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Doing Business in South Korea

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South Korea is a forward-thinking country thanks to its hurry-hurry approach to everything, an insatiable appetite for technological advancement and an indomitable can-do attitude.

In recent years, Korea's economy moved away from the centrally planned, government-directed investment model toward a more market-oriented one. South Korea has a strong economic, political and cultural influence in Asia and is one of the world's leading countries in science and technology. It has a very advanced and modern infrastructure and is a world leader in information technology such as electronics, semiconductors, LCD displays, cell phones and high-tech gadgets, led by Samsung and LG. Other important industries include engineering, construction, machinery, textiles, petrochemicals, biotechnology and robotics.

This publication is a general guide for those who want to do business in South Korea.

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1. GENERAL

Korea 2008

Country	Republic of Korea (ROK)
Capital	Seoul
Territory	100,032 km ² (as of the end of 2007)
Population	48,600,000
Language	Korean
Illiteracy	0% (people aged between 20 and 40)
Religion	Buddhism 24%, Protestant 23%, Catholic 8%, Others 0.8%, None 44.2% (NSO, 2005)
Climate	Continental climate with four distinct seasons
Time Difference	GMT + 9 hours
Political System	Democratic Republic, Presidential System
Economy	The 15th largest economy in the world (by GDP), OECD member
Currency	Won (KRW)
Flagship Industries	ICT, Electronics, Semiconductor, Automobile, Shipbuilding, Steel, Petrochemical, etc.

Major Economic Indicators

	2003	2004	2005	2006	2007	2008
GDP (USD 100 mil.)	608	681	791	887	1,050	928
Real GDP Growth (%)	2.8	4.6	4.0	5.2	5.1	2.2
Per Capita Income (USD)	13,460	15,082	17,531	18,372	21,695	19,231
Export (USD 1 bil.)	194	254	284	325	371	422
Import (USD 1 bil.)	179	224	261	309	357	435
Current Account Balance (USD 1 bil.)	12	28	15	5	6	-6
Unemployment Rate (%)	3.6	3.7	3.7	3.5	3.2	3.2
CPI Growth (%)	3.5	3.6	2.8	2.2	2.5	4.7
National Bond Yield to Maturity (three-year bond %)	4.6	4.1	4.3	4.8	5.2	5.3
Foreign Exchange Reserve (USD 1 bil.)	155	199	210	239	262	201

Exchange Rate

	2003	2004	2005	2006	2007	2008
(Won-USD)	1,192	1,145	1,024	956	929	1,103
(Won-100Yen)	1,030	1,059	931	821	790	1,077
(Won-Euro)	1,348	1,423	1,274	1,199	1,273	1,607

Source: The Bank of Korea, Korea Customs Service

2. KEY INDUSTRIES

2.1 Semiconductors

Korea's semiconductor industry has achieved rapid growth through strong government support and aggressive investment. Through a wide range of factors, including exports, facilities investment, and the application of technology, Korea has become a global leader in the semiconductor field.

Growth in exports of semiconductor-based goods has caused a surge in imports of semiconductors. Most of the non-memory chips used in the manufacture of best-selling products like mobile phones, digital cameras, FPD TVs and automobiles are not produced in Korea, so rendering manufacture of these products dependent on imports.

The Korean semiconductor market was worth roughly US\$38.3 billion in 2007, of which 80 percent - some US\$30.8 billion - was supplied by imports. Such a large-scale market as Korea necessarily exerts great appeal for foreign investors.

The Korean semiconductor industry consists of about 270 companies. In terms of sales, device companies rank as the largest group, accounting for 60 percent or more of the total, followed by assembly, equipment, materials, and design companies, all of which are of the small-to-medium sized category.

Semiconductor chip makers include integrated device manufacturers such as Samsung Electronics and Hynix Semiconductor, contract suppliers like Dongbu Hitech, and assembly firms like Amkor Korea.

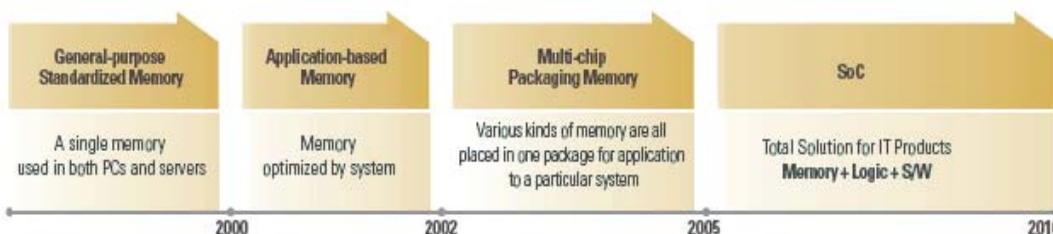
Equipment/materials providers include names like Secron, Jusung Engineering, DI Corp., Siltron, Dongjin Semichem, all of which have recently undergone rapid growth.



Fabless makers include small-size firms with only 200 employees or so, having more than doubled in sales every year. They include Core Logic and Mtekvision.

Developments in Semiconductor Technology

As non-memory semiconductors control all the functions of a system, industry competitiveness depends on the expertise of key personnel who design them. System competitiveness can be said to rely on core engineering design of high-performance chips at the lowest cost in an efficient "time-to-market" manner.



With the acceleration in the creation of new business areas by digital convergence, R&D has shifted its focus from localization to creation of new markets. R&D places more emphasis on system technology than on productivity and efficiency in terms of manufacturing technology.

Developments in Korean Semiconductor Technology

The Korean semiconductor industry is shifting its focus from memory to a system-on-a-chip (SoC), albeit it at a gradual pace. To assure continued growth, the industry has been working to transform its memory-centered structure into a more SoC-oriented business in order to provide total solutions for IT products.

Although the Korean semiconductor industry is currently in a transition period to system IC from memory, it is still marked by individual members pursuing different lines of business with conflicting R&D policies. For example, Samsung pursues a total solution business model, with Hynix focusing on memory, Dongbu Hitech dedicated to foundry work, and MagnaChip committed to non-memory.

2.2 Display

The display industry which is cyclical according to the rule of supply and demand has become weaker in this cyclicity and continues to grow at a steady pace, although a seasonal cycle still remains valid with the recent expansion of the market.

The display industry is a capital intensive business with a strong vertical structure of specialization between assembly and parts.

For panel manufacturers, it is important to be provided with high quality parts and materials from small-and medium size suppliers, which in turn need to transact with the panel makers to whom they can provide their parts and materials in a consistent manner.

Given that the industry operates under economies of scale and delivers a strong basis for learning, Korea has maintained its competitive edge as a global leader by taking full advantage of the nature of industry.

As for why Korea is able to maintain its globally competitive edge, the accumulation of excellent mass production technology can be cited because it enables the Korean display industry to lower average production costs at a faster pace than its rivals.

In terms of LCD panels, investment in 5th to 7th generation lines is being made in response to new applications like monitors, laptop computers, and LCD TVs larger than 40 inches, while additional investment is also being made by industry leaders Samsung Electronics and Sharp in a bid to construct manufacturing lines that are 8th generation or beyond.

As the demand for large digital TVs increases, investment in PDP panels is also growing to expand production capacity accordingly. In case of OLED panels, following the lead of LCDs and PDPs, more investment is being seen as overseas companies attempt to enter into Korea's market to capitalize on its technological advantages.

In the future, investment in this important sector will be determined according to device based on the pace of technology development that will make it possible to overcome technology-related shortages and improve the effects of cost savings.

The display industry is a systems-based sector engaging in processing and assembly through raw materials, parts and equipment provided by suppliers, thus having a significant impact on the development of the back-end industry.

In the supply industry, among others, Korea still lags behind advanced countries in terms of technology. Therefore, promotion of investment in R&D is underway at the government and private levels, thus making a large number of investment opportunities available to foreign firms offering technological competitiveness.

