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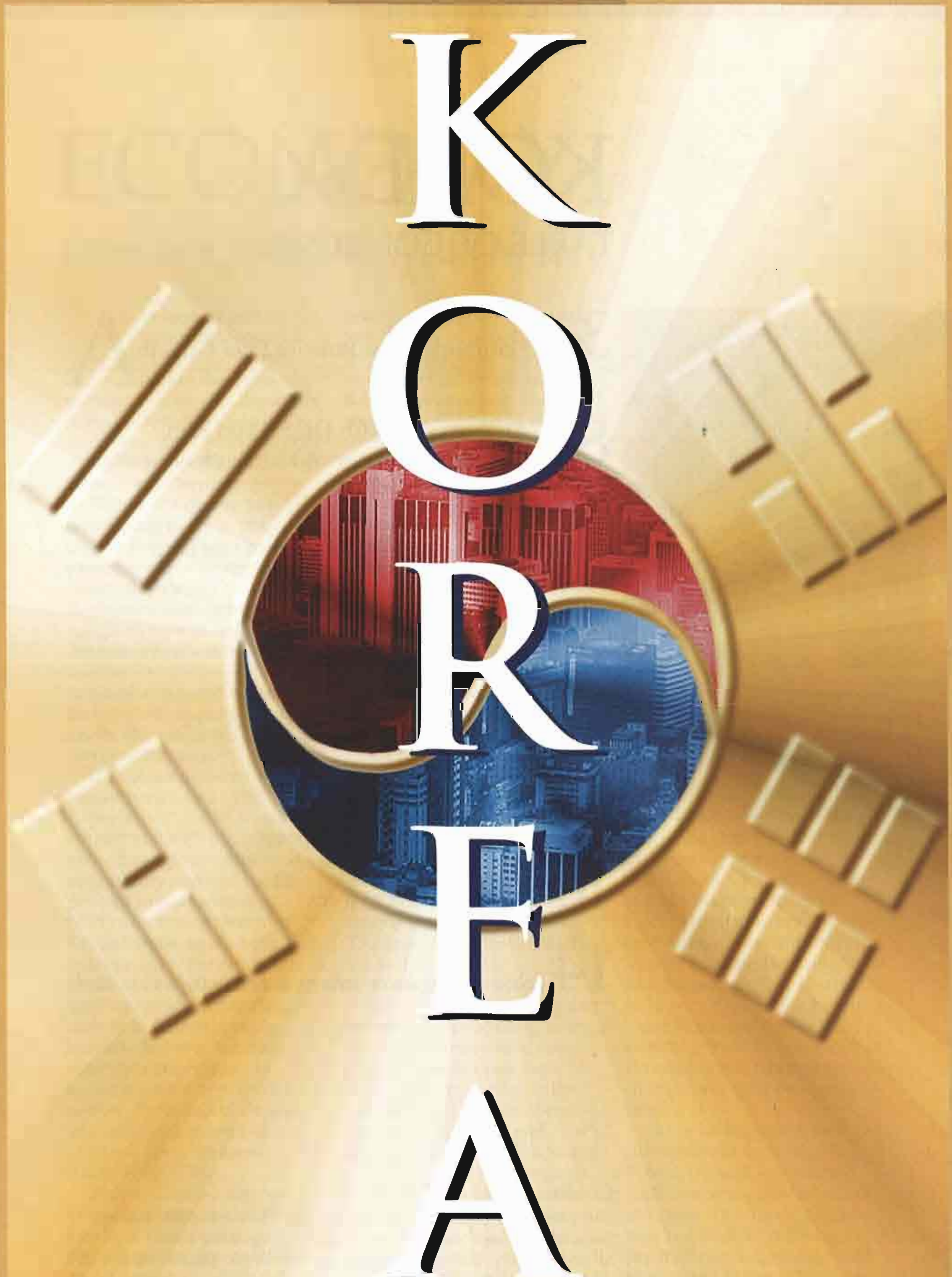
INSTITUTIONAL INVESTOR

KOREA



KOREA

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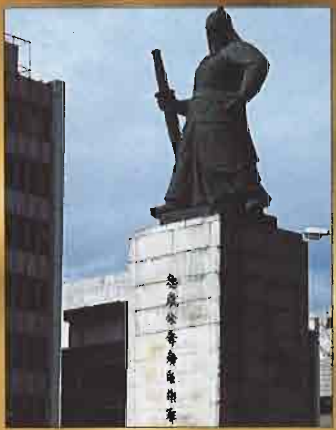

The victories of 17th century warrior Yi Sun Shin are one of many proud chapters in Korean history.

SPONSORED STATEMENTS

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ECONOMY

NEW POLICIES FUEL GROWTH

At four o'clock in the afternoon, the lights are turned off at the Samsung Group headquarters in Seoul and everyone is sent home after working only eight hours — a short day by Korean standards.

This is not due to any power shortages in the city or shortfalls in the corporate coffers. On the contrary: this drastic move, by the biggest non-Japanese conglomerate in Asia, is designed to eliminate unproductive overtime — the curse of antiquated manufacturing systems crumbling under the weight of their own inefficiency.

