconductors, automobiles, and communication equipment grew so vigorously in terms of export that it topped the list and replaced other items such as shoes, synthetic filaments, audio equipment, textiles and steel structures.

Computer & Telecommunications Equipment Industries

COMPUTER & TELECOMMUNICATIONS INDUSTRIES. The major products that Korean computer manufacturers produce are multimedia-capable computers such as desktop personal computers (PCs) and notebook PCs, and peripherals such as hard-disk drives (HDDs), CD-ROM drives, and printers.

The Korean computer & peripherals industry has played a major role in the national economy recovery from the financial crisis in 1997. In line with the world-wide IT (Information Technology) boom, including the Internet and technology revolution, the industry has shown a noteworthy impetus in many aspects. Korea's computers have achieved remarkable results in production and exports by following the small margin per unit and large-scale selling strategy. From 1996 to 1999, production and exports have grown by 15.9 percent and 15.5 percent annually as illustrated in the chart below. Korea is especially outstanding in the area of computer peripherals by the improved quality of goods and lowered value of the Korean currency. The share of peripherals of total computer products was 66 percent and 73 percent of total production and exports in 1999.

The world's demand for computers and peripherals in 1996 was at a standstill, mainly because the purchasing of PCs has been underway since 1995. However, this was not the case in Korea. The export growth rate of Korea-made computer products maintained a two-digit figure, 14.8 percent in 1997. This was possible because demand for computers and peripherals recovered in the major world markets and Korean manufacturers have improved their technologies necessary for high-end peripherals.

The industry is expected to maintain substantial growth trends for many years to come, mainly due to increasing world demand as well as to the growing Korean market.

TELECOMMUNICATIONS EQUIPMENT. The telecommunications equipment industry is composed of wire and radio communication equipment. Wire communication equipment includes wire telephone sets, telephone switch boards & exchanger's equipment, carrier current line system, telegraphic apparatuses, and parts. Radio communication equipment encompasses wireless telephone sets, transmission apparatuses, television cameras and receivers, receiving apparatuses, and parts.

In recent years, Korea's telecommunication equipment industry has been very successful, with the mobile phone as the most ideal item. The CDMA (code division multiple access) digital mobile phone service (cellular phone service) and CDMA based PCS (personal communications service), which were commenced in 1996, have expedited an explosive nationwide demand for mobile phones. In addition, invigorated with the successes in the domestic market, mobile phone manufacturers have also succeeded in overseas markets, listing mobile phones as one of the pivotal export items that contributed immensely to putting the national trade balance into the black. Passing through the financial crisis of 1997-98, the domestic market for telecommunications equipment has increased steadily since various new services initiated more fierce competition.

The telecommunications equipment industry in Korea has been adapting and introducing very successful technological developments for the last several years, and the future looks prosperous. In particular, mobile phones show great prospects as the IMT-2000 is in preparation for global multimedia mobile telecommunication services in the near future. The magnitude of the domestic market for the industry has recorded outstanding growth in the past, and will continue to prosper in the future.

CONSUMER ELECTRONICS. Consumer electronics products are generally divided into three categories: video equipment, audio equipment and home electrical appliances. Video equipment comprises TVs and VCRs, while audio equipment consists of radios and audio components, and home electrical appliances includes microwave ovens, refrigerators, washing machines, and room air-conditioners.

Due to the economic recovery and increasing demand in the export domestic markets, the electronics industry will grow briskly. Although the industry expanded remarkably in 1999, the consumer electronics industry's production share decreased to 4.8 percent from 6.5 percent in 1996, and that of exports decreased to 12.3 percent in 1999 from 19.0 percent in 1996. This clearly reflects the shift of electronics production by manufacturers towards semiconductors, telecommunication equipment and software. Furthermore, the Korean consumer electronics industry, as a result of increase in labor costs, also had an impact by its weakened competitiveness, which is losing its edge in the middle and low price range products.

By early 1999, the consumer electronics industry had fully recovered from the recession of 1997. The main factors for its recovery are attributable to general business recovery, Asian region economic recovery, and brisk demand from overseas markets. Production, supported by large domestic demand and strong exports, stood at US$ 9.444 million in 1999, a 36.4 percent increase over 1998. The key to this stellar growth was the aggressive export-driven strategy targeting the global market with products that have world class quality including flat-screen display TVs, and air conditioners, etc.

Home network digital TV systems are being mass produced and the development of Internet and digital household products is in full swing with such items as Internet TVs and Internet refrigerators. Prices are decreasing constantly. With the growing popularity of Digital TV and DVD, the digitalization of the audio sector is being accelerated. The product line-up of audio systems with MD and DVD players is expanding rapidly. In addition, demand for digital audio/video receiver amplifiers and home theater systems are increasing. DVD players are gaining attention with the increased availability of DVD products in the market. Meanwhile, MP3 players, which Korean companies commercialized for the first time in the world, allow access to real-time, low-cost AOD services via the Internet. The next-generation audio products expecting to duplicate the Walkman phenomenon are being developed by 100 different Korean audio-specialty and venture companies. These include integrating MP3s, mobile phones, FM receivers, audio & video CDs, karaoke CDs, etc. into a multiplayer format.

The development of network technology has sparked the digitalization of domestic electrical home appliances. For instance, by reading bar codes attached to food items, high-tech refrigerators are under development that are designed to record and display the quantity and storage period of products. A new concept air-conditioner has incorporated a communication function to receive information from weather forecasters, thus maintaining a comfortable indoor environment.

Moreover, Korean electric home appliance makers are busy developing electricity-saving products. Refrigerators of the 500~680-liter class have made their debut, with electricity consumption cut down to a half of conventional models. Washing machines that can save a lot of electricity also have been developed. In addition, Korean companies have succeeded in the development of air conditioners utilizing high-function pressure so as to maximize energy efficiency, thus saving more than half the energy required by conventional products.

Meanwhile, air conditioners led home appliance exports despite growing at a moderate 6.9 percent rate in domestic sales. Air conditioners followed microwave ovens as the second leading export product. Production, supported by increased nationwide demand and strong exports, stood at 5,657 billion won (US$4.5 billion), a 13.4 percent increase over 1998.

AUTOMOBILES. The automotive industry leads a wide range of industry, including electronics and steel and has a direct impact on other industries ranging from raw material and parts suppliers to machine manufacturers, car repair shops, retailers, and financial institutions. In Korea, the automotive sector contributes 9.4% of value-added and production of total manufacturing industry and accounts for 8.3% of national export value and 7.4% of gross national employment.

The Korean automobile industry started in the early 1960s when the First Five-Year Economic Development Plan was implemented by the Korean government. Korea was the world's fifth largest steel producing country in 2004, while it placed sixth in world car production in 2003.

Since then, the Korean automotive industry achieved a sustained growth thanks to consistent Korean economic growth and continuous investment in R&D as well as dedicated efforts to build up capabilities by the manufacturers, except in the latter part of 1990s following the financial crisis in late 1997. Korean auto industry is competitiveness is derived from its highly skilled and experienced workforce and the availability of good quality parts and components at competitive prices. It also has strong export marketing activities to meet diversified demands in the global market with product lines comprising from mine cars to SUVs and high-end cars, as well as commercial vehicles (buses and trucks) and special-purpose vehicles.

The Korean auto industry has grown as the fifth largest auto producer in the world accounting for 5.4% of world auto production. Currently there are five major automakers in Korea: Hyundai Motor Co., Kia Motors Corp., GM Daewoo Auto & Technology Co., Ssangyong Motor Co., and Renault Samsung Motors Co., Ltd.