In particular, the supply-side of this industry urgently needs to attract foreign investment from companies equipped with core technologies in a bid to reduce the technology gap between advanced countries and secure parts supply in a seamless manner.

According to the ratios of parts to LCD panels in terms of price, back light units account for 30%, followed by color filters (25%), glass panels (17%), driver ICs (15%), and polarizers (11%).

2.3 Auto Parts

The automotive industry which is vital to the country's manufacturing industry accounted for 11.8% in production, 13.4% in export, and 9.1% in employment as of 2006.

The automotive industry is currently at the beginning stage of maturity, having gone through the phases of assembly production and localization during the 1970s, mass production and export during the 1980s, and self-development of models during the 1990s.

The image of Korean-made cars has improved significantly of late in overseas markets. Korean car makers, which were once better known for price competitiveness, are now recognized to offer higher quality competitiveness in small and medium-size passenger cars and small-size SUVs.

In 2007, as domestic demand and export continued to increase, Korea exceeded annual production of 4 million cars. She currently produces 5 million vehicles annually if overseas production is included.

Since 2005, passenger cars have recovered somewhat in terms of domestic demand, while exports have maintained their upward trend through emerging market entry strategies.

Domestic demand in 2006 remained sluggish at below 1.2 million cars per year, down from 1.6 million cars in 2002, and returned to a year-on-year increase of 4.7% with 1.21 million cars in 2007.

In 2007, despite concern that domestic demand would weaken due to rising oil prices, it maintained a relatively higher rate of increase than in recent years, as car owners sought to buy new vehicles to replace their aging cars and private consumption increased at a steady rate.

Due to record oil prices, light-weight and small-size passenger cars showed notable signs of increase in demand, while that for medium and large passenger cars declined.

Trend of Demand and Supply of the Korean Automotive Industry

(Unit: 1,000 vehicles, %)

	2005	Change	2006	Change	2007	Change
Production	3,699	6.6	3,840	3.8	4,086	6.4
Domestic Demand	1,143	4.5	1,164	1.9	1,219	4.7
Export	2,586	8.7	2,648	2.4	2,847	7.5
Import	45	32.6	55	21.9	73	32.5
Overseas Production	664	59.7	964	45.3	1,161	20.4

Source: KAMA

Notes: Change rates are calculated on a year-on-year basis.

Since 2002, export in the automotive industry has rapidly increased as auto makers strengthened export strategies, improved the image of quality in overseas markets, and diversified in export items as part of efforts to overcome sluggish domestic demand. As of 2007, export stood at 2.84 million units, up 7.5% from the previous year.

2.4 Information and Communications

The communications equipment industry manufactures apparatus that lets users send and receive information in the form of voice, text, etc. In general, communications equipment is divided into wire and wireless.

Wire communications equipment includes switching systems and transmission equipment, while their wireless counterparts include mobile phones, base station equipment and repeaters for wireless communications.

The communications equipment industry is affected directly by changes in demand for communications service and the level of facilities investment.

The communications apparatus industry, including handsets and communications equipment, is technology-intensive, which requires large-scale investment in most cases, and exhibits R&D risks, technological implications for other industries, and heavy dependence on technology personnel.

The communications apparatus industry plays a key role in establishing a sophisticated information-based or ubiquitous society. Furthermore, it continues to create new sources of demand as applications of convergence expand further in scope following convergence with new technologies.

In particular, the wireless communications apparatus sector will likely further expand in economic implications ranging from mobile phones, equipment and infrastructure to mobile contents and software.

The Korean communications apparatus industry has shifted its focus toward sophisticated products, such as mobile phones and communications equipment, since the 1980s when it began to secure technology of its own.

During the 1980s, Korea began to develop on its own and export TDX telephone switching technologies. Based on such technology, Korea became the first in the world to commercialize the CDMA system in the 1990s.

With the expansion in the mobile communications services market, communications apparatus has continued to increase in production, with a focus on mobile phones and equipment.

Amid contraction in the global IT market that began in early 2000, the Korean communications apparatus industry has expanded in production, while maintaining an upward trend in export and keeping domestic demand at a certain level.

As of 2008, the Korean mobile phone market is showing signs of continued growth based on the needs of existing users to replace their old ones with new high-tech mobile phones or 3G-based mobile phones, although new sources of demand are becoming more difficult to pinpoint as the penetration rate of mobile phones reaches nearly 90%.

In addition, following the commercialization and nationwide expansion of new services such as DMB, WiBro, and HSDPA, the demand for communications equipment designed to support the new services has also continuously been on the rise.

As of 2006, the Korean communications apparatus industry consisted of 1,767 companies, of which wireless communications apparatus manufacturers accounted for nearly 76%.

The Korean IT industry, including communications apparatus, has continuously worked to secure highly skilled personnel in production and technology through a solid base of training of professional human resources. Based on this, the Korean communications apparatus industry has been performing well in terms of product quality, design, and new product development.

2.5 Tourism and Leisure

Korea is located in Northeast Asia, a region which is emerging as the world's largest market for tourism. The country is located at the center of major Asian cities with growing populations and rising expendable income, not to mention a growing desire to travel beyond national borders.

Demand for tourism in the East Asia-Pacific region, including China, Japan, and Korea, will likely surge (UNWTO, Tourism 2020 Vision).

The number of tourists in the East Asia-Pacific region will increase to 109.3 million by 2010 and 224.3 million by 2020, up from 51.7 million in 2000.

The growth rate of tourism in the East Asia-Pacific region is averaging 6.7% on an annual basis, higher than that (4%) of the global tourism growth rate.

The Korean tourism market is rapidly growing in size at an annual average of 7.3% as a significantly increasing number of Koreans travel both domestically and overseas.

In 2007, the total number of inbound foreign visitors was 6.45 million, up 4.8% from the previous year. By nationality, Japan accounted for the most, 2,236,000, or 34.7%, followed by China 1,069,000, or 16.6% of the total.

By purpose, "tours" accounted for 70.9%. By age, visitors to Korea were evenly distributed: 20s (15.6%), 30s (19.3%), 40s (18.4%), and 50s (15.3%).

The average period of stay was 10.9 days, up 61% from the previous year (6.8 days).

3. ESTABLISHING A COMPANY

3.1 Types of Foreign Advancement into Korea

Foreign advancement into Korea for business purposes can largely be divided into 4 types; a foreigner (corporation)'s establishment of a local corporation, a foreigner (corporation)'s establishment of a private business, or a foreign corporation's establishment of a local branch or a local office.

Types of Foreign Advancement

	Type	Law	Remarks
1	Local Corporation	Foreign Investment Promotion Act	Recognized as a foreign investment
2	Private Business		
3	Branch	Foreign Exchange Trade Act	Categorized as a domestic branch of the foreign corporation
4	Office		

Foreign-Invested Companies under the Foreign Investment Promotion Act

The Foreign Investment Promotion Act and Korea's domestic commercial law apply to investments that a foreigner (corporation) makes by establishing a "local corporation" in Korea. To benefit from the protections and benefits of the Foreign Investment Promotion Act, the foreigner shall invest a minimum of 50 million.

The Foreign Investment Promotion Act will also apply to foreign individuals investing 50 million won and more who operate a business as a form of "private business." Such an investment will also be recognized as a foreign investment.

Domestic Branch of a Foreign Company by the Foreign Exchange Trade Act

A foreign-invested business that generates profits is categorized as "branch." As it is a foreign corporation, such a branch is not considered FDI.

An "Office" differs from a branch in that it does not conduct for-profit sales, but instead undertakes a non-sales function such as market research, R&D etc. And unlike branches, offices do not need to register themselves domestically, but are given a unique business code number at the district tax office which is equivalent to business registration.

