

KOREA EQUITY FUND, INC.

December 22, 2009

To Our Shareholders:

We present the Annual Report of Korea Equity Fund, Inc. (the "Fund") for the fiscal year ended October 31, 2009.

The Net Asset Value per share ("NAV") of the Fund on October 31, 2009 was \$9.76, representing an increase of 50.1% for the Fund's fiscal year. The closing New York Stock Exchange ("NYSE") market price of the Fund on October 31, 2009 was \$8.40, representing a 13.9% discount to the NAV. The net assets of the Fund amounted to \$109,460,907 on October 31, 2009.

The Korea Composite Stock Price Index ("KOSPI") increased from 1,113.1 to 1,580.7 or 42.0%, in local currency terms, for the year. Including the South Korean won ("Won") appreciation of 8.0% during the fiscal year, this represents a total increase of 54.3% in United States ("U.S.") dollar terms. The Fund's NAV underperformed the KOSPI, in U.S. dollar terms, by 4.2% during the year. The Fund's share price (quoted on the NYSE), including distributions, increased by 51.9% during the year.

For the quarter ended October 31, 2009, the KOSPI increased by 4.8% in U.S. dollar terms. The NAV of the Fund increased by 7.7%. The Fund outperformed the KOSPI, in U.S. dollar terms, by 3.0% during the quarter.

South Korean Economy

Economic growth has been severely impacted by the global slowdown since the onset of the credit crisis. South Korea's exports declined by 19.5% in November 2008 and had been declining by double digits until September and October 2009 where it started to stabilize at negative single digit levels.

However, the country managed to avoid a recession, technically speaking by registering only one quarter of negative sequential growth. It took three quarters for Korea's production and consumption to climb back to pre-crisis levels. GDP growth in the third quarter surprised on the upside at 2.9% quarter-on-quarter ended September 30, 2009 seasonally adjusted, exceeding the already strong 2.6% posted in the second quarter ended June 30, 2009. This is largely due to the stimulatory policies by the government and increasing competitiveness in Korea's export products.

On the economic policy front, the government's 2009 economic plan is based on the thesis that the South Korean economy will not recover until 2010 at the earliest, as economic recoveries from financial crises usually take three to four years. The government has been coming up with various policies such as buying up distressed assets, increasing infrastructure spending and forming trade pacts with the European Union and India to pump prime the economy.

The government has also set aside a 20.2 trillion Won corporate restructuring fund. Part of it will acquire 4.7 trillion Won of financial institutions' non-performing loans from construction project financings and 1 trillion Won worth of struggling ships that are in operation. The government is buying up idle ships from shipping companies facing cash flow problems to provide working capital. Sectors that are the main beneficiaries of these policies have posted strong performance in the stock market. Along with tax breaks, the government has proposed an economic stimulus package with more emphasis on infrastructure spending to prop up the economy. Notably, 22.2 trillion Won will be spent on restoring

the nation's four major rivers and building water treatment facilities. The basic policy stance of the current administration is to revitalize the economy through environment-related enterprises and to secure abundant water resources. Fiscal stimulus packages are likely to continue as the government has mentioned that it is too premature to consider an 'exit strategy'.

On the monetary policy front, the Bank of Korea froze its key interest rate at 2% after six consecutive rate cuts in a bid to gauge the effects of those reductions on the economy.

South Korea and the European Union have also managed to reach a tentative agreement to eliminate most tariffs on goods and services, helping to counter concerns that the global recession would heighten trade barriers. Recently, a trade agreement with India has also been approved to cut duties on goods such as auto parts and electronics. From this trade pact, Korea is expected to enjoy an additional \$140 million annual trade surplus over the next 10 years.

For the past few quarters, the Won's weakness against the Japanese Yen has boosted the relative export competitiveness of Korean technology and automobile companies, as demonstrated in their global market share gains. Corporate earnings were also helped by favorable foreign exchange translation gains. It would be easy to conclude that this competitiveness is just a consequence of depreciation in the Won. The exchange rate has played a part, but another likely reason is that the South Koreans companies have grasped the opportunity to upgrade their brand image, product design, and quality and adopted aggressive marketing strategies. Furthermore, the consolidation of several industries has enabled Korea to turn challenges into opportunities. A notable example would be the formation of Taiwan Memory Co. by the Taiwanese government to consolidate Taiwan's six memory chip makers, which have been suffering steep losses and facing balance sheet problems. This has enabled Samsung Electronics Co., Ltd. and Hynix Semiconductors, Inc. to emerge out of the credit crisis to be the world's leading memory chip makers.

South Korean Stock Market

During the fourth quarter in 2008, stock markets were volatile after the U.S. fell into a recession. Korean equities were negatively impacted as exports started to decline sharply and stock prices were declined to limit-down levels on several occasions. The limit-down level set by the Korea Stock Exchange is a decline of no more than 15% on a trading day. Cyclical sectors, such as Shipbuilding, Financials, and Construction were the worst performers, as they faced rapidly deteriorating fundamentals. Sectors with resilient earnings streams such as Telecommunication, Pharmaceutical, and Food and Beverages held up well.

The rally in the beginning of March was led mainly by the Technology sector as a plan was announced in Taiwan to realign its struggling computer memory chip producers. The market rebound was catalyzed by high retail participation coupled with growing optimism on both the global and domestic economy after the release of stronger-than-expected macro data. The relative stability of the Won has also helped the Banking sector to outperform. Another positive sign for the banking system has been the rebuilding of the country's foreign reserves as the country's trade surplus grows.

Towards the third quarter ending September 30, 2009, the KOSPI rose sharply to the mid 1,600 levels on the back of strong foreign inflows, favoring large capitalization stocks within the Technology, Financial and Automobile sectors while domestic institutions and retailers maintained their net sell positions. Fundamentally weak sectors such as the Chemicals, Steel, and Construction continued to underperform. Defensive industries such as Telecommunications and Consumer Staples were unable to keep up with the overall market rally.

Portfolio Management Activity

During this year, the Fund added to stocks that are likely to show increased profitability amidst the recovering global economy. The Fund focused on leading exporters such as technology and automo-

biles while it continues to reduce holdings in cyclical sectors such as Shipping, Shipbuilding and Refining that are facing weakening fundamentals. As the Korean economy started to recover, the Fund bought consumer stocks which are benefiting from improving consumer confidence.

The portfolio was positioned to benefit from trends such as a stronger Won, rising oil and metal prices and structural shift towards using green energy. In terms of stock selection, the Fund has increased the weight on the Technology sector mainly via Samsung Electronics Co., Ltd. and Hynix Semiconductors, Inc. as the technology migration over to DDR3 ("Double data three" memory chip) from DDR2 will continue to benefit the two technology giants as they are the two main global producers. DDR3 prices are likely to rise due to increased demand and both companies plan to increase DDR3 capacity by 50% at the year end December 31, 2009.