In the wake of 1997 the financial crisis, there was a massive restructuring and realignment. Hyundai took over Kia in 1999, and GM acquired Daewoo in 2002. Samsung was also sold to Renault in 2000. Such restructuring and streamlining of Korean auto industry brought about enhanced competitiveness throughout the industry.

In 2002, over 3.1 million automobiles were produced in Korea, the highest record the country has ever achieved. In the same year, domestic sales reached 1.62 million units, up 11.8% over 2001. This is attributed to the relatively brisk Korean economic growth and the government's measures to boost consumption, and also to the rapidly growing popularity of SUV as well as the introduction of many new models. However, exports remained at the same level of 2001 with 1.5 million units.

In a long-term prospect, Korean automobile industry will achieve a stable growth, as it vigorously pursues more R&D in advanced technologies to enhancing capability in developing new products, and to achieve higher safety and environmental competitiveness. It is predicted that total production will reach 4.25 million units in 2010, while domestic sales and exports will increase to 2.15 million units and 2.1 million units, respectively.

SHIPBUILDING. The shipbuilding industry involves the construction, repair, and conversion of all sorts of ships. Shipbuilding requires heavy investment and advanced technology as well as a wall-trained labor force.

Korea remains the world's best in ship orders and shipbuilding in 2004, following 2003. The Korean shipbuilding industry, as a core industry with a high upstream and downstream effect, has played a significant role in leading the development of other industries such as iron and steel, chemical, electric, electronics, shipping, defense, and leisure industries. In 1970s, Korea started to emerge as one of world's shipbuilding competitors based on its abundant high-quality labor.

The shipyard construction of the 1970s reflects this growth. In 1973, Hyundai Heavy Industries Co., Ltd. completed construction of its shipyard. In 1978, Daewoo Shipbuilding and Marine Engineering Co., Ltd. completed a No. 1 dock, and in 1979, Samsung Heavy Industries Co., Ltd constructed its own No. 1 dock.

In the 1980's, the situation had progressed sufficiently for Korea to rank second in the world shipbuilding league in terms of market share. Productivity improvement, technology development, and the growth of related industries, among other factors, helped increase shipbuilding volume continuously without having to add new facilities. And in the second half of the 1980s, their world market share rose from 10 percent to 25 percent.

In the 1990s, Korean shipbuilders made every effort to accumulate the advanced technology required for the construction of high value-added vessels. In the late 1990s, Korean shipbuilders achieved great productivity improvement both in terms of yearly production volume per employee and yearly number of turnover of dry docks.

According to the data released by the Korea Shipbuilders Association (KOSHIPA), new orders placed by Korean shipbuilders in 2002 amounted to 7.6 million CGT. This is an increase of 18.5% compared with 6.4 million CGT in the previous year.

In the 21st century, Korean shipbuilders are seeking to transform quantitative into a qualitative growth, and are focusing on producing high value-added ships which offer greater profitability.

GENERAL MACHINERY. The general machinery industry is a typical capital goods industry, which supplies production equipment and parts to every sector of the economy. This industry consists of engines & turbines, machine tools & metal processing machinery, agricultural, construction & mining machinery, transportation & stevedoring machinery, air-conditioning & refrigeration machinery, chemical equipment, printing machinery, textile & leather processing machinery, rubber & plastic processing machinery, among many others.

The general machine industry in Korea has been decisive in strengthening the competitiveness of the industry as a whole, supplying production equipment and parts to every manufacturing sector. The actual situation is, however, not optimistic. As small business companies, which lack R&D capital, technology and marketing power, have been given too much weight in the light of the number in this industry sector, the machine industry incurred much more serious damage than any other industry by the battered economy since late 1997.

It was a great blow to the machine industry when the Korean economy plunged under the IMF bail-out program. Production and domestic demand fell to around half the level of the previous year in 1998. This was mainly because of the downturn in facility investment and a large number of machine-demanding companies going under. The situation worsened when the companies even sold their used equipment and machines at their plants.

After undergoing such a desperate decline, the general machine industry is on the verge of recovery, but not yet on track. Production was estimated to rebound to the amount of US$24,722 million in 1999, a sharp increase of 25.3 percent compared with the previous year. This was mainly due to the upsurge in domestic equipment investment following the overall recovery of the Korean economy. It also caused the amazing downswing in imports when the major demand industries, which were ailing from the Korean economic recession, drastically lowered investment into their facilities. Total import sank to US$7,901 million in 1998 from US$16,959 million in 1997, down 53.4 percent. Consequently, the local market dwindled drastically in 1998. In 1999 imports went up by 26.9 percent to US$10,028 million, recovering somewhat but still not enough. This import amount was less than half of the US$22,340 million in 1996.

Domestic demand was estimated to have increased by 32.7 percent in the same period, amounting to US$25,515 million. The local market has not recovered enough yet, but is believed to have passed the turning point. Export was sluggish between 1996 and 1999, showing only an annual average growth rate of 0.6 percent. Korean exports to the United States and the EU were active however Asian countries still feeling the effects of the recession were sluggish.

The general machine industry is expected to focus on high-precision and high-capacity following worldwide trends, which is requiring continuous and enormous R&D. However, it is doubtful whether local makers can compete with advanced countries in such spearhead sectors.

Production is estimated to amount to US$38 billion in 2002 at an average annual growth rate of 10.9 percent between the years 2000 and 2002. But this amount is still below the record high of about US$43 billion in 1996. Domestic demand is expected to expand to US$46 billion by 2002 at an average annual growth rate of 14.9 percent. Imports are forecast to amount to US$21 billion by 2002, an annual increase of 18.2 percent. Japanese imports account for 40 percent of the total. Owing to the removal of the Import Diversification System, which was protecting Korean makers from Japanese producers, imports from Japan are likely to increase enormously and the Korean machine industry will depend on Japan more than ever, especially in the field of products requiring high-technology and high-precision. Exports will likely increase at a rate of 8.3 percent annually, amounting to US$13 billion in 2002. This is mostly because Korean makers have been trying to diversify their export market from the three big countries, the U.S., Japan and China to other countries where the potential demand is abundant, such as Central and South America, Eastern Europe, etc.

SEMICONDUCTORS. Semiconductors include discrete and integrated circuits. Discrete perform a single electronic function acting as a diode or a transistor. Integrated circuits (ICs) incorporate thousands or millions of microscopic transistors and other functional components to form complex electronic circuits on the surface of a rigid substrate such as a "chip" of silicon; thus, they are sometimes called computer chips.

As a driving force for Korea's economic growth, the semiconductor industry has become one of the most important industries in Korea since the mid-1980s. As a result, semiconductor has become Korea's largest single export item since 1992, representing nearly 10 percent of Korea's total exports in the year 2002. The country’s sales of semiconductors placed second in 2004. The country’s sales of semiconductors placed second in 2004.

Under the International Monetary Fund-guided economic program or the so-called IMF-era since late 1997, the Korean semiconductor industry, particularly the memory chip sector, has been playing a vital role in overcoming Korea's economic recession. This is because Korea's memory chip industry has become the most competitive in the world with exports accounting for about 90 percent of its sales. Most chips are shipped to the United States, Japan, European Union, and Asian countries.

From 2000 to 2002, the Korean semiconductor industry suffered from a recession due to a global supply glut in the memory chip market and a sharp drop in prices. Thus, the total production value decreased from US$28.5 billion in 2000 to US$18.2 billion in 2002, recording an annual average decrease of 36 percent. In 2002, Korean semiconductor production was slightly up 8.3 percent over the previous year, thanks to the moderate rise in worldwide demand for such ICs as Dynamic Random Access Memory chips (DRAMs), which is supported by the worldwide increasing demand for personal computers, mobile phones, and telecommunication equipment.