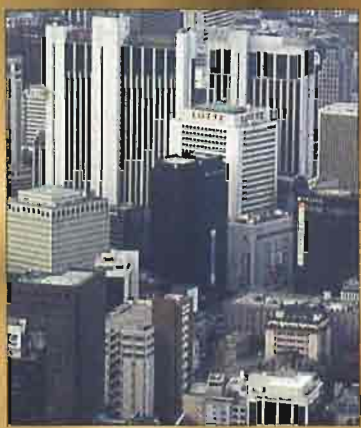
If successful, what Korean businessmen call "The Experiment" could well spread to the 29 other family-owned conglomerates who collectively account for 70 percent of the country's GNP, advancing South Korea by the start of the 21st century from the crowded ranks of newly industrialized countries to the elite club of industrial powerhouses. Indeed, it is the country's stated goal to become a member of the 24-nation, Paris-based Organization of Economic Cooperation and Development (OECD) by 1996.

This will never happen, warns Samsung's chairman Lee Kun Hee, "as long as Korean management is fixated on a policy of high volume production of relatively low quality products. If we don't correct this," he said in a recent interview in a Korean newspaper, "we won't be qualified to run a street corner shop."

According to Samsung's executive director and treasurer, Hwang Young Key, "Lee has told his executives to forget about sales and profits for the next year and the year after that, and concentrate on quality."

South Korea is now at an awkward age of success. Like its Asian NIC counterparts, Taiwan, Singapore and, to some extent, Malaysia, a decade of consistently spectacular economic growth, rising labor costs and the resulting higher standard of living over the past few years has driven investors from the U.S., Japan and Europe to set up their factories on the cheaper shores of China, Indonesia, Thailand and, most recently, Vietnam.

Korea's exports to the United States and Europe are consequently suffering from being caught between inexpensive goods from these developing countries at the low end, and stiff local competition at the high end. For example, in 1988 South Korea sent 39 percent of its exports to the U.S. By last year, that figure had fallen to 23 percent. Overall, South Korea had a trade surplus of $11.4 billion in 1988, which had

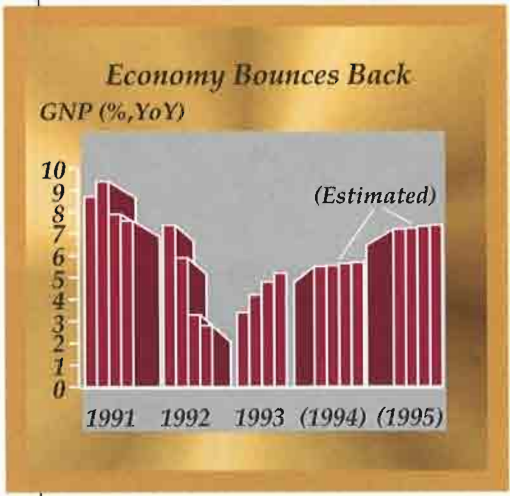


Seoul is set to become a major player in international finance.

fallen to a deficit of just under $1 billion by the end of 1993.

While much of this shortfall has been made up in trade with China and Southeast Asia, a growing cadre of well educated executives like Samsung's Lee know it's only a matter of time before these same customers will overtake them as competitors unless Korean firms are able to maintain their competitive edge.

Since he began his new management campaign in February 1993, Lee has led 1,800 Samsung executives on overseas trips to visit factories and inspect markets in Japan, Britain, Germany and the United States. In a mat-



ter of months, this 51 year-old executive has become as popular with Koreans as Lee Iacocca is with Americans. Both men share the idea that quality is not measured only in a company's products, but in the jobs and lifestyles of its workers as well. In the case of the Koreans, this single concept is revolutionizing centuries of accepted social order.

The 7:00 a.m. to 4:00 p.m. off-rush hour schedule saves most workers up to 90 minutes a day in commuting time. "Time that can be used for self-development or spent teaching your kids," says Hwang. "Before this, I never even had dinner with my family."

For a country of 44 million people with per capita income of $6,740 in GNP terms (in purchasing parity terms, it's $8,694 — the seventh highest in Asia), a literacy rate of 96 percent (higher than in the U.S.), and educated people under 40 years old accounting for the largest single population segment, the ingredients for economic and social change seem simply to be awaiting the opportunity to mix in a more open environment. It's no coincidence that this corporate cultural transformation has coincided with one of the most dramatic political changes to overtake South Korea in a half century.

The December 1992 election of Kim Young Sam, the first civilian president in more than three decades, is giving a new generation of Koreans the chance to experience a democratic society.

A NEW BROOM SWEEPS CLEAN

At his inauguration in February 1993, the new President made three promises: to wipe out corruption, to invigorate the economy, and to instill discipline in the government.

In his first year in office, Kim shocked Korea's political, military and business establishments with a head-on charge at the corrupt practices which tarnished the country's image both at home and abroad. His government enacted a Public Officials Ethics Law, which requires the country's top 7,000 politicians and civil servants to disclose their wealth. He ended the practice of political donations by the business community which for years greased the wheels of the economy. Most importantly, perhaps, he has instituted a "real-name" financial system which, among other things, outlaws anonymous transactions and accounts.

The house cleaning did not stop there. He sacked at least a dozen senior generals from the armed forces, weakening it to the point where few believe it is now capable of mounting another coup.

But the real test of whether Kim can throw off the shackles of 30 years of military dictatorship (the local euphemism is "administrative guidance") will be carrying out the five-year economic structural reform plan he introduced last May. The plan, which includes tax, land, financial and business reforms, is essential in the short term to stimulate a sluggish economy, and long-term to open and develop the country, to the point where it can assume the role of international partner in a global economy.