Investment Strategy

In the fourth quarter ending December 31, 2009, the economic recovery momentum should remain sustainable, with the South Korean economy posting positive quarter on quarter growth.

Generally, the Fund prefers leading exporters that are gaining global market share amid recession-caused industry consolidation and KRW appreciation. Additionally, the Fund favors stocks that are experiencing structural improvement of global competitiveness in technology, product quality, pricing and brand equity. These stocks could potentially outperform during a sustained economic recovery environment by having better-than-industry average earnings driven by higher economies of scale and margin expansion.

The consensus view seems to be that the Bank of Korea will start increasing interest rates towards the year end December 31, 2009. However, interest rate increases will take place eventually in a gradual manner. The Fund will consider holding stocks such as insurance companies which stand to gain the most from an interest rate increase.

On the fiscal policy front, the Ministry of Strategy and Finance announced that the government spent 64.8% of the 2009 budget during the first half, 4.2 % more than the originally planned 60.6%. The Fund continues to look for stocks in sectors that will receive orders from the government. Examples of such sectors would be Engineering & Construction stocks, and sustainable energy developers etc. In addition, domestic related stocks such as home shopping, department stores and Food and Beverages companies could potentially post robust earnings growth from the improvement in consumer spending as the economy gains growth momentum and employment rates improve.

Traditionally defensive sectors such as Utilities and Telecommunications may continue to be out of favor. Lastly, the Fund will be wary of risk factors such as expensive valuations, slowing earnings revisions and sectors that are facing unsustainable recoveries.

We appreciate your continuing support of your Fund.

Sincerely,

A handwritten signature in black ink, appearing to read 'Shigeru Shinohara', written in a cursive style.

Shigeru Shinohara
President

PROXY VOTING

A description of the policies and procedures that the Fund uses to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling toll-free 1-800-833-0018; and (2) on the Securities and Exchange Commission ("SEC") Website at <http://www.sec.gov>. Information about how the Fund voted proxies relating to securities held in the Fund's portfolio during the most recent 12-month period ended June 30 is available (1) without charge, upon request, by calling toll-free 1-800-833-0018; and (2) on the SEC's Website at <http://www.sec.gov>.

AVAILABILITY OF QUARTERLY SCHEDULE OF INVESTMENTS

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's Website at <http://www.sec.gov>. The Fund's Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

INTERNET WEBSITE

Nomura Asset Management U.S.A. Inc. has established an Internet Website which highlights its history, investment philosophy and process and products, which include the Fund. The Internet web address is www.nomura.com. We invite you to view the Internet website.

FUND CERTIFICATION

In September 2009, the Fund filed its Chief Executive Officer Certification with the New York Stock Exchange pursuant to Section 303A. 12(a) of the New York Stock Exchange Corporate Governance Listing Standards.

The Fund's Chief Executive Officer and Chief Financial Officer Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 were filed with the Fund's Form N-CSR and are available on the Securities and Exchange Commission's web site at <http://www.sec.gov>.

KOREA EQUITY FUND, INC.

FUND HIGHLIGHTS—OCTOBER 31, 2009 (Unaudited)

KEY STATISTICS

Net Assets	\$109,460,907
Net Asset Value per Share	\$9.76
Closing NYSE Market Price	\$8.40
Percentage Increase in Net Asset Value per Share*	50.1%
Percentage Increase in NYSE Market Price*	51.9%

MARKET INDEX

	SOUTH KOREAN WON	U.S.\$
Percentage increase in market index*		
Korea Composite Stock Price Index*	42.0%	54.3%

*From November 1, 2008 through October 31, 2009

ASSET ALLOCATION

South Korean Equity Securities	97.0%
Other Assets Less Liabilities, Net	3.0%
Net Assets	<u>100.0%</u>

INDUSTRY DIVERSIFICATION

	% of <u>Net Assets</u>		% of <u>Net Assets</u>
Consumer Electronics	18.5	Retail	5.3
Services	17.2	Food and Beverages	5.1
Automotive Equipment and Parts	14.1	Chemicals and Pharmaceuticals	3.9
Banking and Financial Services	12.1	Wholesale	1.4
Miscellaneous Manufacturing	10.6	Oil and Gas	1.0
Iron and Steel	7.8		

TEN LARGEST EQUITY HOLDINGS BY MARKET VALUE

<u>Issuer</u>	<u>Market Value</u>	<u>% of Net Assets</u>
Samsung Electronics Co., Ltd.	\$15,571,416	14.2
Hyundai Mobis	9,446,548	8.6
POSCO	8,479,845	7.8
Shinhan Financial Group Co., Ltd	5,601,307	5.1
Hyundai Motor Company & PFD	4,739,271	4.4
NHN Corp.	4,040,275	3.7
KT&G Corporation	3,719,827	3.4
Samsung Engineering Co., Ltd.	3,654,132	3.3
LG Corp.	3,071,822	2.8
Woongjin Coway Co., Ltd.	3,019,951	2.8

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and Board of Directors of
Korea Equity Fund, Inc.

We have audited the accompanying statement of assets and liabilities of Korea Equity Fund, Inc. (the "Fund"), including the schedule of investments, as of October 31, 2009, and the related statements of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2009 by correspondence with the custodian and others or by other appropriate auditing procedures where replies from others were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Fund at October 31, 2009, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

New York, New York
December 22, 2009

KOREA EQUITY FUND, INC. SCHEDULE OF INVESTMENTS* OCTOBER 31, 2009

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of Net Assets</u>
KOREAN EQUITY SECURITIES				
Automotive Equipment and Parts				
Hyundai Mobis	69,722	\$ 5,282,714	\$ 9,446,548	8.6
Automotive service components				
Hyundai Motor Company	36,380	1,345,295	3,362,831	3.1
Passenger cars, trucks, autoparts and commercial vehicles				
Hyundai Motor Company PFD	42,740	855,057	1,376,440	1.3
Passenger cars, trucks, autoparts and commercial vehicles				

See notes to financial statements.