Along with the increase in production driven by DRAMs, exports rose to US$16.6 billion in 2002, up 16 percent compared to 2001. Of total exports, semiconductors accounted for 10.2 percent in 2002.

Domestic demand grew from US$9 billion in 2001 to US$9.7 billion in 2002, with an annual average growth rate of 7.7 percent. In particular, domestic demand increased 54.4 percent in 1999. This high growth rate is attributable to the increasing demand for personal computers, TVs, VCRs and mobile phones. In addition to the high growth in domestic demand, semiconductors imports grew from US$4.2 billion in 1998 to US$8.6 billion in 2002.

Major features of the Korean semiconductor industry are high export rate and heavy dependence on imports. Korean semiconductor production is overly concentrated on memory devices such as DRAMs and Static Random Access Memory chips (SRAMs). As a result, Korean semiconductor producers export about 86 percent of their domestic production, while nearly 84 percent of domestic demand for semiconductors, primarily for non-memory devices such as microprocessors and ASICs, was imported in 1999. This explains that the industry has a high foreign dependence structure, with a high degree of imbalance between domestic supply and demand.

Such excessive dependence on memory device exports such as DRAMs and SRAMs places Korea exposed to severe price fluctuation. Semiconductor industries in developed countries like the US and Japan, which have a smaller portion of memory chip in product portfolio, have been less vulnerable to chip price fluctuations than Korea. While the non-memory chip accounts for 70 to 90 percent of total semiconductor production in those advanced countries, Korea depends on memory chip production for 80 to 90 percent of its sales revenue.

Another outstanding feature in the Korea semiconductor industry is the huge import dependency of semiconductor manufacturing equipment and materials. Korea's semiconductor equipment market recorded about US$1.9 billion in 2002, but 85 percent of semiconductor equipment was imported. On the other hand, the United States and Japan imported only 25 and 20 percent of their equipment's demand, respectively.

Semiconductor materials include wafers, lead frames, photo masks, bonding wires, photo resists, etc. The semiconductor materials market was at about US$1.7 billion in 2002, 50 percent of which was imported from the United States and Japan. This dependency on imports is higher than that of Japan, though lower than the United States.

This dependency on foreign semiconductor equipment and materials induces a weak competitiveness in Korean semiconductor makers, making it difficult for them to respond with appropriate action to the changes in market conditions.

In order to improve competitiveness, the Korean semiconductor industry has focused its efforts on technology development of memory device products. It resulted in technological advancement in non-memory devices such as ASICs, next generation semiconductors like Silicon Carbide chips (SiCs) and semiconductor equipment and materials being far behind the developed countries.

Recently, the Korean government, in collaboration with the private sector, has expanded investment in the development of non-memory semiconductor technology and fosters a strong pool of research manpower. Under the plan, the government and the private sector will join hands to develop the technologies for everything from system ICs to next generation equipments and materials until 2010.

The global semiconductor industry which bottomed out of 2002 is in a period of strong cyclical expansion. According to the World Semiconductor Trade Statistics (WSTS) and Dataquest, the global semiconductor market will enjoy a continued boom for the next two or three years. Therefore, the future production and exports in the Korean semiconductor industry look bright.

Promising domestic production and export forecasts are based on the increasing demand for personal computers, mobile phones, telecommunication equipment, etc., both domestically and internationally.

IRON & STEEL. Steel mill products, which include crude steel, come in finished and semi-finished products. Finished products are generally divided into three segments: long and flat products and casting and forging products.

The Korean iron & steel industry experienced hardship as total demand shrank remarkably from the intense stagnancy of business conditions under the IMF bailout program in 1998. However, steel production in 1999 reached pre-crisis levels of production due to rapid demand recovery and strong exports. This is because Korea's economic growth rate recorded 10.7 percent, contrary to the expectation of continued dullness in 1999. Among the steel-linked industries, major manufacturing industries like automobiles and shipbuilding were very brisk, however construction has not come out of its downward trend as of yet.

Crude steel production increased from 38.9 million tons in 1996 to 41.0 million tons in 1999, despite a dip in 1998, maintaining the status of the 6th largest steel producer in the world. Electronic furnaces (EAF) production increased gradually and raised its share in total production from 39.5 percent in 1996 to 41.6 percent in 1999.

The share of the iron and steel industry in the total manufacturing industries increased also. In 1998, its production accounted for 7.0 percent of the total production of manufacturing industries, compared to 6.3 percent in 1995. The share of its value added in the total manufacturing industries has also increased to 5.9 percent in 1998 from 5.2 percent in 1995.

However, the Korean iron and steel industry still has many problems such as the supply surplus in cold-rolled sheets and sections and the incomplete restructuring.

In addition, the industry is confronted with a changing environment such as globalization and mega-mergers, so that the proper reaction of the Korean iron and steel industry is required.

The industry, which was showing brisk expansion in the 1990s, suddenly shrank on account of the economic crisis in 1998. But total demand (both domestic and overseas) for steel products in 1999 exceeded that in 1996, restoring the decrease of total demand in 1998. The recovery of Korean manufacturers in such areas as automobiles, shipbuilding and machinery has driven domestic demand for steel products up. Owing to the efforts to expand exports, they showed an annual growth rate of 11.7 percent between 1996 and 1999.

Domestic demand of this industry is forecast to increase at an annual rate of 12.4 percent from 1998 to 2002 reflecting the steep decrease in 1998. However, the annual growth rate from 2000 to 2002 is forecast to be only 3.4 percent. That is, the industry will not be expected to enjoy the fast growth as it had in the past several years.

This diminishing increase rate of domestic demand mirrors a structural change developing in the iron and steel industry. In line with economic development, industries consuming less iron and steel are expected to increase. This explains that, in future, iron and steel consumption will not parallel the growth of GNP but will grow at a lesser rate.

However, the growth rate is forecast to be at a higher level relative to advanced countries. According to two forecasts conducted by the International Iron and Steel Institute (IISI) and the Organization for Economic Cooperation and Development (OECD) it is anticipated that the growth in the Korean iron and steel industry can be evaluated as slow but steady due to the stable growth in domestic demand.

The development of the iron and steel industry is invaluable in the growth of the manufacturing sector and will continue to play a pivotal role in the development of the Korean economy.

PETROCHEMICALS. Despite the short history of 30 years, the Korean petrochemical industry has achieved tremendous development helping to fuel the country's high economic growth. Korea has been one of the world's major producers of petrochemicals with overall annual ethylene capacity of 5,700 thousand tons from various downstream plants.

The yearly production capacity of the petrochemical facilities in Korea in the late 1970s was 155 thousand tons of ethylene from the naphtha cracker and downstream facilities in Ulsan. At the end of 1979, the second petrochemical complex with an annual production capacity of 350 thousand tons was constructed in Yeocheon. During the next decade between the late 1980s and the early 1990s, the third petrochemical complex was completed in Daesan alongside with the massive new and expansion projects. Further new and expansion projects were implemented continuously, and currently 5,700 thousand tons of ethylene are produced annually, which is four to five times the production capacity of the late 1980s.

The domestic production and demand is forecasted to grow no more than three to four percent, due to the slow growth in the overall production, which will be caused by the slow recovery in the overall economy and the resulting slowdown in consumer sentiment. Exports during the second half of 2003 are anticipated to grow by four percent compared to last year, as the world economy is expected to recover gradually and the world demand is expected to grow.