Comparison of a Foreign-Invested Company and a Domestic Branch

Category	Foreign-Invested Company	Domestic Branch of a Foreign Company
Law	Foreign Investment Promotion Act	Foreign Exchange Trade Act
Corporation Type	Domestic corporation	Foreign corporation
Identity	Foreign investors and foreign-invested companies are of separate entities (independent accounting & settlement)	Headquarters and branches are of a single entity (the same accounting & settlement)
Institution for Notification Acceptance and Permit	Headquarters of a foreign exchange bank	Foreign exchange bank branch (notification), MOFE (permission of financial business etc.)
Minimum (Maximum) Investment Amount	Minimum 50 million won per case, no upper limit	No monetary limit
Scope of Tax Obligations	Tax obligations for all domestic and overseas income (10%, 22% for over 200 million won)	Tax obligations for income from domestic sources (10%, 22% for over 200 million won), Payment of branch taxes for some countries

3.2 Local Corporations Establishment

As stated above, the establishment of a local corporation exactly follows the foreign investment procedures, and includes the foreign investment notification, corporation or private business registration, and foreign-invested company registration. The following includes the details of company establishment and business registration procedures which are significant in establishing a local corporation.

Local Corporation Establishment Procedures



Corporation Establishment

Types of companies recognized by the commercial law include general partnership company, limited partnership company, incorporated company, and private company. As most companies take the form of "incorporated company," the focus will be on the procedures to establish incorporated company.

(i) Type of Stock Company Establishment

In establishing an incorporated company, there are two ways of incorporation: promotion and subscription. The promotion of a company means that promoters accept all shares issued at the time of company establishment. For a subscription-based incorporation, promoters accept part of the total shares issued at the time of company establishment and collect shareholders for the remaining shares.

The procedures by promotion are as follows:

Corporate Establishment Registration and Business Registration



(ii) Incorporated Company Establishment Registration

The registration of incorporated company establishment shall be made within 2 weeks following the completion of the establishment inspection of incorporation by promotion, and 2 weeks following the conclusion of the inaugural meeting of incorporation by subscription.

Pre-registration check shall be done to determine the composition of promoters and whether there are any companies with similar names. An incorporated company needs at least 1 promoter. The promoter shall acquire shares in writing and become a shareholder of the newly created company. Also, in order to conduct business in any area (Seoul Metropolitan City etc.), the company name shall be clearly distinguished from others prior to registration. The company name may be checked in advance on the Supreme Court website (www.scourt.go.kr) for Seoul, and at the relevant registry for other regions.

Depending on whether the investor is an individual or a corporation, the documents that the investor has to prepare overseas before coming to Korea differ. Japanese investors are in yet another category. For corporate investors, the representative director shall bring his/her certificate of residence or driver's licence, as well as the seals of all shareholders, executives

(including foreigners) whose names are included on documents. Letters of attorney and inauguration acceptance certificates must be verified (not applicable for Japanese investors).

(iii) Incorporated Company Establishment Costs

Registration tax, local education tax, registration application fees etc. are the costs involved in establishing an incorporated company.

Corporation Establishment Registration and Business Registration

Generally, the corporation establishment notification and business registration application are processed simultaneously. Notification and application may be carried out at the relevant district tax office of the company headquarters. The corporation establishment notification shall be completed within 2 months from the corporation establishment registration, while business registration shall be done within 20 days from the commencement of business operations.

When a foreign investor makes an investment in-kind to establish a corporation, business registration is required to receive value added tax refund when the investment in-kind objects clear customs. This implies that the business registration has to be completed prior to importing investment objects.

3.3 Private Business Registration

When foreign investors are registered as a private business and not as a local corporation, the existing foreign investment procedures are to be followed, which is the case for local corporations as well. However, what differs is that a private business does not require the registration of the establishment of a corporation.

Private Business Registration Procedure



Foreign Investor Notification

A foreign investor (or an agent) shall file foreign investment notification to a foreign exchange bank, upon which the Institution shall accept the notification immediately. A letter of attorney containing the signature of the investor shall be brought when an agent files a notification on an investor's behalf (no authentication required).

Investment Fund Remittance

A foreign investor is not permitted to use domestic funds to remit investment funds. Furthermore, in principle, a third party other than the investor is not allowed to remit the funds. Funds may be remitted by bank wire or carried on one's person through customs. In case of a bank remittance, both the sender and the receiver shall be an investor. For remitted investment funds, the bank shall issue a foreign exchange purchase and deposit certificate, which should be in possession when registering the business and/or the foreign-invested company.

Business Registration

A foreign investor (or an agent) shall register him/herself at the district tax office of the place of business within 20 days from the commencement of business operations. In principle, the business registration should be done in person, however when applying through an agent, a notarized letter of attorney is required.

Foreign Invested Company Registration

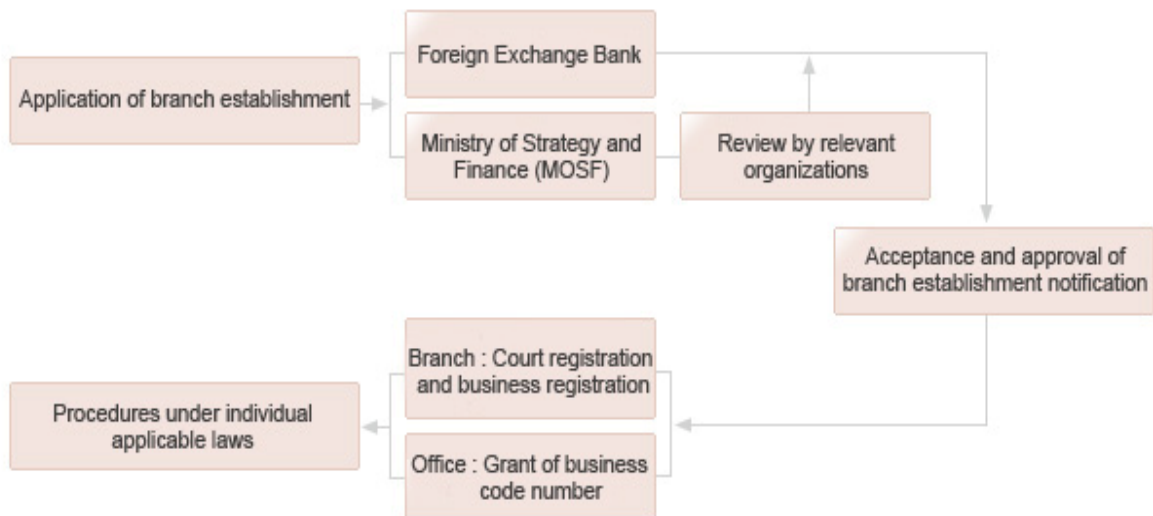
Foreign investors shall register the foreign-invested company within 30 days following completion of the payment of investment object at the entrusted institution.

3.4 Establishing a Foreign Company's Domestic Branch

Unlike the case that the establishment of a local corporation and private business registration are recognized as a foreign investment under the Foreign Investment Promotion Act (FIPA), the establishment of a domestic branch is not recognized as a foreign investment, and is thus subject to the Foreign Exchange Trade Act.

There are 2 types of domestic branches: branch and liaison office. While a branch undertakes sales activities in Korea for profit, a liaison office does not conduct sales activities to create profits, but instead carries out a non-sales function such as business contacts, market research, R&D etc. Liaison offices can carry out quality management, market surveys, advertisements, and other incidental and supportive roles. However, they are limited in their scope of activities since they are not allowed to sell directly, or hold shares to sell on their headquarters' behalf.

Procedures to Establish a Foreign Company's Domestic Branch



Branch Establishment Notification

In order for a foreign company to establish a domestic branch, notification shall be made to the head of the designated foreign exchange bank.