KOREA EQUITY FUND, INC.
SCHEDULE OF INVESTMENTS* – (Continued)
OCTOBER 31, 2009

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of Net Assets</u>
Kia Motors Corporation†	81,120	\$ 833,041	\$ 1,232,619	1.1
Passenger cars, mini-buses, trucks, and commercial vehicles				
<i>Total Automotive Equipment and Parts</i>		<u>8,316,107</u>	<u>15,418,438</u>	<u>14.1</u>
 Banking and Financial Services				
Daegu Bank	211,390	1,581,318	2,855,175	2.6
Commercial banking services				
Hyundai Securities Co., Ltd.	37,060	429,188	431,731	0.4
Brokerage, dealing, and underwriting				
KB Financial Group, Inc.†	35,304	1,487,397	1,752,385	1.6
Commercial banking services				
Samsung Card Co., Ltd.	65,030	2,574,685	2,613,058	2.4
Credit card services				
Shinhan Financial Group Co., Ltd.	143,777	<u>3,878,440</u>	<u>5,601,307</u>	<u>5.1</u>
Consumer and commercial-related financial services				
<i>Total Banking and Financial Services</i>		<u>9,951,028</u>	<u>13,253,656</u>	<u>12.1</u>
 Chemicals and Pharmaceuticals				
Amorepacific Corporation	1,456	712,042	1,004,180	0.9
Personal care and health-related products				
LG Chem Ltd.	11,230	1,435,653	1,967,099	1.8
Petrochemicals, plastic resins, and engineering plastics				
Yuhan Corporation	8,252	<u>1,170,442</u>	<u>1,330,518</u>	<u>1.2</u>
Pharmaceutical products				
<i>Total Chemicals and Pharmaceuticals</i>		<u>3,318,137</u>	<u>4,301,797</u>	<u>3.9</u>
 Consumer Electronics				
LG Display Co., Ltd.	27,723	413,607	675,172	0.6
TFT-LCD				
LG Electronics Inc.	29,281	1,762,757	2,768,421	2.5
Digital display equipment				
LG Electronics Inc. PFD	6,220	272,590	250,722	0.3
Digital display equipment				
Samsung Electronics Co., Ltd.	25,513	8,665,655	15,571,416	14.2
Consumer electronics, computers and telecommunications				
Samsung SDI Co., Ltd.	8,080	<u>834,875</u>	<u>937,869</u>	<u>0.9</u>
Cathode ray tubes				
<i>Total Consumer Electronics</i>		<u>11,949,484</u>	<u>20,203,600</u>	<u>18.5</u>

See notes to financial statements.

KOREA EQUITY FUND, INC.
SCHEDULE OF INVESTMENTS*—(Continued)
OCTOBER 31, 2009

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of Net Assets</u>
Food and Beverages				
CJ CheilJedang Corp	10,370	\$ 1,817,412	\$ 1,781,441	1.6
Processed food products				
Hite Brewery Co., Ltd.	8,496	1,287,324	1,161,871	1.1
Alcoholic and non-alcoholic beverages				
Jinro Ltd.†	10,940	409,570	402,653	0.4
Soju and other beverages				
Nong Shim Co., Ltd.	8,873	1,472,061	1,797,670	1.6
Instant noodles, snacks, and beverages				
Orion Corp	2,300	<u>327,073</u>	<u>466,951</u>	<u>0.4</u>
Snacks				
<i>Total Food and Beverages</i>		<u>5,313,440</u>	<u>5,610,586</u>	<u>5.1</u>
Iron and Steel				
POSCO	19,931	<u>4,895,530</u>	<u>8,479,845</u>	<u>7.8</u>
Hot and cold rolled steel products				
Miscellaneous Manufacturing				
Duksan Hi-Metal Co., Ltd.	30,494	457,503	422,168	0.3
Solder ball				
Hansol Paper Co., Ltd.†	60,750	462,321	543,601	0.5
Paper and related products				
Hynix Semiconductor Inc.†	82,717	896,565	1,260,376	1.2
Semiconductors				
Korea Zinc Co., Ltd.	4,900	439,168	773,510	0.7
Non-ferrous metals				
KT&G Corporation	63,770	4,249,976	3,719,827	3.4
Cigarettes and other tobacco products				
LG Household & Health Care Ltd.	5,875	623,326	1,224,992	1.1
Household cleaning and personal care products				
Woongjin Coway Co., Ltd.	89,660	2,085,358	3,019,951	2.8
Water purifiers and air cleaners				
Woongjin Thinkbig Co., Ltd.	32,000	<u>441,105</u>	<u>611,852</u>	<u>0.6</u>
Publishing				
<i>Total Miscellaneous Manufacturing</i>		<u>9,655,322</u>	<u>11,576,277</u>	<u>10.6</u>
Oil and Gas				
SK Energy Co., Ltd.	11,218	<u>548,350</u>	<u>1,051,155</u>	<u>1.0</u>
Refines, markets, and distributes oil				

See notes to financial statements.

KOREA EQUITY FUND, INC.
SCHEDULE OF INVESTMENTS* – (Continued)
OCTOBER 31, 2009

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of Net Assets</u>
Retail				
CJ Home Shopping	22,721	1,660,399	1,519,081	1.4
Miscellaneous products				
Hyundai Department Store Co., Ltd.	11,960	1,205,793	1,156,019	1.1
Department stores				
Lotte Shopping Co., Ltd.	7,177	1,177,010	2,047,802	1.9
Department and discount stores				
Shinsegae Co., Ltd.	2,460	<u>629,009</u>	<u>1,071,552</u>	<u>0.9</u>
Department store chain				
<i>Total Retail</i>		<u>4,672,211</u>	<u>5,794,454</u>	<u>5.3</u>
Services				
Cheil Worldwide Inc.	2,420	456,981	623,080	0.6
Marketing				
Daekyo Co., Ltd.	107,560	470,475	435,833	0.4
Educational programs				
Glovis Co., Ltd.	5,535	347,122	490,609	0.4
Domestic and international logistic services				
Hana Tour Service Inc.	23,125	709,635	712,530	0.7
Travel related services				
Hotel Shilla Co., Ltd.	39,330	416,823	587,659	0.5
Hotels				
Kangwon Land Inc.	39,100	519,770	528,111	0.5
Casinos and hotels				
Korean Reinsurance Company	96,510	905,353	879,882	0.8
Life and non-life insurance				
LG Corp.	53,200	1,589,872	3,071,822	2.8
Electronics, chemicals and telecommunications				
LIG Insurance Co., Ltd.	45,000	945,518	942,090	0.9
Non-life insurance				
Megastudy Co., Ltd.	6,685	878,840	1,414,764	1.3
Educational programs				
NHN Corp†	26,964	2,677,272	4,040,275	3.7
Web portal				
Samsung Engineering Co., Ltd.	40,455	1,977,406	3,654,132	3.3
Engineering and construction				

See notes to financial statements.

KOREA EQUITY FUND, INC.
SCHEDULE OF INVESTMENTS* – (Continued)
OCTOBER 31, 2009

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of Net Assets</u>
Samsung Fire & Marine Insurance Co., Ltd.	7,855	\$ 2,063,030	\$ 1,442,227	1.3
Non-life insurance				
<i>Total Services</i>		<u>13,958,097</u>	<u>18,823,014</u>	<u>17.2</u>
Wholesale				
Samsung C&T Corporation	36,390	<u>1,480,664</u>	<u>1,511,386</u>	<u>1.4</u>
Import/export				
TOTAL KOREAN EQUITY SECURITIES		<u>\$74,058,370</u>	<u>\$106,024,208</u>	<u>97.0</u>
TOTAL INVESTMENTS		<u>\$74,058,370</u>	<u>\$106,024,208</u>	<u>97.0</u>
OTHER ASSETS LESS LIABILITIES, NET			<u>3,436,699</u>	<u>3.0</u>
NET ASSETS			<u>\$109,460,907</u>	<u>100.0</u>

*The description following each investment is unaudited and not covered by the Report of Independent Registered Public Accounting Firm.