The forecasted demand growth, notwithstanding, enhancing the competitiveness and diverse other difficulties lie ahead for the Korean petrochemical industry.

TEXTILES. The Korean textile industry maintains an export-oriented industrial structure by importing one-third of raw materials from overseas and exporting two-thirds of its processed products. The production process is in multi-stages starting from raw materials, buttonhole stitching, fabric, dyeing, clothes, manufacture, and finally distribution. This industry creates employment and attains high added value.

Although the general understanding of the textile industry is that it's a declining industry, textile export is at 9.7% of the total amount of export. In the year 2001, the trade balance of the textile industry recorded US$11.2 billion, which exceeds Korea's total trade surplus of US$9.3 billion.

In 1998 textiles faced a general slump of the main export market due to Asia's foreign currency crisis, unit price cutting by a raise in exchange rate, and over-competition within the domestic market. However in 1999 the nation's market recovered and export increased.

Textile import also rose in 1999 through the recovery of the domestic market, which increased importing textile goods and raw materials for exporting purposes. Since the beginning of 2001, the export volume of textile industries has gradually decreased. This was mainly due to export price decrease. As developed countries like the United States faced economic stagnation and decreased consumption in general, competing large-scale textile companies entered into a price war, which then increased unit cost.

Total textile export between January and June 2003 reached US$7,307 million, down 2.0 percent over a year earlier. Fabric export was also declined (3.5%). During the same period, the clothing related textile import, however, increased significantly (23.1%). Total textile import reached US$2,660 million; a growth of 9.1% over the same period of the previous year.

Export size of Korea's textile industry is ranked fifth after China, Italy, Germany and the U.S. Korea has the largest production capacity of synthetic fabrics and the fourth largest in synthetic fibers. Overall productivity, in terms of production capacity, is ranked seventh.

However, the technological level which is considered most essential allows for a competitive advantage. When compared to developed countries, Korea falls a little short of highly developed countries (at 70-80% level).

In the 70s, Korean textile companies began small scale investing in Central and South American countries in order to avoid import regulations such as import quotas, etc. Since then, overseas investment by Korean companies significantly increased. External factors such as economic blocs, and high wages and interest rates in Korea instigated them to commit an overseas investment.

SERVICE SECTOR. Liberalization of Korea's service sector has been difficult due to the relatively underdeveloped state of domestic service industries. Nevertheless, the government has taken a number of unilateral actions toward its eventual full opening. To cite some examples, the life insurance industry is now completely open to foreign underwriters.

Foreign banks receive treatment commensurate to that of national banks. Investment by foreigners in retailing and wholesaling activities is also open, although certain restrictions exist in specific areas. The advertising market, once open only to joint ventures with minority foreign participation, is now completely accessible to foreigners.

INTELLECTUAL PROPERTY RIGHTS. The government recognizes that the strict protection of intellectual property rights is essential for the technological well-being of the nation and for cooperative economic relations with major trading partners. Consequently, since 1987 the government has instituted fundamental reforms to strengthen the protection of intellectual property rights.

New copyright law ensures comprehensive protection for both foreign and domestic works. Copyright guarantees extend over the life of an author plus 50 years. Also, safeguards against intellectual property infringement have been extended to computer software products through specific legislation.

AGRICULTURAL MARKET. In Korea, as in many countries, agricultural policy is fraught with far-reaching social and political implications, making liberalization of this sector a daunting challenge.

Korean sensitivity about agriculture derives in part from the fact that arable land per farmer in Korea is only 1/223 that of the United States, which makes it impossible for Korean farmers to be as competitive as their U.S. counterparts. Nonetheless, the Korean government is making efforts to further open the domestic agricultural market. These efforts are accompanied by continuing government initiatives to strengthen the competitiveness of Korea's agricultural sector.

In December 1988, the government formed a task force to revise the schedules for agricultural import liberalization through 1991. Revised plans have helped to increase the scope of liberalization and accelerate the pace of market opening. Also, during the Uruguay Round of the GATT (General Agreement on Tariffs & Trade) negotiations on agricultural products, Korea committed to improving market access for various agricultural products.

All current laws and regulations related to FDI have been streamlined and incorporated into a single legal framework represented by the new Foreign Investment Promotion Act (FIPA), which took effect in November 1998. This will enable foreign investors to take advantage of one-stop service and uniform national treatment.

Various incentive measures, including tax exemptions and reductions, have been instituted to promote FDI. To cite an example, corporate and income taxes will be exempted or reduced for businesses in targeted industries, such as the high-tech sector, for a period of 10 years. Government-owned real property will be leased to foreign-invested firms for up to 50 years at favorable rates, and for no cost in certain instances. Also, a free-trade investment zone will be developed to accommodate large-scale FDI. The government continued to phase out import restrictions, reducing the number of items subject to tariffs.

INCENTIVE FOR FOREIGN OWNERSHIP. The Act on Foreign Investment and Foreign Capital Promotion, revised in the first quarter of 1998, created an almost fully liberalized manufacturing sector. Active foreign participation is of critical importance to the Korean economy, not only with respect to overcoming the Asian financial crisis in 1997 but more importantly for ensuring long-term, sustainable growth.

The government is committed to creating a favorable environment for foreign investment. Its policy initiatives are focused on facilitating FDI through equity participation and mergers and acquisitions activities involving Korean companies. FDI totaled US$15.2 billion in 2000 and US$11.2 billion in 2001. In 2003, due to the global recession's devastating impact, FDI into Korea slipped to US$6.4 billion.

The Foreign Exchange Management Act was replaced by the new Foreign Exchange Transaction Act in September 1998. The liberalization measures in the new law were put into effect in two stages by the end of the year 2000. The primary objectives of the new law included the liberalization of the capital account and the further development of the domestic foreign exchange market.

Major items of the First Stage Liberalization included the introduction of a "Negative List System," which is more flexible than the former positive list system. It also liberalized capital account transactions related to business activities with financial institutions, including short-term borrowing from abroad. Authorization of foreign exchange transactions to allow financial institutions to meet certain requirements was another market liberalization effort by the government.

Major items of the Second Stage Liberalization included capital account transactions that remained restricted in the first stage, except for those related to national security and prevention of criminal activities. It allows non-residents to invest in won-denominated domestic deposits with maturities of less than one year as well as allow resident individuals to invest in foreign-currency denominated overseas deposits and securities. These liberalization measures, however, are not without risks. Therefore, in tandem with their implementation, the government is strengthening oversight regulations and market monitoring, as well as building an early warning system.

Korea's strategy for capital market development centers on two interrelated policy initiatives, namely market liberalization and market augmentation. Capital market liberalization will directly increase Korea's access to foreign capital and technology, while market augmentation will improve the operational efficiency of the capital market.

Significant progress has already been realized in the implementation of measures to further open the Korean capital market and reduce barriers to portfolio and direct investment. Foreign investment will be fully liberalized for all industries, except for those involving national security concerns and cultural considerations such as the mass media. Certain sectors subject to international negotiations over foreign investment such as the communications and shipping industries will also remain controlled.

Foreigners will be treated equally with Korean nationals when purchasing land for business purposes as well as non-business purposes. All limits on foreign investment in the local bond and money market have already been eliminated, as has the ceiling on foreign investment in the stock market. Foreign banks and securities companies are also allowed to establish local subsidiaries.

As of May 25, 1998, foreign investors have been able to buy shares of any Korean firm without consent of the board of directors or governmental approval, except for defense industry companies and public corporations. Foreigners can now purchase up to 50 percent of the outstanding shares of some public corporation.