However, both the branch and the office shall notify to the Minister of Strategy and Finance for the following cases:

- Financial operations other than bank operations, including fund loans, brokering and arranging overseas finance, credit cards etc
- Operations related to securities and insurances
- Operations not permitted under the Foreign Investment Promotion Act (FIPA) or other laws
- Operations that could harm Korea's existing social morals and customs

Branch Establishment Registration

According to commercial laws, if a foreign company is looking to operate domestically without being classified as either a branch or an office, then that company has the responsibility to establish a sales office and register it. According to the foreign exchange management regulations, an office cannot display sales activities; hence it cannot be registered as a sales office. Only branches can be registered for sales office establishment.

Closure of Branch and Retrieval of Liquidated Funds

A notification to the head of the designated foreign exchange bank has to be made when a person who has acquired the appropriate establishment permits etc. according to regulations wishes to close the domestic branch or to close and dispose of assets held domestically by remitting them to the foreign country. In such cases, the amount that can be retrieved is limited to the sum of funds brought for local operations, profit surplus and other surpluses of the local branch (minus any losses).

4. FOREIGN DIRECT INVESTMENT IN KOREA

Foreign Direct Investment (FDI) refers to an investment made by a foreigner for the purpose of establishing a continued economic relationship with a corporation of the Republic of Korea or a business owned by a citizen of the Republic of Korea, and is based on the Foreign Investment Promotion Act (FIPA) and other related laws. FDI differs from a portfolio investment, whose purpose is to earn margins from stock transactions for short term profits.

FDI, as prescribed in the Foreign Investment Promotion Act (FIPA), includes acquisition of shares or equity of a domestic corporation or business, provision of long-term loans to invested domestic corporations, a contribution to a non-profit organization etc.

4.1 Acquisition of Shares or Equity of a Domestic Business

This refers to possession of shares or equity of a corporation of the Republic of Korea or a business owned by a Korean citizen for the purpose of establishing a continued economic relationship with the relevant corporation or business (including those being established) through participation in managerial activities.

In order for FDI to comply with the Foreign Investment Promotion Act (FIPA), both the amount of the foreign investment and the stock ratio must be satisfied as prescribed in the Act.

- Minimum Foreign Investment Amount: 50 million won
- Foreign Investment Ratio: 10% or more of the voting stocks or total invested capital

If the relevant investors are 2 or more, each shall meet the same conditions as above. The foreign investment ratio is equal to the ratio upon the completion of the foreign investment. However, when a foreign investor from a registered foreign-invested company makes an additional investment, the above ratio limit does not apply.

Although there are no exceptions in regard to the amount invested, exceptions may be allowed for the foreign investment ratio. That is, even if the foreign investment ratio is less than 10% with the amount of the foreign investment being 50 million won or more, the investment may be qualified as FDI exceptionally in one of the following cases:

- A contract that allows dispatch or assignment of executives;
- A contract for the delivery or purchase of raw materials or products for a minimum of 1 year; or,
- A contract for provision or import of technologies, or joint R&D

4.2 Long-Term Loans

An investment is recognized as FDI if the foreign parent company of the foreign-invested company, a foreign investor, or a business under a capital investment relationship* with the relevant foreign parent company and the foreign investor provides a loan with a maturity of 5 years or more for the relevant foreign-invested company (on the basis of the loan period stipulated at the initial loan contract).

*** A company which has a capital investment affiliation with the parent company**

- A company that owns 50 percent or more of the total issued shares or equity investment of its foreign parent company
- A foreign-invested company of which 50 percent or more of its total issued shares or equity investment is owned by its foreign parent company and qualifies for the following:
 - A company that owns 10 percent or more of the total issued shares or equity investment of its foreign parent company
 - A company of which 50 percent or more of its total issued shares or equity investment is owned by its foreign parent company
 - A company of which 50 percent or more of its total issued shares or equity investment is owned by a company that owns 50 percent or more of the foreign parent company's total issued shares or equity investment.
- A company of which 50 percent or more of its total issued shares or equity investment is owned by a foreign company that owns 50 percent or more of the foreign parent company's total issued shares or equity investment.

4.3 Contribution to a Non-Profit Organization (NPO)

A contribution to an NPO is recognized as a foreign investment when the NPO has independent research facilities in the field of science and technology, and meets one of the following conditions:

- Having 5 or more regular employees with 3 or more years of research experience and a bachelor's degree in the field of science and technology or with an advanced degree (master's/Ph. D) in the science and technology field; or,
- Performing R&D for projects attended with high level technologies according to the Tax Exemptions and Exceptions Act

Other contributions to an NPO are recognized as a foreign investment when the investment amount is at least 50 million won and the investment fall under one of the following cases, and only if the Foreign Investment Committee recognizes it as a foreign investment:

- The NPO was established for the purpose of promoting academic, art, medical, and/or education etc. and continues to perform projects to nurture of related experts and promote international exchanges;
- The NPO is the regional headquarters of an international organization which carries out civil or intergovernmental international cooperation projects.

5. GRANTS AND INCENTIVES

5.1 Tax Support for Foreign-Invested Companies

For foreign investors who meet a set of qualifications, corporate and income tax on business income, dividends income, technology loyalty, earned income etc. and duty on capital goods will be exempted or reduced in accordance with the Restriction of Special Taxation Act. Acquisition tax, registration tax, and property tax on properties acquired or held for the operation of the business will be exempted or reduced under local government ordinances mandated by the Restriction of Special Taxation Act.

Corporate Tax Reduction

Corporate tax cut for foreign-invested companies applies to income generated from businesses, which are eligible for tax exemption or reduction under the Restriction of Special Taxation Act, with foreign investment ratio taken into account. However, in the case that a Korean citizen [corporation] directly or indirectly holds 10% or more of the voting shares of a foreign corporation or foreign business that has invested in a business eligible for tax cut, the portion of the investment will not be subject to tax abatement. Thus, the tax reduction shall not apply to round trip investment by domestic corporations in overseas markets.

Tax Reduction Calculation



Category	Calculation Method
Reduced Tax	Reduced tax = (calculated tax × tax reduction business assessment standards/total standard of assessment) × reduction rate
Reduction Rate	(foreign investor capital subject for reduction/total capital) × reduction rate of the business year (100, 50%)

Income of a foreign-invested corporation or individual business is exempted from income taxes for 5 (or 3) years (beginning at the first fiscal year of net profit, no later than 5th year from the commencement of business) in proportion to foreign investor ratio. Income taxes are reduced by 50% for 2 years thereafter.

Reduction rate of business year

Investments	Reduction rate of business year
<ul style="list-style-type: none"> - Foreign investment for the predetermined business category with factory or fixed business place - Foreign investment in foreign Investment zone (FIZ) with specific condition 	Full exemption for 5 years (beginning at first profit-earning year, no later than 5 th year of business commencement), 50% reduction for next 2 years
<ul style="list-style-type: none"> - Foreign investment in free economic zone (FEZ) with specific condition - Foreign investment in free trade zone with new factory establishment and other condition - Foreign investment in Jeju island with specific condition - Foreign investment in business city with specific condition 	Full exemption for 3 years (beginning at first profit-earning year, no later than 5 th year of business commencement), 50% reduction for next 2 years

* Diversified variations exist for each business on reduction rates.

Local Tax (acquisition/registration/property tax) Reduction

Property acquired or held by a foreign-invested company to do business eligible for tax incentives will receive either a 100% or 50% reduction in acquisition, registration, and property taxes, or tax on the items or properties held or acquired to operate the business will be deducted from the standard of assessment.

The amount of foreign investment ratio (for tax amount subject to reduction) multiplied by the calculated tax amount shall be deducted 100% from acquisition, registration, and property taxes for 3-5 years following the commencement of business, and 50% for 2 years afterwards on properties that have been acquired following the commencement of business operations. However, acquisition, registration, and property taxes that have been already paid on properties that have been acquired following the commencement of business operations, but prior to becoming the subject of tax reduction, may not be refunded.