†Non-income producing security.

Portfolio securities and foreign currency holdings were translated
at the following exchange rate as of October 31, 2009.

South Korean Won	KRW	1,184.60 = USD \$1.00
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See notes to financial statements.

KOREA EQUITY FUND, INC.
STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 2009

ASSETS:

Investments in securities, at market value (cost—\$74,058,370)	\$106,024,208
Prepaid expenses	19,925
Cash and cash equivalents	<u>3,670,228</u>
Total Assets	<u>109,714,361</u>

LIABILITIES:

Accrued management fee	84,930
Other accrued expenses	<u>168,524</u>
Total Liabilities	<u>253,454</u>

NET ASSETS:

Capital stock (par value of 11,212,000 shares of capital stock outstanding, authorized 100,000,000, par value \$0.10 each)	1,121,200
Paid-in capital	92,771,743
Accumulated net realized loss on investments and foreign currency transactions	(16,397,874)
Unrealized net appreciation on investments and foreign currency transactions	<u>31,965,838</u>
Net Assets	<u>\$109,460,907</u>
Net asset value per share	<u>\$ 9.76</u>

See notes to financial statements.

KOREA EQUITY FUND, INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED OCTOBER 31, 2009

INCOME:

Dividend income (net of \$214,780 of withholding taxes)	\$1,085,828	
Interest income	1,592	
Securities lending, net earnings	<u>9,073</u>	
Total Income		<u>\$ 1,096,493</u>

EXPENSES:

Management fee	703,750	
Legal fees	249,000	
Custodian fees	96,000	
Auditing and tax reporting fees	95,540	
Directors' fees and expenses	89,200	
Shareholder reports	54,960	
Annual meeting expenses	29,120	
Registration fees	27,300	
Transfer agency fees	12,740	
Miscellaneous fees	10,923	
Insurance expense	<u>6,480</u>	
Total Expenses		<u>1,375,013</u>
INVESTMENT LOSS—NET		<u>(278,520)</u>

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:

Realized gain (loss) on investments and foreign currency transactions:		
Net realized loss on investments		(16,397,874)
Net realized loss on foreign currency transactions		<u>(286,089)</u>
Net realized loss on investments and foreign currency transactions		(16,683,963)
Change in net unrealized appreciation on investments		36,845,761
Change in net unrealized appreciation on translation of foreign currency and other assets and liabilities denominated in foreign currency		<u>16,751,969</u>
Net realized and unrealized gain on investments and foreign currency transactions ...		<u>36,913,767</u>
NET INCREASE IN NET ASSETS RESULTING FROM INVESTMENT OPERATIONS .		<u><u>\$36,635,247</u></u>

See notes to financial statements.

KOREA EQUITY FUND, INC.

STATEMENTS OF CHANGES IN NET ASSETS

	For the Year Ended October 31,	
	2009	2008
FROM INVESTMENT OPERATIONS:		
Net investment income (loss)	(\$ 278,520)	\$ 435,239
Net realized gain (loss) on investments	(16,397,874)	446,892
Net realized loss on foreign currency transactions	(286,089)	(332,044)
Change in net unrealized appreciation (depreciation) on investments and translation of foreign currency	53,597,730	(111,521,006)
Increase (decrease) in net assets resulting from investment operations	36,635,247	(110,970,919)
 FROM DISTRIBUTIONS TO SHAREHOLDERS:		
Net investment income (\$0.01017 and \$0.01951 per share, respectively)	(114,026)	(218,746)
Decrease in net assets	(114,026)	(218,746)
 NET ASSETS:		
Beginning of year	72,939,686	184,129,351
End of year (including accumulated net investment income of \$0 and \$103,100, respectively)	\$109,460,907	\$ 72,939,686

See notes to financial statements.

KOREA EQUITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Korea Equity Fund, Inc. (the “Fund”) is registered under the Investment Company Act of 1940 as a non-diversified, closed-end investment management company. The Fund was incorporated in Maryland on September 7, 1993 and investment operations commenced on December 3, 1993. The Fund’s investment objective is to seek long-term capital appreciation through investments primarily in equity securities of South Korean companies. The following is a summary of significant accounting policies followed by the Fund. In the opinion of management, all material adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included.

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and are stated in United States dollars. The following is a summary of the significant accounting and reporting policies used in preparing the financial statements.

In June 2009, the Financial Accounting Standards Board, (“FASB”) issued, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles”. The standard identifies the FASB Accounting Standards Codification as the source of authoritative GAAP and reporting standards applicable for all non-governmental entities with the exception of guidance issued by the Securities and Exchange Commission (“SEC”) and its staff. It is effective for financial statements issued for interim and fiscal years ending on or after September 15, 2009. The standard supersedes the existing non-SEC accounting and reporting standards. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. The Fund adopted the standard for the year ended October 31, 2009. The adoption will be limited to disclosure in the fi-

ancial statements and the manner in which the Fund refers to GAAP.

(a) Valuation of Securities—Investments traded on stock exchanges are valued at the last sale price on the principal market on which such securities are traded as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price. Securities traded in the U.S. over-the-counter market (as opposed to the OTC market for foreign investors in South Korea) are valued at the last reported sales price as of the close of business on the day the securities are being valued or, if none is available, at the mean of the bid and offer price at the close of the day or, if none is available, at the last reported sales price available to the Fund. Securities for which market quotations are not readily available and restricted securities are valued in good faith at fair value using methods determined by the Board of Directors. Short-term debt securities which mature in 60 days or less are valued at amortized cost, which approximates fair value, if their original maturity at the date of purchase was 60 days or less, or by amortizing their value on the 61st day prior to maturity if their term to maturity at the date of purchase exceeded 60 days. Securities and other assets, including futures contracts and related options, are stated at market value or otherwise at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund.

(b) Foreign Currency Transactions—Transactions denominated in South Korean won (“Won”) are recorded in the Fund’s records at the prevailing rate at the time of the transaction. Asset and liability accounts that are denominated in Won are adjusted to reflect the current exchange rate at the end of the period. Transaction gains or losses resulting from changes in the exchange rate during the reporting period or upon settlement of foreign currency transactions are included in the results of operations for the current period.