Kim's administration began by prodding the ten largest family-owned conglomerates (Hyundai, Samsung, Daewoo, Lucky Goldstar, Sunkyong, Hanjin, SsangYong, Kia, Hanhwa and Lotte), known as "chaebols," to sell more of their shares to the public and open up more industries to smaller competition.

In the past, the export-driven economy was dominated by the *chaebols* (or "money clique"), which flourished under a system of semi-monopoly privileges, subsidized loans and government-funded development. Now that they operate in a freer, more deregulated economy, they will have to compete for domestic bank loans as well as for foreign funds.

The first year of Kim's government saw the economy grow at a estimated rate of 5.2 percent, up from 4.7 percent the previous year. Projections for 1994 have the $300 billion economy moving along at a faster clip of up to 6.5 percent growth. Inflation, which averaged 4.6 percent in 1993, is now creeping up to 5.4 percent, but is still below the average of 6.3 percent in 1992.

AVOIDING A WORST CASE SCENARIO

One vision of the future South Koreans are keen to avoid is a possible military confrontation with North Korea. With foreign news magazines regularly publishing graphic scenarios of the way a possible war would be fought, and with a million and a half battle-ready soldiers facing each other just 50 miles north of Seoul, it's hardly surprising that local businessmen are the first to say that the risk of war is real. Despite President Kim's best efforts to defuse the tensions along the 38th parallel, Korean executives claim the situation will only get worse if North Korea remains politically and economically isolated from the rest of the world.

Determined to learn from the social and financial dislocations being caused by German reunification, South Koreans are convinced that slowly implemented but strong economic ties between the two countries will be necessary for many years to come before political unification can even be contemplated.

"Our future lies in being located in the middle of the world's fastest growing region, which has every likelihood of becoming the world's largest market," says Joon Huh, chairman and president of the Korean Exchange Bank. "Our proximity to Japan, China and Russia creates the potential for Seoul to become one of the world's leading business and financial centers. But in order to achieve this, we must first recognize that we all need each other."

FINANCIAL MARKET DEREGULATION

This year and next, the government of South Korea plans to open up the country's financial markets. Proposed measures include:

- Limits on foreign ownership of Korean stocks will be decreased.
- Foreigners who have lived in Korea for more than six months but are defined under the Securities Exchange Act as foreigners, will be given national treatment in stock investments.
- Foreign firms or joint-venture general manufacturing companies will be allowed to introduce offshore short-term capital.
- The period for importing goods on a deferred payment basis will be further extended.
- Institutional investors will be given full freedom to invest in offshore bonds and equities.
- The ceilings will be raised on investments by individuals in overseas bonds and equities.
- International organizations such as the World Bank and the Asian Development Bank will be authorized to issue won-denominated bonds in Korea.
- Foreigners will be authorized to invest directly in equity-linked bonds and convertible bonds issued by small and medium-sized companies.
- Foreigners will be allowed to underwrite government and public bonds whose yields are similar to international rates.
- Foreigners will be able to invest in bond-type beneficiary certificates as a way of indirectly opening the domestic bond market.
- The daily fluctuation band of interbank foreign exchange will be further expanded.
- The limit for oversold spot FX position limits will be readjusted after taking into consideration the development of the foreign exchange market.
- Underlying documentation requirements for foreign exchange forward contracts will continue to be softened so that both industrial and financial institutions will be fully responsible for their own exchange risks.
- The minimum limit for export and import settlements in won will be raised above $100,000.
- In accordance with the pre-notification plan for opening direct foreign investment in Korea, the scope of industrial sectors eligible for foreign investment will be expanded and the investment procedures will be simplified.
- Projects eligible for notification by the government for investing overseas will be expanded.
- Requirements for opening branches by foreign securities companies will be relaxed.
- Foreign credit rating agencies will be able to establish liaison offices in Korea and have equity participation in local credit rating agencies.
- Foreign investors will be permitted to expand their equity positions in Korean investment trust companies and investment advisory companies.
- The government will gradually reduce the mandatory allocation of monetary stabilization bonds to trust accounts of banks.

KOREA EXCHANGE BANK

KOREA EXCHANGE BANK

A NEW INTERNATIONAL FOCUS

Comments by Joon Huh, Chairman and President

Joon Huh, KEB Chairman and President

Q: What is the main source of direct foreign investment in Korea?
A: The main sources have been the U.S. and Japan. In 1993 69 cases of direct investment by U.S. companies totalling $341 million were recorded, accounting for 39 percent of total direct foreign investment. In the same period, Japanese investors accounted for 85 cases of direct investment amounting to $286 million. With liberalized foreign investment regulations and greater tax benefits, we expect the sources of direct foreign investment to become more diversified and to include the U.K., France and other European countries.

Q: Do you think China will be Korea's main focus for overseas investment one day?
A: Since Seoul and Beijing established diplomatic relations in August 1992, China has become Korea's third largest trading partner. For 1993 alone, total investment in China approved by the Korean government was about $600 million, surpassing the sum of all previous Korean investments in China.

The Korea Exchange Bank (KEB) has taken advantage of the growing economic ties between the two countries by becoming the first Korean bank to establish a representative office in Beijing. We have also strengthened our network by adding an office in Tianjin. We will continue to play a significant role in building economic bridges across the Yellow Sea by assisting foreign investors with various financial services and further expanding our network in China.