All types of takeovers, including hostile acquisitions of Korean corporations, are permitted by both domestic and foreign investors. Furthermore, foreign exchange transactions will be authorized for all financial institutions meeting certain requirements. In May 1998, the aggregate ceiling on foreign investment in Korean equities was abolished.

Korea has also developed an institutional framework for mutual funds so that these funds can function as a key instrument for long-term financing. Private investors, both domestic and foreign, are now allowed to easily establish mutual funds in Korea. No qualification requirements are being imposed on investors who are sponsoring new mutual funds, with only minor standard exceptions. In essence, equal treatment has been guaranteed.

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FINANCE. The focal point of post-crisis financial development is Korea's continued liberalization and restructuring processes. Notably, major creditor institutions have taken the leading role in implementing corporate restructuring policies. It is important to review the results of financial and corporate restructuring in a different context than that of macro comparison.

The primary goal of financial restructuring was to engineer a well-developed financial intermediation for sustainable economic growth. Reform in the financial sector was mainly conducted to dispose of bad loans that hindered efficient financial intermediation and hurt market confidence. Specifically, the post-crisis financial development can be summed up as deregulation and liberalization, globalization, strengthened prudential regulation and banking supervision, and the pruning of non-viable institutions.

Until the financial crisis, customers as well as shareholders of financial institutions did not exactly know how much trouble they were in, and international standards were not applied to determine ailing banks. Nowadays, many transparent standards have been established. Some of the solutions are to induce banks or non-bank institutions to engage in M&As or to increase their capital adequacy.

The recent trends of universalism of financial boundaries, such as the integration of the security business, banking business, and insurance business, and the lack of prudential regulation, were some of the crucial causes of the 1997 financial crisis

BANKING. Financial institutions in Korea may be divided into three categories by function: the central bank, or the Bank of Korea; banking institutions including both commercial and specialized; and non-bank financial institutions including the non-bank deposit-taking institutions, insurance, securities companies and others. The foundations of the modern financial system in Korea were laid in the early 1950s, when the central and commercial banking systems were realigned under the new institutional bases of the Bank of Korea Act and the General Banking Act.

Commercial banks mean the financial institutions established pursuant to the General Banking Act, which focuses on the deposit-taking, lending and the payment settlement businesses. Traditionally, commercial banks have played a key role in Korea's financial system. In 1998, for instance, commercial and specialized banks channeled 60.1 percent of all funds used by individual sectors and 28.3 percent of all funding sources for the corporate sector, respectively. Commercial banks include nationwide commercial banks, regional banks, and foreign bank branches.

Specialized banks were established mostly during the 1960s under individual acts to supplement commercial banks in areas where they could not supply enough funds due to limitations in funding, profitability, and expertise. They were also created to support special sectors that were given priority in Korea's series of economic development plans. With subsequent changes in the financial environment, however, specialized banks expanded their scope of business into commercial banking areas although their share of fund allocations to the relevant sectors was still relatively high. In raising funds, specialized banks depended mainly on public funds and on the issuance of debentures, although they had to compete with commercial banks for deposits. There are five specialized banks: the Korea Development Bank, the Export-Import Bank of Korea, the Industrial Bank of Korea, the Credit and Banking Sectors of the National Agricultural Cooperative Federation, and the Credit and Banking Sectors of the National Federation of Fisheries Cooperatives in operation.

Most non-bank financial institutions were introduced during the 1970s in order to diversify financing sources, to promote the development of the money market, and to attract funds into the organized market. From the early 1980s, several commercial banks and non-bank financial institutions were added as part of a series of broad measures to spur financial liberalization and internationalization. This coincided with a shift from a government-orientated stance on economic policy towards a market-orientated stance.

MONETARY POLICY. The Bank of Korea, which was established in 1950, is Korea’s central bank and sole currency issuing bank. Monetary and credit policies of The Bank of Korea are formulated and controlled by a nine-member Monetary Board comprised of the Minister of Finance and Economy (“MFE”), the Governor of the Bank of Korea and seven other members. The Monetary Board regulates the activities of banking institutions and sets and implements monetary policy.

Although The Bank of Korea has primary responsibility for monetary policy, the Korean government, through the MFE, exerts considerable influence on monetary policy. For example, the MFE has the power to request the reconsideration of resolutions adopted by the Monetary Board and, if such a request is rejected by the Monetary Board, the President has the authority to override the Monetary Board’s decision.

Monetary policy is implemented by influencing the reserve positions of banking institutions, principally through changes in the terms and conditions of discounts, open market operations and changes in reserve requirements. The Bank of Korea may also set or alter maximum interest rates on deposits and loans and, in periods of extreme monetary expansion, directly control the volume and nature of bank credit. In

November 1994, the Government announced a plan to further reduce the employment of direct intervention as a means of implementing its monetary policy, in order to encourage the liberalization of financial institutions' activities.

In November 1994, the Government announced a plan for deregulation of interest rates, which accelerates a 1991 plan to reduce the use of direct intervention as a means of implementing monetary policy. In accordance with the 1991 plan, at the end of 1993 all restrictions on interest rates for loans (other than Bank of Korea-supported policy loans), long-term (not less than two years) deposits, certain short-term money market instruments, short-term (less than two years) corporate and financial debt, monetary stabilization bonds and public bonds, were lifted. The 1994 plan provided that in 1995 interest rates be liberalized for other short-term money market instruments and Bank of Korea-supported policy loans; in 1996 interest rates be liberalized for all deposits other than demand deposits; and beginning in 1997 limitations on interest rates for demand deposits gradually will be lifted.

KOREAN FINANCIAL MARKETS

FINANCIAL MARKETS. One of the important and recent undertakings was the preparation for the consolidation of the three Korean exchanges. In order to enhance the competitiveness of the Korean securities markets and convenience of market participants, the government announced its decision to merge the three existing exchanges, the KSE, KOSDAQ and KOFEX, into one integrated exchange. Korea Exchange (KRX), ushers a new era for Korea's financial market by merging the three the three pre-existing spot and futures exchanges, aiming at reducing cost and improving investor efficiency. As of the end of 2003, 1,563 companies were listed on the spot market of the KRX and the total trading volume has reached 813 trillion won ($787 billion), the tenth biggest in the world. In the futures and options market where a total of 19 financial instruments are traded, the KRX ranks ninth globally in the futures trading volume and takes the lead in options transactions thanks to the growing popularity of KOSPI 200 options. The three exchanges each are now a single business division of the KRX.

INTRODUCTION OF RANDOM-END SYSTEM. On January 26, 2004, the KSE introduced a random-end system for the opening and closing call auctions to prevent any attempts to manipulate the opening or closing price by placing fake orders. When an indicative price during 5 minutes before the market opening or closing (8:55-9:00 a.m. or 2:55-3:00 p.m.), deviates from the provisional opening or closing price by 5 percent or more, the opening price or closing price will be determined at a randomly chosen time that is within 5 minutes after the opening or closing time of regular session.

DIVERSIFICATION OF ORDER TYPES. In addition to the limit order, market order and limit-to-market-on-close order, the KSE introduced two more order types: the immediately executable limit order (IELO) and the best limit order (BLO), on January 26, 2004. An IELO is a limit order whose quotation price is set at the best price on the opposite side in the order book at the time the order is registered in the order book. A BLO is a limit order whose quotation price is set at the best price on the same side in the order book at the time the order is registered in the order book. Quotation prices of the IELO and BLO, which are set at the time of order placing, does not change throughout the day. Other features introduced are the fill or kill (FOK) and immediate or cancel (IOC) conditions that can be affixed to a market order, limit order and IELO.