KOREA EQUITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

The net assets of the Fund are presented at the exchange rate and market values at the close of the year. The Fund isolates that portion of the results of operations arising as a result of changes in the foreign exchange rates on investments from the fluctuations arising from changes in the market prices of securities held at October 31, 2009. Net unrealized foreign exchange gains or losses includes gains or losses arising from changes in the value of assets and liabilities including investments in securities at October 31, 2009, resulting from changes in the exchange rate. Net realized foreign exchange gains or losses include gains or losses arising from sales of portfolio securities, sales and maturities of short-term securities, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the United States dollar equivalent of the amounts actually received or paid.

(c) Security Transactions, Investment Income, Distributions to Shareholders—Security transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Realized gains and losses on the sale of investments are calculated on a first in first out basis.

Distributions from net investment income and net realized capital gains are determined in accordance with Federal income tax regulations, which may differ from GAAP. To the extent these “book/tax” differences are permanent in nature (i.e., that they result from other than timing of recognition—“temporary”), such amounts are reclassified within the capital accounts based on their Federal tax-basis treatment; temporary differences do not require reclassification. Dividends and distributions which exceed net realized capital gains for financial reporting purposes,

but not for tax purposes, are reported as distributions in excess of net realized capital gains.

Pursuant to a securities lending agreement with Brown Brothers Harriman & Co., the Fund may lend securities to qualified institutions. It is the Fund's policy that, at origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. It is the Fund's policy that collateral equivalent to at least 100% of the market value of securities on loan is maintained at all times. Collateral is provided in the form of cash, which will be invested in certain money market funds. The Fund is entitled to receive all income on securities loaned, in addition to a portion of the income earned as a result of the lending transaction. Although each security loan is fully collateralized, there are certain risks. During the fiscal year ended October 31, 2009, the Fund earned \$9,073 from lending fund portfolio securities, pursuant to the securities lending agreement. On November 21, 2008, the Fund suspended its participation in the securities lending program. The Fund may resume its participation in the future.

(d) Capital Account Reclassification—For the year ended October 31, 2009, the Fund's accumulated net investment loss was decreased by \$289,446, the accumulated net realized loss was decreased by \$7,246,125 and paid in capital was decreased by \$7,535,571. The adjustment was primarily a result of the reclassification of foreign exchange losses, net operating loss, capital loss carryforward expiration and overdistribution of ordinary income. These had no impact on net assets.

(e) Income Taxes—A provision for United States income taxes has not been made since it is the intention of the Fund to continue to qualify as a regulated investment company under the Internal Revenue Code and to distribute within the allowable time limit all taxable income to its shareholders.

KOREA EQUITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

Under South Korean tax laws, a withholding tax is imposed on dividends and interest income at the rate of 16.5% and 13.2%, respectively, and such withholding taxes are reflected as a reduction of the related revenue. There is no withholding tax on realized gains.

The Fund evaluates tax positions taken or expected to be taken in accordance with GAAP, to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. As of and during the year ended October 31, 2009, the Fund did not have any liabilities for any uncertain tax positions. The Fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the statement of operations. During the year, the Fund did not incur any interest or penalties.

(f) Subscription for New Shares—As part of their annual corporate action matters, certain South Korean companies offer rights to their shareholders to subscribe to new shares which are eligible for a portion of the dividends paid on existing shares in the year of subscription. The Fund normally subscribes to new share offerings by South Korean companies.

(g) Use of Estimates in Financial Statement Preparation—The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates.

(h) Concentration of Risk—A significant portion of the Fund’s net assets consists of South Korean securities which involve certain considerations and risks not typically associated with investments in the United States. In addition to the smaller size, less liquidity and greater volatility, the South Korean securities market is less developed than the U.S. securities

market and there is often substantially less publicly available information about South Korean issuers than there is about U.S. issuers. Future economic and political developments in South Korea could adversely affect the liquidity or value, or both, of securities in which the Fund is invested. Further, the Fund may be exposed to currency devaluation and other exchange rate fluctuations.

(i) Indemnifications—Under the Fund’s organizational documents, its officers and directors are indemnified against certain liabilities arising from the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts that contain a variety of representations which provide general indemnifications. The Fund’s maximum exposure under these agreements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on the Fund’s experience, the Fund expects the risk of loss to be remote.

2. Management Agreement and Transactions With Affiliated Persons

Nomura Asset Management U.S.A. Inc. (“NAM-U.S.A.” or the “Manager”) acts as the Manager of the Fund pursuant to a management agreement. Under the agreement, the Manager provides all office space, facilities and personnel necessary to perform its duties. Pursuant to such management agreement, the Manager has retained its parent company, Nomura Asset Management Co., Ltd. (“NAM”), as investment adviser for the Fund, and effective July 24, 2001, the shareholders approved NAM retaining its wholly-owned subsidiaries, Nomura Asset Management Hong Kong Limited (NAM-Hong Kong”) and Nomura Asset Management Singapore Limited (“NAM-Singapore”), as investment sub-advisers for the Fund.

KOREA EQUITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

As compensation for its services to the Fund, the Manager receives a monthly fee computed at the annual rate of 0.85% of the Fund's average weekly net assets. This annual rate became effective as of September 1, 2006 pursuant to an amendment of the Fund's management agreement with the Manager. Under the management agreement, the Fund paid or accrued fees, to the Manager of \$703,750 for the year ended October 31, 2009.

For services performed, NAM received a monthly fee from the Manager at the annual rate of 0.495% of the average weekly net assets of the Fund. This contractual rate became effective September 1, 2006 pursuant to an amendment of the investment advisory agreement between the Manager and NAM. Since July 24, 2001, for services performed, NAM-Hong Kong and NAM-Singapore have received monthly fees from NAM. Pursuant to amendments to the investment sub-advisory agreements that became effective as of September 1, 2006, NAM pays NAM-Singapore a monthly fee at the annual rate of 0.225% of the Fund's average weekly net assets and NAM pays NAM-Hong Kong a monthly fee at the annual rate of 0.045% of the Fund's average weekly net assets. For the year ended October 31, 2009, the Manager informed the Fund that NAM received management fees of \$392,881 from the Manager. In addition, NAM-Hong Kong and NAM-Singapore received management fees of \$35,716 and \$178,582, respectively from NAM. At October 31, 2009, the management fee payable to the Manager by the Fund was \$84,930.

Certain officers and/or directors of the Fund are officers and/or directors of the Manager. The Fund pays each Director not affiliated with the Manager an annual fee of \$10,000 plus \$1,000 per meeting attended, together with such Director's actual expenses related to attendance at meetings. Mr. William G. Barker, Jr., who has been designated by the Directors not affiliated with the Manager to serve

as Lead Director, is paid an additional \$5,000. Such fees and expenses for the unaffiliated Directors aggregated \$89,200 for the year ended October 31, 2009.

3. Purchases and Sales of Investments

Purchases and sales of investments, exclusive of investments in foreign currency and short-term securities, for the year ended October 31, 2009 were \$48,131,108 and \$46,332,218, respectively.