However, acquisition, registration, and property taxes on properties that have been acquired prior to the starting date of business shall be subject to 100% reduction on the tax reduction amount for properties that have been acquired following the date of the tax reduction decision. Property tax shall be subject to 100% reduction of the tax reduction amount for 3-5 years following the acquisition of the property, and 50% of the tax reduction amount for the next 2 years.

Under ordinances, the local tax reduction period may be extended up to 15 years, or the reduction or deduction rate could be increased.

Exemption of Customs Tariffs and other

According to the Tax Exemptions and Exceptions Act, customs tariffs etc. shall be exempted for the following capital goods used directly in businesses subject to reduction in corporate tax or income tax, and are imported through foreign investment notification on acquisition of newly issued shares and etc.

- Capital goods imported as external or internal payment vehicles invested by foreign investors to foreign-invested companies
- Capital goods imported as investment objects by foreign investors

Exemptions of tariffs etc. shall only apply to capital goods that have completed the import notification under the Customs Act within 3 years after the day of the foreign investment notification. However, in the case that the import notification could not be completed in the said period due to unavoidable reasons such as delays in factory establishment approval etc. the exemption shall apply for up to 3 additional years with the approval of the Ministry of Strategy and Finance.

All customs tariffs, special excise tax, and value-added tax shall be exempted for industry support services vital to strengthening the international competitiveness of domestic industries, businesses that require a high level of technology, or businesses operated by foreign-invested companies in stand-alone foreign investment areas under the Foreign Investment Promotion Act.

Customs tariffs shall be exempted for foreign-invested companies in complex foreign investment areas, specific companies in free trade zones, foreign-invested companies in free economic zones, businesses operated by foreign-invested companies as a development operator of the Jeju investment promotion district etc.

Tax Support for Dividends

Dividends received by foreign investors from foreign-invested corporations operating tax reduction businesses are subject to tax reductions in the same rate as the portion of the amount of income of the tax reduction business, based on the dividend income during the reduction period.

The initial day of reckoning for dividends from capital increase from new investments and cash, articles, or dividends is the same as the initial day of reckoning for corporate tax. During the period of 100% exemption of corporate tax, the dividend income tax is 100% exempted, and during the period of 50% reduction for corporate tax, the dividend income tax is reduced by 50%.

However, dividends that are capital from a capital increase through capitalization of revenue reserves or revaluation reserves shall be applied with the period and rate of reduction that are applied to the original shares that are the source of the dividends. That is to say, 100% for 5 years and 50% for 2 years shall not be renewed.

Shares acquired by foreign investors from Korean national shareholders of foreign-invested companies or shares of domestic corporations shall not be subject to tax reduction since it is recognized as acquisition of existing shares. However, when foreigners or foreign corporations acquire shares held by a foreigner or foreign corporation, the initial period and rate of reductions shall be maintained.

Supplementary Collection of Reduced Tax

Tax reduction policies stipulated in the Tax Exemptions and Exceptions Act are only granted during the set period of time only with certain reduction conditions met. If such reduction conditions are not fulfilled, the reduced tax shall be collected as stated in the table below:

Collection of Abated Tax

Cause for collection	Taxes	Range of collection (including interest expense)
Cancellation of registration or closure of business	Corporate tax, tariff, local tax, etc.	Tax abated within five years (three years for customs duty) retroactive to the date of cancellation of registration or closure of business
Not eligible for tax abatement	Corporate tax, etc.	Tax abated within five years retroactive to the date when the business lost eligibility for tax abatement
Failure of payment of investment object within three years after notification	Corporate tax, etc.	Tax abated within five years retroactive to the date when the business lost eligibility for tax abatement
Failure of execution of notified items or correctional orders	Corporate tax, etc.	Tax abated within five years retroactive to the deadline of the correctional orders
Transfer of shares held by a foreign investor to a Korean citizen (corporation)	Corporate tax, etc.	Abated tax \times $[1 - \frac{\text{number of passed months}}{36}] \times$ the ratio of shares to be transferred, if the transfer occurs within three years from the first date of taxation
	Tariff, etc.	Abated tax on capital goods \times $[1 - \frac{\text{number of passed months}}{36}] \times$ the ratio of shares to be transferred, if the transfer occurs within three years from the first date of imposition of tariff
	Local tax, etc.	Tax abated within five years retroactive to the date of transfer \times the ratio of shares to be transferred
Use or disposal of investment object for purposes other than notified purposes	Corporate tax, tariff, local tax, etc.	Abated tax on capital goods used or disposed of for purposes other than notified purposes within five years (three years for customs tariff) from the date of receipt of import notification

5.2 Other Tax Supports

Tax Exemption for Technology Introduction Compensation

When introducing a high technology which is the key to strengthening the international competitiveness of domestic industries, the corporate tax and income tax on the compensations that the foreigner will receive for providing the technology shall be exempted for 5 years from the first agreed date of the payment for compensation. This applies not only to foreign-invested companies, but also to purely domestic companies, as well.

Comparison of Tax Reduction for Foreign-Invested High-Tech Companies & Technology Introduction Compensations

Category	Tax Reduction for Foreign Invested Companies	Tax Reduction for Technology Introduction Compensations
Beneficiary	Foreign-invested companies, foreign investors	Foreign-invested high degree technology provider
Reduced Income	Corporation tax, income tax for foreign-invested companies, and dividend income tax for investors	Compensation for high degree technologies (usage fees, royalties etc.)
Reduction Period	100% for 5 years, 50% for 2 years	100% for 5 years
Initial Day of Reckoning	Taxation year of income generation (within 5 years)	First payment date of compensations

Taxation Exceptions for Foreign Workers

Foreign executive or employers may enjoy the taxation exceptions for foreign workers. The exceptions also apply to domestic branch workers of foreign corporations, but do not apply to day laborers. Foreign workers may choose whichever is more favorable from the 2 ways of taxation exceptions as follows.

- Income tax exemption for 30% of the total amount of salary received until 31 Dec. 2009 for work carried out domestically (other deduction items continue to apply)
- Apply a single tariff of 15% as income tax to the income received until Dec. 31, 2012 for work carried out domestically (regulations on income tax related tax exemption, education, reduction and tax credit etc. not applied).

Foreign workers are subject to taxation exemption pay withholding tax by applying the withholding income tax table to the remaining amount of the monthly salary after deducting 30% from the total amount. At year-end tax adjustments, or determining composite income tax assessment standards, the taxpayer may choose whichever is more favorable from the above 2 methods. In the first case of a 30% tax exemption of salary, 30% of the total annual salary is deducted before deducting general deductions related to earned income, such as other tax exemptions, earned income deduction, personal deductions etc. after which the standard tax rate is applied to come up with the final amount of tax.

6. TAXATION

6.1 Tax System in Korea

Taxes in Korea comprise national and local taxes. National taxes are divided into internal taxes, customs duties, and three earmarked taxes; the local taxes include province taxes and city & county taxes as shown below.

National Taxes -

Internal Taxes

Direct Taxes

- Income Tax (Individuals)
- Corporation Tax
- Inheritance and Gift Tax

Indirect Taxes

- Value-added Tax
- Securities Transaction Tax

Customs Duties

Local Taxes -

Province Taxes

- Acquisition Tax
- Registration Tax

City & County Taxes

- Resident Tax
- Property Tax
- Aggregate Land Tax

6.2 Income Tax (Individual)

A person is either a resident or a non-resident of Korea depending on residence or domicile. A resident is liable to income tax on items of income derived from sources both within and outside Korea. On the other hand, a non-resident is liable to income tax only on items of income derived from sources within Korea.

A taxpayer may be deemed to have a domicile in Korea whose occupation requires at least a year of residing in Korea.

Under the income tax law, income earned by both residents and non-residents is subject to global and scheduler taxation. Under global taxation, real estate rental income, business income, salary income, temporary property income, and miscellaneous income attributed to a resident are aggregated and taxed progressively. Interest and dividends are subject to tax withholding. Non-residents are similarly taxed on income from Korean sources. The tax rates on individual income range from 6% to 35%.