LAUNCH OF ELECTRONIC BLOCK TRADING NETWORK. K-BloX On October 6, 2003, the KSE launched a dedicated network for block trading and basket trading, called K-BloX. This web-based network is open from 7:30 a.m. to 7:00 p.m. Securities companies can post and negotiate details of intended orders on the K-BloX. Upon completing negotiation, two trading parties submit the negotiated order to the KSE for execution and the KSE notifies the securities companies concerned the trading results. The system was developed to enhance the efficiency of order execution and the convenience of market participants by enabling a rational price determination and securing the anonymity of traders.

INTRODUCTION OF KOREA DIVIDEND STOCK PRICE INDEX (KODI). In July 2003, the KSE introduced Korea Dividend Stock Price Index (KODI) to provide the investors with a new appraisal tool, particularly for those long-term investors who seek solid returns from equity investments. The KODI is a market capitalization weighted index of KSE-listed 50 blue chips that have shown strong earning power as indicated by high return on equity (ROE), good liquidity, and large market capitalization. The component stocks are selected based on a set of criteria, including payout ratios, dividend yields, and cash dividend payments.

INTRODUCTION OF KOREA CORPORATE GOVERNANCE STOCK PRICE INDEX (KOGI). The KSE computes and publishes the Korea Corporate Governance Stock Price Index (KOGI) from December 1, 2003 in a bid to promote investors interest in corporate governance and encourage listed companies to improve their corporate governance. The KOGI is a market capitalization weighted index of the 50 KSE-listed stocks that are issued by the corporations known for exercising good corporate governance. Liquidity and corporate governance evaluation scores, which are determined by the Korea Corporate Governance Service (CGS), are the two major criteria used in selecting constituent stocks.

EXPANDING PRODUCT LINE. In response to the demand from the securities industry and to expand the investor base, the government established a legal framework for an ELS market in early 2003. Subsequently, the first ELS product was listed on the KSE on April 9, 2003. The ELS is defined as the securities or certificate whose return is determined by the performance of a stock or a stock price index. The listing and trading rules of the bond market are applied to the ELS market.

TRADING SCHEME

TRADING HOURS. The Korea Stock Exchange (KSE) has three trading sessions and the trading hours of the KSE market are shown below.

Days	Pre-hours Session	Regular Session	After-hours Session
Monday - Friday	07:30 - 08:30	09:00 - 15:00	15:10 - 16:00

During the pre-hours session which was newly introduced in December 2003, orders are matched at the closing prices of the previous day. Block trading and basket trading are also conducted at the pre-hours session.

After the pre-hours session, investors can place orders from 8:30 a.m., 30 minutes before the market opening. Orders delivered to the market during this period are queued in the order book and matched by call auction method at 9:00 a.m. to determine opening prices. After opening prices are set, trades are conducted by continuous auction until 2:50 p.m., 10 minutes before the market closing. During the last 10 minutes, orders are pooled again and executed by call auction to determine closing prices of the day. To trade at the after-hours session beginning at 3:10 p.m., investors place orders from 3:00 p.m. The trading methods are same as those for the pre-hours session.

ORDER-DRIVEN AND CONTINUOUS MARKET. The KSE is a typical order-driven market where buy and sell orders competes for the best prices. Throughout the trading hours, orders are continuously matched at the prices satisfactory to both trading parties according to price and time priorities. The opening and closing prices, however, are determined by call auction.

ELECTRONIC TRADING SYSTEM. Trading on the KSE market was fully automated on September 1, 1997. The KSE's trading system consists of three parts: order-routing, trading and information systems. Order-routing system manages the accounts of brokers' clients and transmits orders to the trading system. Trading system matches buy and sell orders according to auction principles, keeping the confidentiality of trades. Information system receives raw data from the trading systems, processes and disseminates them to investors and other market participants.

ON-LINE TRADING. On-line trading was legalized in January 1997 when the Securities and Exchange Act (SEA) allowed the securities companies to receive customers' orders through electronic means such as Internet, mobile phones, etc. Due to the fast and wide spread of Internet, on-line trading has become the most popular trading method in Korea. As of December 2003, the on-line trading accounted for 60.3 percent of total trading value.

TRADING UNIT AND TICK SIZES. The trading unit for stocks is 10 shares. Orders with sizes less than the trading units are traded at off hours sessions or on the OTC market.

ORDER TYPES. Orders accepted in the KSE market are limit order, market order, limit-to-market-on-close order (LTM), immediately executable limit order (IELO), and best limit order (BLO). LTM is a limit order that automatically converts to a market order at the market closing to participate in the call auction if it is not executed during continuous auction. IELO is a limit order whose quotation price is set at the best price on the opposite side in the order book. BLO is a limit order whose quotation price is set at the best price on the same side in the order book. Fill or kill (FOK) and immediate or cancel (IOC) conditions can be attached to limit, market, and immediately executable limit orders. An order with FOK is to be executed entirely or to be treated as cancelled. An order with IOC is to be executed in whole or in part, as soon as it is received in the order book, and the portion of the order not executed, if any, is to be treated as cancelled.

DAILY PRICE CHANGE LIMITS. In order to avoid excessive price fluctuations and maintain market order, the KSE sets limits on the range that the prices of individual stocks can change during a day. As of the end of 2003, it was set at 15 percent, limiting the price of each stock to neither fall nor rise by more than 15 percent from the previous day's closing price.

CIRCUIT BREAKERS. To minimize the impact of any temporary imbalance between buy and sell orders and to provide investing public with a cool-down period, the KSE introduced the "circuit breakers" in December 1998. When the KOSPI falls by 10 percent or more from the previous day's closing value and such situation lasts for one minute or longer, the circuit breakers is triggered to halt the trading on the equity and futures/options markets for 20 minutes. The trading resumes by call auction, where the orders submitted during the first 10 minutes of trading resumption are matched at a single price.

GOOD FAITH DEPOSITS. Since individual brokerage firms determine their own rates of the good faith deposits, the rates vary from broker to broker. As of the end of 2003, the average rate of good faith deposits charged by brokerage firms was around 40%. The brokerage firms are required to inform the KSE within two days whenever they change the rates.

BLOCK TRADING. In order to prevent any adverse impact that large orders may bring to the market, the KSE has made separate arrangements for the trading of large orders. They are the reported block trading, off-hours block trading and off-hours basket trading. The threshold for a block order is 10,000 shares or KRW 200 million. For block trading, an application should be submitted to the KSE, before order placing.

MARKET PERFORMANCE

KSE INDEX FAMILY. Korea Composite Stock Price Index (KOSPI): The KOSPI is a market value weighted index, composed of all common and preferred stocks listed on the KSE except for bond-type preferred stocks. When calculating the

KOSPI, newly-listed stocks are included 30 days after their listing. The index is adjusted to minimize the effects of corporate actions such as capital changes, new listings, delisting, mergers and acquisitions, etc., and thereby reflects only price movements resulting from the market activities. Base date of the KOSPI is January 4, 1980, with a base index of 100.

KOSPI 200. The KOSPI 200, which is the underlying index for stock index futures and options trading, is composed of 200 blue chips and accounts for about 90 percent of the total market capitalization. The constituent stocks are selected on the basis of the market value of the individual stocks, liquidity and their relative positions in the industry groups they belong. Its base date is January 3, 1990 and the base index is 100.