4. Federal Income Taxes

As of October 31, 2009, net unrealized appreciation on investments, for Federal income tax purposes was \$31,833,097 of which \$33,464,226 related to appreciated securities and \$1,631,129 related to depreciated securities. The aggregate cost of investments, at October 31, 2009 for Federal income tax purposes was \$74,191,111.

At October 31, 2009 the components of accumulated earnings on a tax basis were as follows:

Accumulated capital losses	\$ (16,265,133)
Unrealized appreciation on investments	<u>31,833,097</u>
Total accumulated earnings	<u>\$ 15,567,964</u>

For Federal income tax purposes, the total distribution paid for the fiscal years ended October 31, 2009 and October 31, 2008 was from ordinary income.

During the year ended October 31, 2009, capital loss carryforwards of \$6,960,036 had expired. The Fund has a capital loss carryforward as of October 31, 2009 of \$16,265,133, all of which expires on October 31, 2017.

KOREA EQUITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

5. Fair Value Measurements

In accordance with GAAP, fair value is defined as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value, and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Each investment is assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three-tier hierarchy of inputs is summarized below.

- Level 1—quoted prices in active markets for identical investments
- Level 2—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3—significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The following table summarizes the valuation of the Fund's investments by the above fair value hierarchy levels as of October 31, 2009.

<u>Level</u>	<u>Investments in Securities</u>	<u>Other Financial Instruments</u>
Level 1	\$106,024,208	-0-
Level 2	-0-	-0-
Level 3	-0-	-0-
Total	<u>\$106,024,208</u>	<u>-0-</u>

During the year ended October 31, 2009, the Fund did not hold any instrument which used significant unobservable inputs (level 3) in determining fair value.

6. Subsequent Events

In accordance with GAAP, the Manager has evaluated the need for disclosures and/or adjustments resulting from subsequent events through December 22, 2009, the date the financial statements were issued. This evaluation did not result in any subsequent events that necessitated disclosures and/or adjustments.

KOREA EQUITY FUND, INC.

FINANCIAL HIGHLIGHTS

Selected per share data and ratios for a share of common stock outstanding throughout each year:

	For the Year Ended October 31,				
	2009	2008	2007	2006	2005
Net asset value, beginning of year	\$6.51	\$16.42	\$11.28	\$8.18	\$5.80
Net investment income (loss)*	(0.02)	0.04	0.02	(0.04)	(0.05)
Net realized and unrealized gain (loss) on investments and foreign currency	3.28	(9.93)	5.64	3.14	2.43
Total from investment operations	3.26	(9.89)	5.66	3.10	2.38
Distributions:					
Dividends from investment income, net	(0.01)	(0.02)	—	—	—
Fund Share Transactions					
Dilutive effect of Rights Offering**	—	—	(0.38)	—	—
Offering costs charged to paid-in capital in excess of par	—	—	(0.14)	—	—
Total Fund share transactions	—	—	(0.52)	—	—
Net asset value, end of year	\$9.76	\$6.51	\$16.42	\$11.28	\$8.18
Market value, end of year	\$8.40	\$5.54	\$15.38	\$10.40	\$7.85
Total investment return†	51.9%	(63.9%)	47.9%	32.5%	47.0%
Ratio to average net assets/supplemental data:					
Net assets, end of year (000)	\$109,460	\$72,940	\$184,129	\$94,852	\$68,755
Operating expenses before waiver of a portion of the management fee	1.64††%	1.36%††	1.36%††	1.92%	2.93%
Operating expenses after waiver of a portion of the management fee	1.64††%	1.36%††	1.36%††	1.68%	2.76%
Net investment income (loss)	(0.33%)	0.32%	0.20%	(0.40%)	(0.70%)
Portfolio turnover	57%	45%	20%	31%	41%

† Based on market value per share, adjusted for reinvestment of income dividends and capital distributions and capital share transactions. Total investment return does not reflect sales commissions.

†† There was no waiver for the years ended October 31, 2009, 2008 and 2007.

* Based on average shares outstanding.

** Decrease is due to the Rights Offering.

TAX INFORMATION (UNAUDITED)

We are required by subchapter M of the Internal Revenue Code of 1986, as amended, to advise you within 60 days of the Fund's fiscal year end October 31, 2009 as to the federal tax status of distributions received by shareholders during such fiscal year. Accordingly, the Fund designates \$214,780 as foreign tax credit with the associated gross income of \$1,300,608.

Shareholders should not use the above information to prepare their tax returns. The information necessary to complete your income tax returns will be included with your Form 1099 DIV which will be sent to you separately in January 2010.

See notes to financial statements.

KOREA EQUITY FUND, INC.

SUPPLEMENTAL SHAREHOLDER INFORMATION (Unaudited)

The 2009 Annual Meeting of the Shareholders of the Fund was held at the offices of Nomura Securities International, Inc. at Two World Financial Center, Building B, New York, New York on August 19, 2009. The purpose of the meeting was (1) to elect two Class III Directors to serve for a term to expire in 2012; (2) to amend the fundamental investment restrictions of the Fund to permit the Fund to acquire investments in other investment companies to the extent permitted by applicable law; and (3) to transact such other business as may properly come before the Meeting or any adjournment thereof.

At the meeting, Rodney A. Buck and David B. Chemidlin received the affirmative vote of a majority of the outstanding shares of the Fund. Accordingly, they were elected to serve until 2012 and until their successors are elected and qualified. The Fund did not receive sufficient votes for Proposal 2 to amend the fundamental investment restrictions.

The results of the voting at the Annual Meeting were as follows:

1. To elect the Fund's Class III Directors:

	Shares Voted For	% of Outstanding Shares	Shares Voted Withhold Authority	% of Outstanding Shares
Rodney A. Buck	6,701,008	59.76%	3,362,312	29.99%
David B. Chemidlin	6,614,242	58.99%	3,449,078	30.76%

2. Amendment of a fundamental investment restriction:

Shares Voted For	% of Outstanding Shares	Shares Voted Against	% of Outstanding Shares	Shares Voted Abstain	% of Outstanding Shares
3,687,366	32.88%	381,070	3.40%	2,817,962	25.13%

INTERESTED DIRECTOR

Set out below is biographical and other information relating to a Director who is an "interested person," as that term is defined in the Investment Company Act of 1940 ("1940 Act"), of the Fund is set out below.