Q: What is the main focus of Korea's foreign investment, and how has KEB been involved?
A: Korean companies have made two types of foreign investment. The first involves acquiring or establishing manufacturing or research facilities in industrialized countries like the U.S., EC, and Japan, so as to obtain advanced technology and gain access to local consumer markets. The second type shifts manufacturing sites of labor-intensive industries to countries such as China, Indonesia, Thailand, Vietnam, the Dominican Republic and Panama, in order to reduce production costs and avoid trade barriers.

Historically KEB's role was to act as Korea's window for external borrowings, but now the Bank is called upon to take the initiative as the country's investment window. For this, KEB provides advisory, consulting and financial services to Korean investors. The Bank's experience in international financing was evidenced in our crucial role in arranging a $50 million floating rate note (FRN) to finance the construction of Sunkyung Industries' textile facility in Indonesia, and a $180 million syndicated loan for Sammi Steel Co.'s acquisition of Atlas Steel in Canada. Another major international deal was a $270 million lease financing for Hyundai Merchant Marine Co., Ltd. in December 1993.

Q: How will the new GATT agreement affect investment in Korea?
A: As access to the Korean market becomes easier, the agreement will likely bring more foreign investment to Korea in high-tech industries, communications, marine transport, distribution and financial services. The government recently created a task force to encourage foreign investment and plans to simplify investment procedures further and give tax benefits to foreign

KOREA EXCHANGE BANK

investors comparable to those offered by China and Southeast Asian nations.

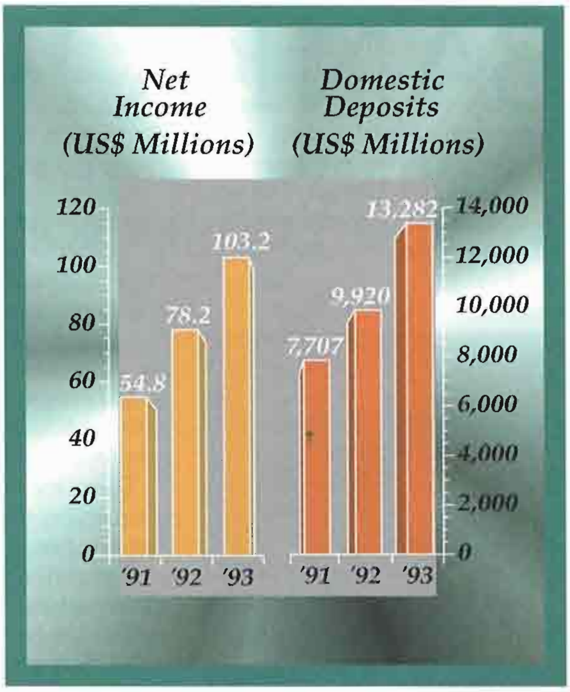
Q: What role does merchant banking play in the bank's profitability?
A: We currently have nine overseas subsidiaries, including four merchant banks in London, Hong Kong, Luxembourg and Zurich. In 1993, total profits from these four subsidiaries were approximately $12.6 million, or 12.2 percent of KEB's total earnings. Over 80 percent of KEB's merchant banking activities has focused on providing services to Korean companies in the local market. But recently our investment banking subsidiaries have been actively developing new business in emerging markets like China, Indonesia and Thailand.

With further financial liberalization taking place in Korea along with accelerated internationalization, we expect to see more business opportunities and stronger performance from our merchant banking subsidiaries, and I am confident that they will continue to contribute substantially to the Bank's overall profitability.

Q: Where does the U.S. fit into KEB's strategy?
A: The U.S. is Korea's largest trading partner, with trade volume between the two nations exceeding $35 billion last year. These trade links are supported by thousands of companies from the two nations that have established branches, liaison offices or subsidiaries in each other's country. KEB's U.S. operations account for 40 percent of our total overseas assets and 35 percent of our total overseas loans. In 1967 KEB became the first Korean bank to establish branches in the U.S. We now have three branches in New York and four branches or agencies in Los Angeles, Seattle, Chicago, and Miami. In 1974 we also set up the California Korea Bank, a retail banking subsidiary with ten branches throughout California.

KEB branch offices and subsidiaries formerly specialized in services suited to the activities of Korean firms operating overseas, but we are ready to expand our business to non-Korean clients in the U.S. To do this, KEB has implemented a new policy to localize our business by diversifying market activities, developing and providing various financial services for local customers, and doing more local hiring.

Q: How has privatization [in 1991] affected the bank's management culture? And how will you stay competitive in a more deregulated banking environment?



A: Our management culture is reflected in our new "Super KEB 21" campaign to position ourselves firmly as the leading international commercial bank in Korea and to perform effectively in a rapidly changing financial environment.

I expect that recent changes, such as the easing of interest rates and foreign exchange controls, will trigger fierce competition in the market and at the same time expose Korean financial institutions to greater risks. However, this new competition and heightened risks may serve as an opportunity to strengthen our overall management capability in the future. To face these challenges, it is essential to keep improving our overall productivity, broaden our customer base and diversify the sources of earnings.

As the first chairman appointed from within the bank management, I feel much responsibility and pressure. But after my first year in office I can already see that our efforts have produced a more flexible and customer-oriented culture.

Last year, net profits increased 35.3 percent to W83 billion and our domestic deposits exceeded W10 trillion for the first time in KEB's history. Another noteworthy achievement of the past year was the successful conclusion of our "Five Million Deposit Accounts" campaign.