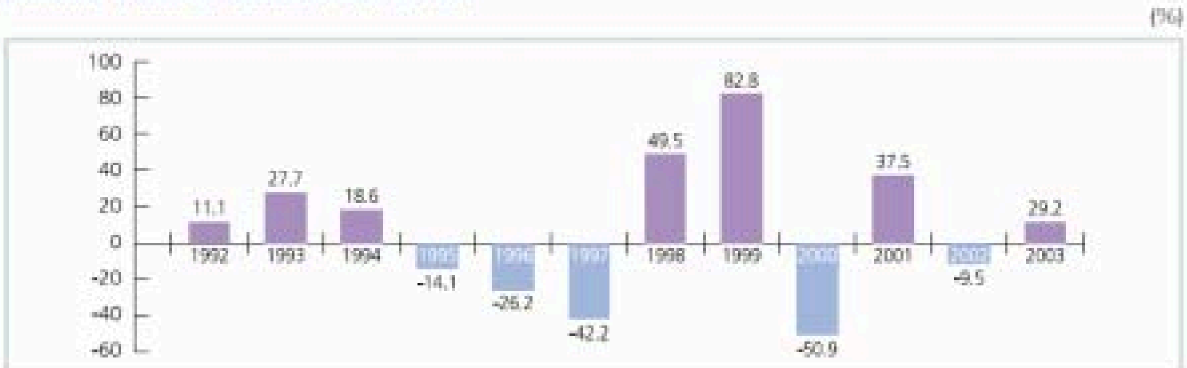
In addition to KOSPI and KOSPI 200, the KSE publishes sub indices such as KOSPI 100, KOSPI 50, KOSPI IT, indices by industry group, and indices by capital size of the listed corporations. All indices calculated by the KSE are disseminated every 10 seconds.

KOREA DIVIDEND STOCK PRICE INDEX (KODI). The KODI is a market capitalization weighted index of KSE-listed 50 blue chips that have shown strong earning power as indicated by high return on equity (ROE), good liquidity, and large market capitalization. The constituent stocks realigned in July every year are selected based on a set of criteria including payout ratios, dividend yields, and cash dividend payments. Its base date is July 1, 2001 and the base index is 1,000.

KOREA CORPORATE GOVERNANCE STOCK PRICE INDEX (KOGI): The KOGI is a market capitalization weighted index composed of 50 KSE-listed companies practicing good corporate governance. Liquidity and corporate governance evaluation scores are major factors for selecting constituent stocks, which are reviewed in July every year. The base date of the KOGI is July 2, 2001 and its base index is 1,000.

KOSPI & Trading Volume in 2003

Annual Growth Rates in the KOSPI



PER and Dividend Yield

Note: 1. The EPS (earnings per share) and dividends used to calculate PERs and dividend yields are those of the previous year and the stock prices for each year are annual averages, weighted by the number of listed shares.
2. The method of calculating PERs was changed from the arithmetic average into the weighted average in 1998.

According to the "Regulation on Supervision of the Securities Business" of the Financial Supervisory Commission (FSC), all stocks listed on the KSE or registered on the KOSDAQ, except those designated as administrative and surveillance issues, are eligible for margin trading, which is limited only to individual investors. A customer who wants to trade on margin must open an account for margin trading with deposits of KRW 1 million. The shares from margin purchases and proceeds from short sales are held by the securities companies as collateral in margin accounts. The collateral, which is marked to market on a daily basis, should be maintained up to a certain level. Otherwise the securities company is entitled to make a margin call. Currently, the initial and maintenance margin and the period for a customer's margin transaction are set by individual brokerage firms.

FOREIGN INVESTMENT. The Korean stock market was opened to foreign investors in January 1992. The foreign ownership restrictions had been gradually phase out until completely removed in May 1998. The instruments available for foreign investment include stocks, bonds, stock index futures and options, equity options, beneficiary certificates, money market instrument such as CPs, corporate bills and notes, etc. Despite its short history in market liberalization, the Korean market has grown into a highly internationalized market where more than 15 thousands foreign institutional and individual investors put their assets.

Foreign share ownership at the KSE exceeded 40% of the total market capitalization at the end of 2003. Investment Procedure The Financial Supervisory Commission (FSC) Regulation on Supervision of Securities Business stipulates the procedures and regulations that foreign investors must follow in order to invest in the Korean securities market. The preparatory procedures for foreign investments include: appointment of standing proxy, investment registration, and opening accounts with securities firms. A foreign investor who intends to invest in the Korean securities market must first register with the Financial Supervisory Service (FSS) and obtain an Investment Registration Certificate (IRC). After obtaining the IRC, the foreign investor is able to open an account with a securities firm. In practice, foreign investors mostly carry out this procedure through a standing proxy based in Korea. For the transfer of investment funds and conversion of currency, a foreign investor needs to open two cash accounts, one in a foreign currency and the other in Korean won, with a bank providing foreign exchange service.

However, by using the securities firm's foreign currency account with a foreign exchange bank, a foreign investor may avoid the cumbersome processes of opening a foreign currency account with a bank. A foreign investor, who uses the securities firms' foreign currency account, may transfer his funds to the investment-dedicated foreign currency account of the securities firm. According to the investor's instruction, the securities firm converts the funds into Korean won at the bank, and the won denominated investment funds are transferred to and kept in the account of each foreign investor with the securities firm. Generally, institutional investors open their own bank accounts, while individual investors use securities firms' foreign currency accounts.

FOREIGN INVESTMENT ACTIVITIES. In 2003, 1,207 foreign investors newly registered with the FSS, bringing the total number of foreign investors to 15,335. Of those, 10,093 or 65.8 percent were institutional investors. Foreign investors brought in US$ 81.4 billion and remitted US$ 67.9 billion, resulting in a net inflow of US$ 13.5 billion in 2003. During the same period, the foreign investors purchased KRW

91.2 trillion and sold KRW 77.4 trillion worth of the listed stocks, recording KRW 13.8 trillion of net purchase.

These were the largest 30 net inflows and net purchase since 1992 when the stock market opened to foreigners. The foreign investors accounted for 15.4 percent of the total trading value, a significant increase from 10.5 percent in the previous year. Several factors attributed to the increased foreign presence in the Korean securities market. Along with the rising capital inflows into the mutual funds, which was triggered by the recovery of the U.S. stock market, capital inflows into the emerging markets have been on the rise. The foreign buying of Korean stocks, while the market was still undervalued, has stemmed from the anticipation for the Asian economic recovery that would be prompted by the U.S. economic recovery. Another positive factor was that Korean and Taiwan IT industries have made further facility investments as the prices of semiconductors continued to recover. It was also believed that changing value of U.S. dollar factored in. Foreign investors bought Korean stocks in anticipation that Korean won would appreciate against U.S. dollar in the future.

Foreign investors' shareholdings of the listed stocks amounted to 4.3 billion shares, with the market value of KRW 142.5 trillion, which represented 18.0 percent of the total number of outstanding shares and 40.1 percent of the total market value at the end of 2003.