Income Tax Rate

(Unit: 1,000 KRW)

Tax Base of Global Income (Taxable Income)	Tax Rates
12,000 or less	6% of tax base
12,000 - 46,000	720 + 15% of the amount exceeding 12,000
46,000 - 88,000	5,820 + 24% of the amount exceeding 46,000
Over 88,000	15,900 + 35% [*] of the amount exceeding 88,000

[*] For the tax-year 2012 and after, 33%

* 10% of total income tax is added as resident surtax.

Individual Income Taxation

	Resident	Non-Resident
Definition	Residence or domicile in Korea for more than one year	Any person not deemed a resident
Taxable Place	Residence or domicile	Place of business (fixed base) or place of income source
Tax Liability	Worldwide income	Income from sources within Korea
Methods of Taxation	Global Taxation [*]	Taxation only for the income from domestic sources
	Schedular taxation for capital gains, retirement income, and timber income	Schedular taxation for capital gains, retirement income, and timber income
	Withholding taxation	Withholding taxation

[*] Exception: Foreign resident who stayed for 5 years or less in Korea during the recent 10-year period at the end of tax-year (generally Dec 31) is liable to taxation for (1) the income earned abroad (foreign income) which is paid in domestic territory or remitted to Korea and; (2) the income earned in Korea

Withholding Taxes on Non-Resident and Foreign Corporation without Permanent Establishment for the Income from Domestic Sources

Items of Income	Withholding Tax Rates 1)
Interest	20% (interest on bonds 14%)
Dividends	20%
Real Estate Rental Income	-
Lease Income of vessels, aircraft, etc.	2%
Business Income	2%
Personal Services	20%
Royalties	20%
Capital gains from securities transfer	10%, 20%
Other income	20%
Wage and salary income	Same as Resident
Capital gains 2)	10%, 20%
Retirement Income	Same as Resident

1) Tax rates listed above apply when there is no tax treaty. Where there is a tax treaty between Korea and a resident country of a taxpayer, and where the domestic tax rate is higher than the reduced tax treaty rate, the reduced treaty rate will apply.

2) The buyer (excluding individual persons) must withhold and pay the lesser of 10% of the sales price or 20% of the difference between sales price and acquisition price, and pay the amount to the appropriate tax authorities or banks. The seller must report and pay capital gains tax following a separate procedure.

3) A non-resident who has income from real estate located in Korea is taxed in the same manner as a non-resident having a business place in Korea.

6.3 Corporation Tax

When a company is incorporated in Korea, it is deemed a domestic corporation and is liable to tax from worldwide income whereas a foreign corporation is liable to tax on Korean source income. The corporate income tax rates are 10% and 22%. A foreign corporation without a permanent establishment in Korea is subject to withholding tax.

Corporation Tax Rate

Tax Base (Taxable Income)	Until 2011	From 2012 and after
200 million KRW or below	10% of tax base	10% of tax base
Over 200 million KRW	20 million KRW + 22% of tax base over 200 million KRW	20 million KRW + 20% of tax base over 200 million KRW

* 10% of total corporation tax is added as resident surtax.

Corporate Income Taxation

	Domestic corporation	Foreign corporation
Definition	A corporate business entity with its head or main office in Korea	A corporate business entity with its head or main office outside Korea
Taxable place	Head or main office	Permanent establishment or place of income source
Tax liability	Worldwide income	Income from sources within Korea
Income repairing	Global taxation Special additional tax	- Global taxation (in case of permanent establishment) - Special additional tax - Withholding tax (in case of no permanent establishment) - Schedular taxation (timber income and capital gains)

6.4 Value Added Tax

Value Added Tax (VAT) is a tax levied on added value in each step of production and distribution. In principle, VAT is a general consumption tax levied on the consumption of all goods and services, and at the same time, a form of indirect tax for which the transfer of tax burden can be anticipated. VAT takes the form as a multi-level taxation method by taxing added value created in each step of the transaction.

Category	General Taxation
Objects	All taxable businesses that are not subject to simplified taxation
Details	Carry out all obligations such as book-keeping, issuance and receipt of tax invoices, reports, payments, etc.
Assessment Standard	Value of supply excluding VAT
Charging in Transaction	Tax is collected separately
Tax Rate	10%
Paid Tax Amount	Output tax - deductible input tax
Tax Deduction and Refund	Refund input tax surpassing output tax
Additional Tax	Apply all additional tax in the VAT law
Tax Obligation exemption	N/A

In principle, the taxation period for VAT is divided into the first and second half of the year, indiscriminately, to objects of taxation (individuals, corporations). The taxable objects must be declared and taxes paid within the period.

VAT Declaration Payment Deadline

Declaration	Period Subject to Declaration	Declaration • Payment Deadline
Preliminary Declaration	<ul style="list-style-type: none"> • 1st half: Jan. 1-Mar. 31 • 2nd half: Jul. 1-Sep. 30 	<ul style="list-style-type: none"> • Within 25 days of each preliminary declaration period; • 1/2 of previously paid tax preliminarily notified to private businesses instead of preliminary declaration.
Final Tax Return	<ul style="list-style-type: none"> • 1st half: Apr. 1-Jun. 30 • 2nd half: Oct. 1-Dec. 31 * Exclude payments made for preliminary declaration 	<ul style="list-style-type: none"> • Within 25 days after the end of taxation period; • Exclude portions already declared through preliminary declaration and early refund on zero-tax rate, etc.

Zero-Tax Rate & Tax Exemption Policies

The zero-tax rate policy is a full tax exemption policy that aims to observe the principle of taxation at the location of consumption. This is done by applying a 0% tax rate on some provided goods and services to not create output tax, and also to fully refund the input tax on added value created during trade in the previous step to completely eliminate the burden of VAT. On the other hand, the tax exemption policy exempts tax obligations according to the VAT law for some provided goods and services. However, the VAT levied in steps prior to tax exemption still remain in the price of the tax exempted goods and services. Hence the tax exemption policy is a partial tax exemption that does not completely eliminate the burden of VAT.

Objects for Zero-Tax Rate & Tax Exemption

Category	Object
Zero-Tax Rate	<ul style="list-style-type: none"> • Exported goods • Services provided abroad • Overseas transport services by ships and planes • Other foreign currency acquiring goods and services
Tax Exemption	<ul style="list-style-type: none"> • Basic daily necessities and services for the general population • Goods and services for national health • Culture-related goods and services • Manufacturing related goods and services • Work-like human services: Human services (entertainers, composers, etc.) • Import of tax exempted goods • Tax exemptions according to the purpose of taxed objects

6.5 Tax Treaties

As of the end of May, 2009, Korea has entered into bilateral tax treaties (Conventions for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income) with 74 countries all over the world.

In addition to the primary objective of avoiding international juridical double taxation, tax treaties serve purposes such as promoting exchanges of advanced technology and capital from abroad as well as encouraging business expansion of domestic companies in foreign countries. The normal withholding tax rates on the Korean-source income of non-residents are as follows.

Withholding Tax Rates in Korea

Korean-Source Income	Withholding Tax Rates
Gross Revenue from Business	2%
Compensation for Personal Services	20%
Gain Developed from Securities Transactions	10% of sales price or 20% of the difference between sales price and seller's original cost, whichever is less
Dividends, Interest, Royalties, and Miscellaneous Income	20% (interest on bonds 14%)

* In addition to the withholding tax rates given above, resident surtax of 10% is assessed on these withholding taxes.

* There are various limitations on these withholding taxes for residents of countries with a tax treaty with Korea.

6.6 Tax Administration

The Office of Tax and Customs at the Ministry of Finance and Economy is responsible for planning tax policies and drafting tax laws, while the National Tax Service carries out the administration enforcement, which includes tax assessment and collection.