I am happy to see that the new corporate culture has taken effect at all levels of our organization, and I will continue to encourage our staff to devise innovative solutions in response to the new challenges of the post-privatization era.

BANK OF KOREA

AN INTERVIEW WITH DR. SI-DAM KIM, ASSISTANT GOVERNOR

Dr. Si-Dam Kim
Assistant Governor
Bank of Korea

Q. What is the government's monetary policy and how has it differed from that of previous governments?

A. The main emphasis of our monetary policy under the new government is securing price stability. In this sense, there is virtually no difference between monetary policy conducted under the new and the previous governments.

Under the new government, though, we initially put more emphasis on maximizing the flow of funds into productive sectors in connection with the efforts to achieve an early regeneration of the overall economy within the context of the "100 Day Plan for a New Economy" launched last year.

Even though money supply has increased sharply since last August, this temporary increase is mainly attributable to our own efforts to achieve a soft landing for the real-name financial transaction system.

These monetary policy actions, however, represent just temporary expedients and, since both the government and the Bank of Korea are firmly committed to price stability, we will continue to conduct monetary policy with an emphasis on controlling the money supply at an appropriate level.

Q. Korea's economy is going through a dramatic five-year liberalization program. What can foreign investors expect when it is completed?

A. The Korean government announced the Blueprint for Financial Liberalization and Marketing Opening last June. Under this, a wide-ranging deregulation of the financial system will be undertaken and the financial market will be broadly opened to foreign institutions and individuals over the period from 1994 through 1997. To begin with, foreign investors' access to the stock market will be greatly expanded. To this end:

- The ceilings on non-residents' equity holdings will be progressively raised.
- Starting this year, individual foreigners who are resident in Korea will be given national treatment for stock investment.
- The criteria for opening branches of foreign securities companies will also be relaxed next year.
- What's more, the bond market is scheduled to be opened by progressive increments.
- As of this year, foreign investors will be allowed to buy convertible and other equity-linked bonds issued by small and mid-sized companies.
- From 1995, foreigners will be allowed to invest in bond-type beneficiary certificates.
- From 1997, foreigners will be able to invest in the secondary market through the purchase of long-term, non-guaranteed bonds issued by small and medium-sized firms. The government is also launching a coordinated program to attract foreign direct investment.
- Of 208 currently restricted industries, 116 will be opened to foreign investors by 1997.

Therefore, once the liberalization process has been completed, foreign investors will find plentiful places to invest and to do business.

Q. The government has proposed financial incentives to the ten biggest Korean conglomerates to streamline their operations and specialize in just a few industries. Do you think this plan will be accepted and if so, how will it affect the economy?

A. We believe that the majority of industrialists will support the Industrial Specialization Plan (ISP), since it is basically an incentive system which includes existing controls on conglomerates, such as control of bank credits and the ceilings on the size of the that equity stake a firm belonging to a conglomerate may take in any other domestic firm, et cetera.

We believe this scheme will contribute to strengthening the international competitiveness of Korean industry since it is expected to give a big boost to specialization.

Under the ISP, the 30 top conglomerates will be allowed to pick two (three in the case of the ten groups) of 12 industrial sectors as their core industries, in which their business activities are expected to specialize. Within them, they can choose core business firms whose shares in their industries are equal to or greater than 10 percent. Once chosen, core business firms will have various controls over them eased which were originally imposed to guard against excessive concentration of economic power.

Q. What impact will deregulated interest rates have on the economy? Will they fuel inflation or lead to an increase in the money supply?

A. First of all, interest rate deregulation will attract more funds into financial markets and enhance financial intermediation.

Also, by getting the price of interest right, the efficiency of the economy as a whole will be augmented through what we call the price function of interest rates.

There is general concern that deregulation will lead to an increase in the money supply, thereby bringing about inflation. However, the monetary authority will supply money at a level appropriate to ensure price stability and will allow flexibility in M2 growth only over the short term in case market interest rates rise because of a speculative demand for funds.

Therefore the possibility of a major boost to inflation from interest rate deregulation is very slight.

Q. This year the bond market is due to open to foreign investors. What will it take to make Korean commercial paper or government T-bills attractive to foreigners?

A. The Blueprint for Financial Liberalization and Market Opening, announced at the end of June 1993, did not actually set out a plan for foreign direct investment in commercial paper or government bonds. Instead, as a preliminary step toward full opening, it contained a scheme for foreign direct investment in convertible bonds and unguaranteed long-term bonds issued by small and medium-sized companies.

Convertible bonds and unguaranteed long-term bonds are likely to be attractive to many foreign investors because they are expected to be issued by companies with high credit ratings and growth potential at rates above those prevailing internationally.

Q. Do you think the government will be able to achieve its stated aim of making financial transactions in Korea transparent in line with reporting practices used in the United States?

A. I think that transparency in financial transactions can be achieved once the relevant legislation has been put in place to provide the requisite framework institutionally, and the practice becomes firmly rooted in financial transactions among the general public.

In August 1993 the Korean government sought to achieve this by mandating the use of real names in all transactions with financial institutions through the "Emergency Presidential Order on Real-Name Financial Transactions and Protection of Confidentiality."

At the outset of the scheme's introduction, some adverse effects emerged such as a decline in the volume of financial transactions, increased demand for cash, et cetera. But the financial markets soon regained stability owing to the authorities' timely countermeasures.