Number of Foreign Investors by Nationality

End of	U.S.	U.K.	Japan	Taiwan	Others	Total
1992	503 (32.0)	314 (20.0)	110 (7.0)	266 (16.9)	379 (24.1)	1,572 (100.0)
1993	983 (35.8)	478 (17.4)	237 (8.6)	353 (12.9)	694 (25.3)	2,745 (100.0)
1994	1,228 (35.8)	565 (16.5)	293 (8.5)	400 (11.7)	941 (27.5)	3,427 (100.0)
1995	1,553 (36.3)	682 (15.9)	365 (8.5)	442 (10.3)	1,244 (29.0)	4,286 (100.0)
1996	1,930 (36.4)	719 (13.6)	451 (8.5)	497 (9.4)	1,697 (32.1)	5,294 (100.0)
1997	2,369 (36.4)	806 (12.4)	528 (8.1)	504 (7.7)	2,307 (35.4)	6,514 (100.0)
1998	3,225 (38.0)	859 (10.1)	677 (8.0)	514 (6.1)	3,205 (37.8)	8,480 (100.0)
1999	3,900 (39.2)	963 (9.7)	804 (8.1)	534 (5.3)	3,753 (37.7)	9,954 (100.0)
2000	4,602 (39.2)	1,057 (9.0)	942 (8.0)	566 (4.8)	4,581 (39.0)	11,748 (100.0)
2001	5,001 (38.9)	1,130 (8.8)	1,066 (8.3)	577 (4.5)	5,086 (39.5)	12,860 (100.0)
2002	5,430 (38.4)	1,228 (8.7)	1,151 (8.2)	597 (4.2)	5,722 (40.5)	14,128 (100.0)
2003	5,814 (37.9)	1,320 (8.6)	1,243 (8.1)	615 (4.0)	6,331 (41.3)	15,335 (100.0)

Note: The figures in parentheses represent the percentages to the total amount.

Source: Financial Supervisory Service

TRANSACTION COSTS

SECURITIES-RELATED TAXES. Taxes related to the securities trading in Korea include the securities transaction tax, capital gains tax, and dividend and interest incomes taxes. The tax rates on capital gains, dividends and interests vary according to the status of investors; residents, domestic corporations, non-residents and foreign corporations. Additionally, investors are required to pay inhabitant tax, which is 10 percent of the taxes on capital gains and dividend and interest incomes.

The securities transaction tax is imposed to all sellers of stocks, regardless of residence status, at the rate of 0.3 percent of sales proceeds. However, the trading of the derivatives such as KOSPI 200 index futures and options, and equity options is not subject to this tax.

TAXATION FOR FOREIGN INVESTORS. Foreign investors are subject to taxes according to the tax treaty between their home countries and Korea. If there is no such tax treaty, the capital gains tax is withheld at the rate of 25 percent of capital gains or 10 percent of the sales proceeds, whichever is less. The tax rate on dividend and interest incomes is 25 percent. However, in cases where foreigners have lived in Korea for a period of one year or longer, or foreigners or foreign corporations have established business bases in Korea, the tax rates used for the residents or domestic corporations are applied to such foreign investors or corporations.

That is, taxes on individual incomes from dividends and interests are withheld at source at the rate of 15 percent, and no tax is levied on the gains from the trading of listed stocks on the KSE market.

BROKERAGE FEES. Brokerage fees vary as each securities firm sets its own rates. Generally, firms charge considerably lower brokerage fees for online trading than for offline trading. As shown below, the average fee for online trading is 0.11percent, whereas average fee for offline trading is 0.41 percent.

INVESTORS. Share ownership Profile 2003 At the end of 2003, the number of shareholders (investing population) in Korea was about 3.9 million, accounting for 8.3 percent of the total population. In terms of the portfolio size, 2.7 million shareholders or 70.0 percent of the total investors owned mere 2.4 percent of total market value, while 21 thousand shareholders or 0.5 percent of total owned 77.0 percent of total market value. Individual investors held 37.1 percent of total number of listed stocks. Foreigners held 18.0 percent of listed shares, but the foreigners' shareholding represented 40.1 percent of the total market value.

Number of Shareholders

Investors	2001	2002	2003
Government & Public Bodies	16	14	13
Banks	20	18	19
Securities Companies	37	45	45
Investment Trust Companies	48	40	42
Insurance Companies	32	31	31
Other Financial Institutions	170	163	165
Sub-total: Institutional Investors	307	297	302
Corporations	10,733	10,760	10,805
Individuals	3,864,324	3,948,952	3,910,423
Foreigners	12,860	13,729	15,335
Total	3,888,240	3,973,752	3,936,878
Total Population	47,342,000	47,639,618	47,678,373

Note 1. The above figures include the numbers of shareholders, who own less than 10 shares of the KSE listed companies. 2. Other financial institutions include investment banks, mutual savings & finance companies and pension funds, etc. 3. Total population is estimated number. 4. Government & public bodies are not included in institutional investors.

The Korean Securities Market Stabilization Measures

In May 1990, the Government established the Stabilization Fund which was designed to stabilize the market prices of securities listed on the KSE. Financial contributions to the capital of the Stabilization Fund were requested and obtained from companies listed on the KSE and from domestic securities companies engaged in trading securities listed on the KSE.

On April 30, 1996, the contributors to the Stabilization Fund adopted a resolution to liquidate the Stabilization Fund on May 3, 1996. Such resolution provided that upon the liquidation of the Stabilization Fund, its cash and liquid assets, amounting to approximately Won 1.3 trillion, would be distributed to its members by August 1996, while the listed shares held by the Stabilization Fund, with an aggregate market value of Won 4.1 trillion, would be deposited with the Korea Securities Depositary and thereafter distributed to its members at the rate of 20% per annum beginning in May 1998. This schedule for distribution of listed shares is subject to amendment in accordance with market conditions. As planned, the Stabilization Fund was abolished, effective May 3, 1996. The first distribution of cash, in the amount of Won 922 billion, was made to its members in September 1996. The remaining cash held by the Stabilization Fund, which was scheduled to be distributed in February 1997, has not been distributed to date.

MARKET REGULATION.

The Ministry establishes the basic policies governing the overall operation of the Korean securities market. The official Korean securities markets are principally regulated by the Securities and Exchange Commission of Korea ("KSEC") under the Securities and Exchange Act of 1962, as amended ("Korean Act"). The Korean Act imposes restrictions on insider trading, requires specified information to be made available to investors and establishes rules regarding margin trading, proxy solicitation and take-over bids, and also regulates the investment advisory business. Although the KSEC is authorized to regulate and make decisions on all major issues relating to the securities markets pursuant to the Korean Act, all decisions of the KSEC must be reported to the Ministry. The Ministry may repeal any decision of the KSEC or suspend its enforcement. The day-to-day management and implementation of the policies of the KSEC are conducted by the Securities Supervisory Board.

The Korean over-the-counter market is regulated by the KSEC. The KSEC is also responsible for regulating brokers, dealers and underwriters who have been authorized by the Ministry to carry on the relevant type of securities business.

FOREIGN INVESTMENT RESTRICTIONS. Foreign investment in the Korean securities market is permitted only with the approval of the Ministry under the Foreign Exchange Management Act, as amended (the "FEMA") and is subject to regulation and restriction by the KSEC under the Act. The Act authorized the KSEC to make rules limiting foreign ownership, and this authority has to some extent been exercised by the KSEC. In addition, the Ministry or the KSEC may issue orders imposing additional restrictions when deemed appropriate in the public interest for the protection of investors or in the interest of maintaining an orderly securities market. Such restrictions may be imposed on all investors, any class of investor or any specific investor. In granting an approval under the FEMA, the Ministry may impose conditions and restrictions.

At present, foreign investors may invest in the KSE through indirect investment vehicles approved by the Ministry including Trusts, foreign investment funds that are subject to special licenses from the Ministry and convertible bonds, bonds with warrants or depositary receipts issued overseas by Korean companies. Further, since January 3, 1992, foreign investors have been allowed to invest directly in the shares listed on the KSE subject to certain ceilings most of which were eliminated post 1997.