Name, Address and Age	Position(s) Held with the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Funds in the Fund Complex Overseen**	Other Public Directorships Held by the Director
Shigeru Shinohara (48)* c/o Nomura Asset Management U.S.A. Inc. Two World Financial Center, Building B New York, New York 10281	Class II Director	President and Director since June 2007	President of Nomura Asset Management U.S.A. Inc. ("NAM-U.S.A.") since 2007; Executive Vice President of Nomura Corporate Research and Asset Management Inc. from 2006 to 2007; previously Chief Fund Analyst at Nomura Funds Research and Technologies Co., Ltd.	2 registered investment companies consisting of 2 portfolios	None

* Mr. Shinohara is an "interested person," as defined in the 1940 Act, of the Fund based on his positions with Nomura Asset Management Co., Ltd. ("NAM") and its affiliates. Mr. Shinohara is a Director of Japan Smaller Capitalization Fund, Inc. for which NAM-U.S.A. acts as manager and NAM acts as investment adviser.

** In addition to the Fund, the "Fund Complex" includes Japan Smaller Capitalization Fund, Inc.

KOREA EQUITY FUND, INC.

SUPPLEMENTAL SHAREHOLDER INFORMATION (Unaudited)

INDEPENDENT DIRECTORS

Biographical and other information relating to the non-interested Directors of the Fund is set out below.

Name, Address and Age	Position(s) Held with the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Funds in the Fund Complex* Overseen	Other Public Directorships Held by Director
William G. Barker, Jr. (76) 111 Parsonage Road Greenwich, Connecticut 06830	Class I Director	Director since 1993	Retired.	2 registered investment companies consisting of 2 portfolios	None
Rodney A. Buck (61) 1857 West County Road Calais, Vermont 05648	Class III Director	Director since 2006	Owner, Buck Capital Management (private investment management firm) since 2005; Executive Vice President and Chief Investment Officer, National Life Group (insurance holding company) from 2000 to 2005; Chief Executive Officer, Sentinel Advisors Company (investment advisor) from 1996 to 2005.	2 registered investment companies consisting of 2 portfolios	None
David B. Chemidlin (52) 67 Glen Eagle Drive Watchung, New Jersey 07069	Class III Director	Director since 2006	Corporate Controller, Advance Magazine Publishers, Inc. (d/b/a Conde Nast) since 1995.	2 registered investment companies consisting of 2 portfolios	None
Chor Weng Tan (73) 6245 Paseo Privado Carlsbad, California 92009	Class II Director	Director since 1993	Retired.	2 registered investment companies consisting of 2 portfolios	None

*In addition to the Fund, the "Fund Complex" includes Japan Smaller Capitalization Fund, Inc.

KOREA EQUITY FUND, INC.

SUPPLEMENTAL SHAREHOLDER INFORMATION (Unaudited)

Committees and Directors' Meetings. The Board of Directors has a standing Audit Committee and a standing Nominating Committee, each of which consists of the Directors who are not “interested persons” of the Fund within the meaning of the 1940 Act and are “independent” as defined in the New York Stock Exchange listing standards. Currently, Messrs. Barker, Buck, Chemidlin and Tan are members of these Committees. The principal responsibilities of the Audit Committee and the Nominating Committee are described below. The Fund has no standing Compensation Committee. The non-interested Directors have retained independent legal counsel to assist them in connection with their duties.

During the fiscal year ended October 31, 2009, the Board of Directors held seven meetings, the Audit Committee held three meetings and the Nominating Committee held one meeting. Each incumbent Director attended at least 75% of the aggregate number of meetings of the Board of Directors held during the period for which he served and, if a member, of the aggregate number of meetings of the Audit and Nominating Committees held during the period for which he served.

Officers of the Fund. Officers of the Fund are elected and appointed by the Directors and hold office until they resign, are removed or are otherwise disqualified to serve. Certain biographical and other information relating to the officers of the Fund is set out below:

<u>Name, Address* and Age of Officers</u>	<u>Position(s) Held with the Fund</u>	<u>Term of Office** and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>
Shigeru Shinohara (48)	President and Class II Director	President since 2007	President of Nomura Asset Management U.S.A., Inc. (“NAM-U.S.A.”) since 2007; Executive Vice President of Nomura Corporate Research and Asset Management Inc. from 2006 to 2007; previously Chief Fund Analyst at Nomura Funds Research and Technologies Co., Ltd.
Kenneth L. Munt (63)	Vice President	Vice President since 2001	Managing Director and Secretary of NAM-U.S.A. since 1999.
Hiroyuki Nakano (39)	Vice President	Vice President since 2008	Managing Director and Chief Administrative Officer of NAM-U.S.A. since 2008; Senior Marketing Executive of NAM from 2005 to 2008; Senior Marketing Executive of Nomura Securities Co., Ltd. from 2003 to 2005.
Rita Chopra-Brathwaite (40)	Treasurer	Treasurer since 2002	Senior Vice President of NAM-U.S.A. since 2007; Vice President of NAM-U.S.A. from 2001 to 2007.
Neil Daniele (49)	Secretary and Chief Compliance Officer	Secretary since 2002; Chief Compliance Officer since 2005	Managing Director and Chief Compliance Officer of NAM-U.S.A. since 2007; Senior Vice President of NAM-U.S.A. from 2002 to 2007.

* The address of each officer listed above is Two World Financial Center, Building B, New York, New York 10281.

** Elected by and serves at the pleasure of the Board of Directors.

KOREA EQUITY FUND, INC.

REVIEW OF THE FUND'S MARKET PRICE COMPARED TO NET ASSET VALUE

Shares of closed-end investment companies, including funds focusing on a single country, have at various times traded at both premiums and discounts to their net asset value. Although the shares of the Fund have traded at such a premium, they also have traded at a discount from their net asset value per share ("NAV").

Since the Fund was established, the Board of Directors on a quarterly basis has reviewed the trading price of the Fund's shares. The purpose of such review has been to determine whether a discount exists and, if so, whether it would be in shareholders' overall best interests for the Fund to conduct share repurchases, make an issuer tender offer for shares or consider another means of possibly reducing the discount. For example, the Board of Directors has also considered whether it would be in the best interests of the Fund to convert to an open-end fund or to an interval fund, which is a form of investment company that makes periodic share repurchases at prices based on NAV.

To date, the Board of Directors has not authorized open-market share repurchases or a tender offer for shares of the Fund. The Board of Directors also has not felt that it would be in the best interests of the Fund or its shareholders to convert to an open-end fund or to have interval fund status. As a "country fund," the Fund's NAV is more volatile than might be the case for a fund with a broader investment focus. The Directors believe that converting the Fund to either an open-end or interval fund would subject the Fund to redemptions or repurchases at times when liquidation of portfolio securities could disadvantage remaining shareholders, and they believe that the recent sometime extreme volatility of the financial markets in South Korea supports their view. Additionally, since an open-end fund has a limited ability to invest in illiquid securities, such a conversion could hinder the Fund's ability to pursue its investment objectives. The Directors intend to continue to review, on a quarterly basis, the trading market for the Fund's shares.