In addition, the verification of real-name accounts and the conversion of account holder names to their actual ones have proceeded smoothly by virtue of the firm support of general public for the new system.

In the initial 90-day period during which real-name conversion had to be completed, 97 percent of financial assets previously held under false names had been switched to real-name accounts in terms of the value of deposits across all financial institutions.

In this regard, the real-name system seems to have gotten off on the right track and as the system takes firm root, the degree of transparency of the financial transactions in Korea is expected to rise in the near future to that obtaining in developed countries.

SAMSUNG

LEADING THE WORLD IN ELECTRONICS

In a bid to become one of the world's top five electronics makers in the 21st century, Samsung Electronics Company has chosen six strategic business fields for research and development. This core of next-generation products includes optics, information systems, semiconductors, systems integration/software, environmental and energy systems.

The firm also plans to increase investment in its current key export items such as memory devices, color TVs, VCRs, and microwave ovens to strengthen the competitiveness of these products. With its sights firmly set on the future, the management of Samsung Electronics is projecting record sales of $14 billion in 1996 and $26 billion by the year 2001.

In 1993, Samsung Electronics reached $10 billion in annual sales to take the commanding position as Korea's leading manufacturer. With $6.7 billion in export sales, it was also Korea's leading exporter for the second year in a row, accounting for 8 percent of Korea's total exports and 27 percent of exports from the country's growing electronics industry.

Samsung's export surge was driven by a 70 percent increase, to $2.7 billion, in overseas sales of semiconductors. The main sellers were 4M DRAMs, 16M DRAMs, SRAMs, and microcomponents such as ASIC. With this, Samsung has emerged as the world's seventh largest semiconductor manufacturer and commands the largest share of the world's memory market.

16M DRAM Semiconductor

Samsung's consumer electronics department also had an excellent year in 1993, recording exports of $2.6 billion.

In the computer and communications sector, Samsung's exports grew by 63 percent to $1.4 billion, mainly helped by brisk PC exports to major U.S. computer manufacturers such as IBM, NCR and Apple as well as the export of telecommunications systems and equipment to Russia, China and Latin America.

"It is not surprising that with this performance, Samsung Electronics has been granted a single A rating by Standard & Poor's," says Dong Woo Kim, Samsung's managing director of finance. "It's the first time a private company in Asia, outside Japan, has earned such a high rating from a leading credit rating company."

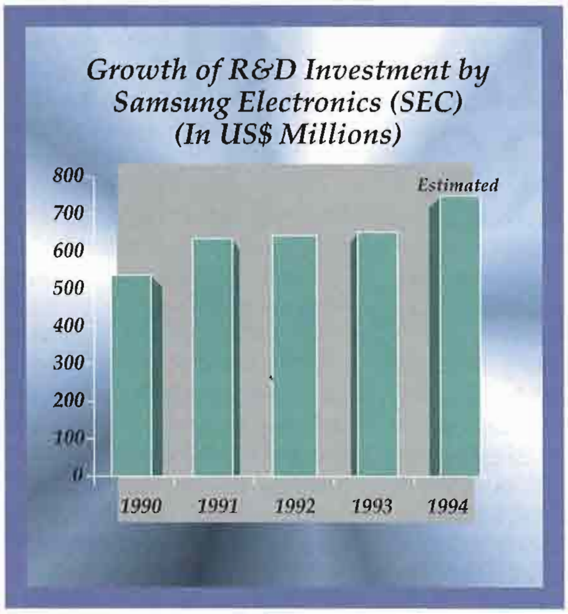
Recognized by overseas investors as Korea's best blue chip company, last year Samsung floated two issues of Global Depository Shares, each for $150 million. The heavy oversubscription of the issues has encouraged Samsung to offer another GDS issue this year. Compared with an average P/E ratio of 17.7 on the Korean Stock Exchange, Samsung Electronics is trading at a multiple of 25.5 percent.

"As the company's mass production line for 16M DRAMs has the capacity to produce three million units per month, beginning in the second half of this year, the company's profits in 1994 are expected to rise sharply over 1993 on a corresponding increase in revenue," notes Kim.

A major factor behind Samsung Electronics' average annual growth rate of 45 percent since 1990, despite an ever toughening export environment, is the company's aggressive investment policy. For the last three years, the company has invested a total of $500 million in factory automation and $1.9 billion in research and development. On an annual basis, Samsung invests over 8 percent of its revenue in R&D, and more than 20 percent of its 9,000 employees work in that sector.

Samsung confirmed its position on the leading edge of technology with the development

SAMSUNG ELECTRONICS



last November of the "bio-TV," an environmentally-friendly video transmitter using far infrared rays. The four-year, $3 million project was tested at Seoul National University and ongoing research by Samsung into the biological effects of the bio-TV on viewers will continue in the United States in cooperation with the University of Colorado.

Last year Samsung also completed construction of a $620 million plant, able to produce the world's first eight-inch silicon wafers on a full-time basis. The memory throughput of the eight-inch wafer is about twice that of the current state-of-the-art six-inch wafer.

The new semiconductor plant currently produces one million 16M DRAMs a month, with the capacity to expand to three million units a month, making it the world's largest production line for these chips. Samsung hopes to use the same production line to manufacture 64M DRAMs, the next generation of memory devices developed by Samsung in September 1992.