- a. **Office of Tax and Customs, Ministry of Finance and Economy**
The Office of Tax & Customs plans and coordinates overall national tax and customs policies.
- b. **National Tax Tribunal**
It is responsible for examining and judging tax appellate cases.
- c. **National Tax Service**
It is mainly in charge of the assessment and collection of internal taxes.

7. LABOR MARKET

7.1 Labor Management

The working conditions of employees must be decided by free will, with employers and workers perceived as equal, with standards matching those prescribed by the law. Even if decided by free will, any aspect of working conditions that does not meet the standards set by the law will be deemed invalid.

Wages

Wage refers to the money and other goods paid for labor provided, regardless of the designation (salary, bonus, etc.). One's wage must be above the minimum wage set by the Ministry of Labor every year. In 2008, the minimum wage standard has been set at 3,770 won per hour, and 30,160 won per day (8-hour day).

The Labor Standards Act classifies wage into ordinary wage and average wage, and retirement pay and other various bonuses set by law are to be calculated based on one of these two wage categories. Average wage refers to the total amount of wage, which is paid to the worker for 3 months prior to the cause for calculation of average wage, divided by the total number of days in the same period. Average wage is used for retirement pay, holiday pay, industrial disaster compensation, etc. To the contrary, ordinary wage refers to pay by the hour, day, week, or contract that has been set to be paid periodically for certain work done, or for total work hours. Bonuses for overtime, holiday work, nighttime work, annual paid leave, dismissal notice, etc. fall into this category.

Working Hours

The standard for working hours set by the Labor Standard Act is 8 hours per day, and 40 hours per week, and does not permit orders to work above the set number of hours as accorded by law. If carried out by order of the employer, work preparation hours, waiting hours, training hours and after-work organizing hours are all included within "working hours".

Category	Standard Working Hours		Extended Work	Nighttime Work	Holiday Work
	1 Day	1 Week			
Male Workers	8 hours	40 [44] hours	As agreed between parties at 12 hours per week [16 hours for 3 years following revisions of the law going into effect]	-	-
Female Workers	8 hours	40 [44] hours	As agreed between parties at 12 hours per week [16 hours for 3 years after putting revised law into effect]	As agreed by the person in question	As agreed by the person in question
Female Workers Less than 1 Year After Childbirth	8 hours	40 [44] hours	As agreed between the parties 2 hours a day 6 hours a week 150 hours a year	As agreed by the person in question, Approved by the Ministry of Labor	As agreed by the person in question, Approved by the Ministry of Labor
Pregnant Workers	8 hours	40 [44] hours	Not possible	As explicitly requested, Approved by the Ministry of Labor	As explicitly requested, Approved by the Ministry of Labor
Working Minors (under 18 years of age)	7 hours	40 [42] hours	Agreed between the parties 1 hour a day 6 hours a week	As agreed by the person in question, Approved by the Ministry of Labor	As agreed by the person in question, Approved by the Ministry of Labor
Hazardous Work (high pressure) Workers	6 hours	34 hours	Not possible	-	-

The issuance of orders to work past standard working hours must be agreed upon between the parties. However, even when agreed upon by both parties, over 50/100 of ordinary wage must be added to the payment for overtime, nighttime work (22:00-06:00), or holiday work.

However, when introducing a flexible working hour system via employment regulations (every 2 weeks) or written agreement with the workers' representative (every 3 months), or the introduction of a optional working hour system through a written agreement with the workers' representative, work may be ordered for over the standard 8 hours per day/40 hours per week-level for a certain period (2 weeks or 1 month), insofar as the average number of working hours per week does not surpass 40 hours. However, even in such cases, a flexible working hour system cannot be applied to pregnant women or minors.

Holidays and Leave

Generally there are 2 types of holidays and leave, "Legal" holidays/leaves, for which the details, conditions, and effects are decided by law, and "contracted" holidays, for which such matters are decided autonomously by management and labor. Legal holidays/leaves include weekly holidays, Labor Day, monthly leave, annual leave, menstruation leave, pre-birth leave, etc. Contracted holidays/leaves can include public holidays, company inauguration anniversaries, summer leave, congratulatory & condolence leave, etc.

(i) Paid Weekly Holidays

Workers should get paid 1.5 times their regular daily rate for any work done during weekends (Saturdays or Sundays).

(ii) Annual Paid Leave

An employer must provide workers that have come to work for more than 80% of 1 working year with 15 days of paid leave. For workers that have worked for 3 or more consecutive years, 1 more day of paid leave must be provided for every 2 years of consecutive work after the initial year, up to a total of 25 days. Annual leave must be granted at the time requested by the worker, and the workers will be paid the ordinary or average wage for the period of leave, as according to employment regulations. However, the employer may change the leave period if granting the leave at the requested period would cause a major disruption in business operations. If days of leave expire due to the worker not utilizing the leaves, despite active measures by the employer to promote usage of days of leave, then the employer is not obligated to compensate for the unused days of leave.

(iii) Paid Pre- and Post-birth Maternity Leave

Pregnant workers must be given 90 days of protective maternity leave. Wages for the first 60 days of the leave period shall be the burden of the employer, with the wages of the remaining 30 days are to be paid by the government.

Dismissals

The employer may not dismiss, temporarily layoff, suspend, change the post, reduce wages, or otherwise punish workers without just cause. Punishing workers must be done under considerable grounds that are generally accepted by society at large. In general, reasons for punishment such as dismissals are stipulated in the employment regulation or the collective agreement, and procedures set in the concerned employment regulation or the collective agreement must be followed when penalizing workers. When dismissing a worker, the worker must receive an advanced notice of the dismissal 30 days prior to the actual dismissal. If not, the employer is obligated to pay more than 30 days worth of ordinary wage (dismissal notice bonus).

Retirement Benefit

In order to pay retirement benefits to retiring workers, the employer must choose either the retirement pay policy or the setting up of a retirement benefit policy fund. In choosing the retirement benefit policy or changing the chosen retirement policy to another type of retirement policy, it requires the consent of the majority of the union for workplace with a union consisting of the majority of workers, or the majority of workers for workplace without unions.

(i) Retirement Pay Policy

In the case that a worker retires or dies, the employer must pay a severance payment, which shall be equivalent to the highest average 30-day salary for every one (1) year of consecutive work. Upon request by the worker, the severance payment may be settled and paid, even prior to retirement, for the period of consecutive work by the worker (retirement pay interim settlement possible).

(ii) Retirement Benefit Policy

To guarantee worker's income and stable life following retirement, employers will accumulate and invest the funds for retirement pay into an external financial institution during the worker's period of service. Upon the worker's retirement, the funds shall be paid to the worker as pension, or in a lump sum.

** Types of retirement pension policies

○ DB: Defined Benefit Retirement Pension

The retirement benefit that workers will receive at retirement is pre-fixed according to the length of service and average wage. The amount of employer's burden (accumulation) changes according to the investment results of the accumulated funds.

○ DC: Defined Contribution Retirement Pension

The worker decides the investment method of the accumulated funds, and the amount of retirement benefits after retirement changes according to the investment results of the accumulated funds. The employer pays 1/12 of the worker's wage as a share into the worker's personal account.

Joint Labor-Management Council

The joint labor-management council is an advisory committee created for the purpose of promoting participation and cooperation between all employers and workers to increase the welfare of workers and the sound development of the company. A business or work place with at least 30 workers must implement a joint labor-management council that consists of 3-10 members each from both management and labor. The joint labor-management council will handle matters for discussion, resolution, and report, according to the resolution and performance obligations.