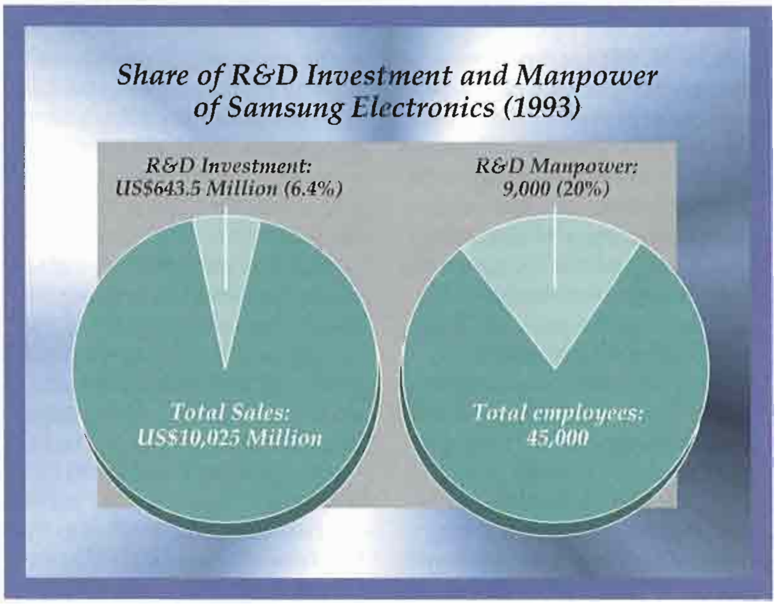
Samsung established a solid base for production and sales of the next generation of DRAMs through its transfer of 16M synchronous DRAM technology to Japan in 1993.

The move will solidify the company's position as the world's leading producer of memory chips. The speed of the synchronous DRAMs is four times faster than for standard DRAMs, and it is expected that by next year, this new technology will be incorporated into the latest models of high-end PCs and workstations.

Not content with technological innovation, Samsung Electronics is playing a leading role in reshaping management techniques in Korea's corporate culture. Samsung implemented quality-oriented management by introducing a line stop system: in case a defect is found during the manufacturing process, the whole production line is stopped until the problem is solved.

As a result of its strenuous efforts to improve quality control, Samsung has won a series of International Standard Organization (ISO 9000) certificates for its entire range of products. In addition, it now holds the world's first UL-TCP certificate. With this certificate, Samsung can affix UL labels to its products after its own quality assurance test, without an additional inspection by UL. The acquisition of the UL mark is a prerequisite for export to the U.S.

For further information, please contact:
Samsung Electronics Co., Ltd.
Public Communications Office
250, 2-ga Taepyung-ro, Chung-gu
Seoul, Korea
Tel.: (82-2) 727-7831
Fax: (82-2) 727-7820



STOCK MARKET RECOVERS

GOODBYE TO THE BEAR

The floor of the Korean Stock Exchange

Foreign investors eager to buy stocks on the Korean Stock Exchange (KSE) are having another frustrating year, with most analysts predicting that the Seoul market will shoot up by about 30 percent into record territory by December.

Both foreign and domestic brokers agree that the four year bear market is over and the frenzied buying seen last year will continue. The Korea Composite Stock Price Index (KOSPI) closed 1993 at 866, still 211 points shy of its peak of 1077 on April 1, 1989.

"The index is sure to reach the 1000 region this year and there is a high possibility it will reach the 1200 mark," says Keith Nam of HG Asia. Hanshin Securities predicts a high of 1061; Merrill Lynch thinks it will reach 1100; Tongyang Securities expects 1123; and Jardine Fleming is forecasting 1150.

"Overseas investors are frustrated as they have no choice but to watch the bull run from the sidelines," says Philip Smiley, branch manager of Jardine Fleming Securities in Seoul. "We see massive pent-up demand for quality Korean companies which we cannot satisfy, and it's forcing people to buy almost anything just to gain exposure here. That's something they wouldn't do if this was an open market," he says.

Foreign investors are currently restricted to holding a maximum of 10 percent of the universe of Korean stocks and 3 percent limit of any one issue. At the end of 1993, foreigners held about 500 million shares, or 8.68 percent of all listed stocks, leaving only 1.32 percent available, according to the Securities Supervisory Board. Of the eight stocks most highly recommended by Merrill Lynch; Samsung Electronics, Pohang Steel (POSCO), Yukong, Korean Air, Korean Mobile Telecom and Korea Electric Power Corporation (KEPCO), have all reached their foreign ownership limits.

SKIRTING THE CEILING

According to figures from the Bank of Korea, foreigners pumped $7.5 billion into the market in 1993, up from $2.7 billion a year earlier. This seemingly insatiable demand has created a secondary offshore market where Korean stocks are resold over the counter at premiums ranging from 5 to 90 percent.

Another significant exception to the foreign ownership rule are Global Depository Shares (GDS), which can be sold to foreign investors offshore by special dispensation from the Korean government even if a company has reached its foreign ownership limit in the domestic market. Companies using GDS include Samsung Corporation, Samsung Electronics, Kia Motors, Hyundai Motors and Hansol Paper. These shares can either be traded OTC between foreigners or converted into ordinary shares traded on the KSE. Many Korean companies have also issued convertible bonds and bonds with warrants in overseas markets; these, too, are exempt from the foreign ownership ceiling.