Social Insurance Policy

(i) Unemployment Insurance

The unemployment insurance is a social insurance policy introduced to provide livelihood support for unemployed workers, prevent layoffs due to industrial restructuring, promote re-employment, while providing employers with various types of support to strengthen corporate competitiveness. Businesses and work places with one (1) or more full-time workers are obliged to subscribe to the unemployment insurance. Upon starting the business, the employer must report the creation of an insurance relation to the Korea Workers' Compensation & Welfare Service within 14 days, and must report the insured qualification acquisition to the job center at the regional labor office within 14 days. Employers subscribing to the unemployment insurance must report and pay a premium to the district office of the Korea Workers' Compensation & Welfare Service by March 31 of every year or up to 70 days following the start of business operations if the business began operations during the year).

○ Businesses exempted from mandatory subscription to unemployment insurance:

- Agricultural, forestry, fishery, hunting business with less than 5 full time workers;
- A construction project worth less than 20 million won in total construction costs;
- Housekeeping services.

* However, subscription is possible with the approval of the Korea Workers' Compensation & Welfare Service, upon request by the employer

(ii) Workers' Accident Compensation Insurance

Workers' Accident Compensation Insurance is a social insurance policy that requires the government to take responsibility on behalf of employers for the compensation of workers for injuries or illnesses acquired at work, which is required by the Labor Standard Act. Therefore, employers eligible for worker's accident compensation insurance are exempt from the individual compensation responsibilities towards workers by paying a premium. The government shall pay direct compensations to the workers from the funds created by employer-paid premiums.

Businesses and work places with 1 or more full-time workers are obliged to subscribe to workers' accident compensation insurance. Upon establishing the business, the employer must report the creation of an insurance relation to the Korea Workers' Compensation & Welfare Service within 14 days. Employers subscribing to workers' accident compensation insurance must report and pay the premium to the district office of the Korea Workers' Compensation & Welfare Service by March 31 of every year or up to 70 days following the start of business operations if the business began operations during the year. Should workers at a workplace covered by workers' accident compensation insurance die or suffer an injury or illness that requires more than 4 days of medical treatment, the worker (or surviving family) will receive claims upon request.

- Businesses exempted from mandatory subscription of workers' accident compensation insurance:
 - Agricultural, forestry, fishery, hunting business with fewer than 5 full-time workers;
 - A construction project worth less than 20 million won in total construction costs;
 - Housekeeping services.
- * However, subscription is possible with the approval of the Korea Workers' Compensation & Welfare Service, upon the request of the employer.

Key Social Insurance Policies

Category		Unemployment Insurance	Workers' Accident Compensation Insurance	National Pension	Health Insurance
Goal		Prevent unemployment, Promote employment, Develop workers' job competency	Provide relief to accidents/disasters including on-the-job injuries, disease, handicaps, death, etc.	Support pension system for aging population, incurable diseases, death, etc.	Prevention, diagnosis and treatment of disease and injury
Start		1995.7	1964.7	1988.1	1977.7
Applicable businesses		1 or more full-time worker	1 or more full-time worker	1 or more full-time worker	1 or more full-time worker
Applicable to:		Those under 65 years old	Workers at applicable business	Those between the ages of 18-60	Workers at applicable businesses
Exempted parties		Employer	Employer (exceptional subscription is possible)	Employees who have worked less than 1 month	Employees who have worked less than 1 month
Foreign nationality		Excluded for subscription (partial visa reciprocity)	Subject to subscription	Subject to subscription in principle (national reciprocity)	Subject to subscription
Acquiring eligibility		From the worker's first day at the company	-	From the worker's first day at the company	From the worker's first day at the company
Loss of eligibility		The day after the worker leaves the company	-	The day after the worker leaves the company	The day after the worker leaves the company
Premium	employee	0.45% of the total salary (unemployment benefit)	None	4.5% of standard monthly salary	2.665% of standard monthly salary
	employer	<ul style="list-style-type: none"> · Unemployment benefit: 0.45% · stable employment business + job competency development: 0.25-0.85% (depending on company size) 	7/1000 of total salary - 533/1000 (depending on business type)	4.5% of standard monthly salary	2.665% of standard monthly salary
Coverage		Unemployment benefits, stable employment, business, job competency development, etc.	Recuperation benefit, temporary suspension benefit, job disability benefits, survivor's benefits, etc.	Old age pension, disablement pension, survivor's pension	Recuperation expenses, health checkup, funeral expenses, etc.
Management organization		The Ministry of Labor	The Ministry of Labor	The Ministry of Health and Welfare	The Ministry of Health and Welfare
Execution organization		The Korea Workers' Compensation & Welfare Service	The Korea Workers' Compensation & Welfare Service	The National Pension Service	The National Pension Service

7.2 Labor Laws

When employing workers in Korea, laws on hiring, salary, dismissal, etc. must be observed. The Labor Laws of Korea has been enacted in order to provide workers with adequate protection, to protect the basic structure of business activities, and to create a stable economy based on the principles of capitalism.

The Labor Law is divided into 4 categories: the Individual Labor Relations Law, the Collective Labor-Management Relations Law, the Cooperative Labor-Management Relations Law, and the Employment Related Law. According to their characteristics, each law sets the standards for labor contracts and the labor relationship between the employer and employees, to guarantee the worker's right to organize toward the employer, to create an autonomous grievance resolution mechanism between labor and management, and to promote the participation and cooperation of all employers and workers to increase the mutual benefits of labor and management.

Labor Law Categories and Applications

Category	Acts	Employee Number	Remark	
Individual Labor Relations Law	Labor Standards Act	5 or more	<ul style="list-style-type: none"> Some items are applied to work places with 4 or fewer employees Employment regulations are mandatory for 10 or more employees 	
	Minimum Wage Act	All work places	<ul style="list-style-type: none"> 2007 minimum hourly wage: 3,480 won 2008 minimum hourly wage: 3,770 won 	
	Industrial Safety Health Act	General	All work places	Only some terms are applied to certain businesses and work places with 5 or fewer employees
		Elect person in charge of safety health management	100 or more	50 or more employees for certain businesses
		Elect safety health manager, etc.	50 or more	Some business types are excluded
		Safety Health Committee	100 or more	
	Workers Accident Compensation Insurance Act	All work places	Excluded businesses: agricultural, forestry, fishery, etc. with 5 or fewer employees	
Equal Employment Opportunity Act	All work places	Some terms are not applied to work places with fewer than 5 employees		
Collective Labor-Management Relations Law	Labor Union & Labor Relations Mediation Act	All work places		
Cooperative Labor-Management Relations Law	Law on Worker Participation & Cooperation Promotion	30 or more	<ul style="list-style-type: none"> Regardless of existence of labor union, all businesses or work places with decision making rights on working conditions must implement a labor-management council Work places with 30 or more employees must implement a grievance committee 	
Employment Related Law	Unemployment Insurance Act	All work places	Excluded businesses: agricultural, forestry, fishery, etc. with fewer than 5 employees	
	Promotion of Employment of the Physically Challenged & Vocation Rehabilitation Act	50 or more	<ul style="list-style-type: none"> 2% or more of full-time workers must be physically challenged Pay shares for non-performance, receive subsidies for over-performance 	
	Elderly Employment Promotion Act	300 or more	<ul style="list-style-type: none"> Companies should try to employ senior citizens for over a certain ratio of the full-time staff (2% for manufacturing business) Unemployment insurance provides subsidies for hiring above a certain ratio of senior citizens 	

8. ABOUT SHINWON ACCOUNTING CORPORATION, LTD.

After starting as "Hanlim & Company", the predecessor of Shinwon in 1976, the major members of "Hanlim & Company" established Shinwon Accounting Corporation in 1997. We opened Seoul branch office in 1999 and have grown up with our clients.

As one of the best accounting firms with CPAs and the professionals in the various industry fields, we provide audit service, tax consulting service, management consulting service, and MIS consulting service to our clients. Shinwon accounting corporation is a member firm of CPA Associates International, Inc which currently has 138 member firms with 850 partners, 7,000 staffs, 260 offices worldwide. We provide the best quality service to our clients around the world.

If you would like more information or have specific business requirements, please contact:-

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