But it is not the ownership restrictions that most trouble foreign investors. According to one foreign trader, "The basic problem is that there are no sellers in this market." For example, last year Samsung Electronics issued two tranches of GDS totalling $300 million which equalled 500 million shares of preferred stock. This allowed the company to increase its foreign ownership to a total of 23 percent. Even though the additional 13 percent was sold at an initial premium of 30 percent over the underlying price on the KSE, the first tranche, lead-managed by Goldman Sachs, was oversubscribed four times. The second, led by Merrill Lynch, was oversubscribed seven times. The premium on these GDS has already risen to over 50 percent this year, while others, like Korean Mobile Telecom, now command premiums of 60 to 90 percent.

This lack of opportunity at reasonable prices has prompted J.P. Morgan and Salomon Brothers to create new OTC derivatives such the options on the KSE index listed on the Luxembourg exchange.

STOCK RUSH

Even if the foreign ownership limit is raised to 15 percent this year — and most observers do not think this will happen before June — it will not be enough to satisfy the demand. "An increase of only 5 percent will be perceived negatively by the international investment community and would cause an unseemly rush by foreigners for fundamentally attractive stocks," says Smiley.

"This amount will be bought up within a matter of weeks if not months, so by the end of this year we will end up with the same problem we face now," agrees John Wisniewski, senior country representative at Merrill Lynch. "However, during this period, the high premiums foreigners are currently paying for these stocks will come down closer to the underlying price of the shares.

"It will be a horse race," concludes Wisniewski. "The Korean market will reward investors who arrive early."

Seoul has clearly underperformed the other Asian stock markets growing only 27.6 percent in 1993 compared to 154.4 percent in the Philippines, 115.7 percent in Hong Kong, 107 percent in Indonesia, 98 percent in Malaysia, 88.4 percent in Thailand, 79.8 percent in Taiwan and 59.1 percent in Singapore.

"Share prices were boosted last year just by expectation of economic recovery. In 1994 we will witness an actual economic improvement, which will create a fever in the market," says Sung Ho Choi, manager of International Planning at SsangYong Investment & Securities. "Liquid institutional investors, whose optimism helped spur the market to a gallop last year, continue to be aggressive."

Market capitalization hit a record $139.5 billion in 1993, a rise of 33 percent over 1992. A total of $4.8 billion in new equity and equity-related issues was brought to market last year, up from $2.5 billion a year earlier.

While there are 693 firms listed on the KSE, the 30 major conglomerates accounted for 43 percent of total trading activity. The top stocks by volume in 1993 were Korea Electric Power Corp. which captured 10.5 percent of total shares traded, followed by Daewoo Corp. with 6.4 percent, Lucky Goldstar Corp. with 5.5 percent and Hyundai Motors with 4.1 percent.

In value terms, the biggest gainers were steelmaker POSCO, up 111 percent, followed by Samsung Corp. up 73 percent, and Hyundai Motors, which rose 50 percent.

The average P/E ratio of shares listed on the KSE was 22.7 and the average dividend yield was 1.3 percent.

While no foreign brokerage firms have seats on the KSE, two companies, Peregrine and Kleinwort Benson, recently formed joint venture operations with local firms to gain direct access to the market.

This lack of direct foreign participation on the KSE has nothing to do with regulatory restriction, it's simply a matter of cost. "At $12 million it would be one of the most expensive seats in the world," says Jardine's Smiley, "and frankly it's not worth it."

SSANGYONG INVESTMENT & SECURITIES CO., LTD.

AN INTERVIEW WITH JIN-OH HA, PRESIDENT AND CEO

Q. Could you briefly tell us about the business performance of your company?
A. As a member firm of the SsangYong Business Group, SsangYong Investment & Securities Co., Ltd. was established in 1984 through the acquisition of a medium-sized brokerage house. We have grown to be the fifth largest securities company out of 32 Korean competitors. We have 1,516 employees, 44 domestic branches, two overseas subsidiaries in London and New York, and three representative offices in Hong Kong, Tokyo, and Zurich. Our main business areas are brokerage, underwriting and dealing. For the fiscal year ending March 31, 1994, we expect total revenue of W242 billion ($295 million) and pretax gross profit of W55 billion ($69 million), an increase of 27 percent and 110 percent, respectively, over the previous fiscal year.

Jin-Oh Ha
President and CEO

Q. What is your company's competitive advantage?
A. One of our biggest strong points is the expertise and human resources we command in international business. Since 1992 we have maintained the leading position among our domestic competitors, in both the international underwriting and brokerage sectors. Secondly, I would like to point out that we were the most profitable Korean broker in terms of return on equity over the past few years. With competition becoming more severe and international business becoming a more significant part of the securities business, I believe that these two advantages will contribute greatly to enhancing our future competitiveness.

Q. Could you describe SsangYong Securities' performance in international business?
A. Since lead-managing the Korea Europe Fund in 1986, our international underwriting division ranked first among all Korean securities firms in 1992 and 1993. Some of the deals we arranged in recent years are shown on the opposite page; they include the largest blue-chip manufacturing companies in each industry. We also have played a senior role in establishing several unit trusts and mutual funds focusing on Korean investment. In the international brokerage sector, we placed first in 1992 with total transaction amount of $779 million and maintained our top position in 1993.

Q. What is your strategy for the future?
A. First, we will focus on the international underwriting and brokerage sectors, which have great profit potential. Second, we plan to develop new business areas, such as derivatives, international portfolio management, and foreign exchange. Third, by increasing the quality of research and expanding investments in automation, we will enhance our competitive position. Fourth, as I mentioned before, I will continue to pursue an efficient management policy focusing on profitability.