DIVIDEND REINVESTMENT PLAN

The Dividend Reinvestment Plan (the "plan") is available automatically for any holder of common stock with shares registered in his/her own name who wishes to purchase additional shares with income dividends or capital gains distributions received on shares owned, unless such shareholder elects to receive all dividends and capital gain distributions in cash, paid by check and mailed to the shareholder. If a shareholder holds shares in his/her own name, communications regarding the Plan should be addressed to the plan agent, Computershare Trust Company, N.A. (the "Plan Agent"), P.O. Box 43078 Providence, RI 02940-3078. Under the Plan, shareholders appoint the Plan Agent to reinvest dividends and distributions in shares of the Fund. Such shares will be acquired by the Plan Agent for shareholders either through open market purchases if the Fund is trading at a discount or through the issuance of authorized but unissued shares if the Fund is trading at net asset value or a premium. If the market price of a share on the payable date of a dividend or distribution is at or above the Fund's net asset value per share on such date, the number of shares to be issued by the Fund to each shareholder receiving shares in lieu of cash dividends or distributions will be determined by dividing the amount of the cash dividends or distributions to which such shareholder would be entitled by the greater of the net asset value per share on such date or 95% of the market price of a share on such date. If the market price of a share on such distribution date is below the net asset value per share, the number of shares to be issued to such shareholders will be determined by dividing such amount, less brokerage commission, by the per share market price.

KOREA EQUITY FUND, INC.

DIVIDEND REINVESTMENT PLAN-(Continued)

Purchases will be made by the Plan Agent from time to time on the New York Stock Exchange (the “Exchange”) or elsewhere to satisfy dividend and distribution investment requirements under the Plan. Purchases will be suspended on any day when the closing price (or the mean between the closing bid and ask prices if there were no sales) of the shares on the Exchange on the preceding trading day was higher than the net asset value per share. If on the dividend payable date, purchases by the Fund are insufficient to satisfy dividend or distribution investments and on the last trading day immediately preceding the dividend payable date the closing price or the mean between the closing bid and ask prices of the shares is lower than or the same as the net asset value per share, the Plan Agent will continue to purchase shares until all investments by shareholders have been completed or the closing price or the mean between the bid and ask prices of the shares becomes higher than the net asset value, in which case the Fund will issue the necessary additional shares from authorized but unissued shares. If on the last trading day immediately preceding the dividend payable date, the closing price or the mean between the bid and ask prices of the shares is higher than the net asset value per share and if the number of shares previously purchased on the Exchange or elsewhere is insufficient to satisfy dividend investments, the Fund will issue the necessary additional shares from authorized but unissued shares. There will be no brokerage charges with respect to shares issued directly by the Fund to satisfy the dividend investment requirements. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Fund’s open market purchases of shares. In each case, the cost per share of shares purchased for each shareholder’s account will be the average cost, including brokerage commissions, of any shares purchased in the open market plus the cost of any shares issued by the Fund. For the fiscal year ended October 31, 2009, the Fund did not purchase any shares in the open market or issue any new shares for dividend reinvestment purposes.

Shareholders who elect to hold their shares in the name of a broker or other nominee should contact such broker or other nominee to determine whether they may participate in the Plan. To the extent such participation is permitted, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the broker as representing the total amount registered in the shareholder’s name and held for the account of beneficial owners who are participating in such Plan. Shareholders that participate in the Plan holding shares in a brokerage account may not be able to transfer the shares to another broker and continue to participate in the Plan. Shareholders who are participating in the Plan may withdraw from the Plan at any time. There will be no penalty for withdrawal from the Plan, and shareholders who have previously withdrawn from the Plan may rejoin it at any time. Changes in participation in the Plan should be made by contacting the Plan Agent if the shares are held in the shareholder’s own name and must be in writing and should include the shareholder’s name and address as they appear on the account registration. If the shares are held in the name of a broker or other nominee, such person should be contacted regarding changes in participation in the Plan. Upon withdrawal from the Plan, the Plan Agent will deliver to the shareholder a certificate or certificates for the appropriate number of full shares and a cash payment for any fractional shares. In lieu of receiving a certificate, the shareholder may request the Plan Agent to sell part or all of the shareholder’s shares at the market price and remit the proceeds to the shareholder, net of any brokerage commissions. A \$2.50 fee will be charged by the Plan Agent upon any cash withdrawal or termination. An election to withdraw from the Plan will, until such election is changed, be deemed to be an election by a shareholder to take all subsequent distributions in cash. An election will be effective only for a dividend or distribution if it is received by the Plan Agent not less than 10 days prior to such record date.

KOREA EQUITY FUND, INC.

DIVIDEND REINVESTMENT PLAN-(Continued)

The Plan Agent will maintain all shareholders accounts in the Plan, and furnish written confirmation of all transactions in such account, including information needed by shareholders for tax records. Shares in the account of each Plan participant may be held by the Plan Agent in non-certificated form in the name of the participant, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan.

The automatic reinvestment of dividends will not relieve participants of any income taxes that may be payable (or required to be withheld) on such dividends. Shareholders receiving dividends or distributions in the form of additional shares pursuant to the Plan should be treated for Federal income tax purposes as receiving a distribution in an amount equal to the amount of money that the shareholders receiving cash dividends or distributions will receive and should have a cost basis in the shares received equal to such amount.

The Fund reserves the right to amend or terminate the Plan as applied to any dividend paid subsequent to written notice of the change sent to participants in the Plan at least 90 days before the record date for such dividend. There is no service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. All correspondence concerning the Plan, including requests for additional information about the Plan, should be directed to the Plan Agent at Computershare Investor Services, P.O. Box 43078, Providence, RI 02940-3078.

SHAREHOLDER ACCOUNT INFORMATION

Shareholders whose accounts are held in their own name may contact the Fund's transfer agent, Computershare Trust Company, N.A. at (800) 426-5523 for information concerning their accounts.

KOREA EQUITY FUND, INC.

Board Review of the Current Management, Investment Advisory and Investment Sub-Advisory Agreements

The Board of Directors of the Fund (the “Board”) consists of five directors, four of whom are independent, or non-interested, directors (the “Independent Directors”). The Board considers matters relating to the Fund's management and investment advisory agreements throughout the year. On an annual basis, the Board specifically considers whether to approve the continuance of these agreements for an additional one-year period. The individual agreements (the “Agreements”) consist of the Fund's management agreement with Nomura Asset Management U.S.A. Inc. (the “Manager”), the investment advisory agreement between the Manager and its parent, Nomura Asset Management Co., Ltd. (the “Investment Adviser”), and investment sub-advisory agreements between the Investment Adviser and two affiliated advisers, Nomura Asset Management Hong Kong Limited and Nomura Asset Management Singapore Limited (the “Investment Sub-Advisers”).

The Board, including its Independent Directors, most recently approved the continuance of the Agreements at a meeting held on August 19, 2009. The Independent Directors held a separate telephonic meeting on July 23, 2009, for the purpose of discussing applicable legal standards, the adequacy of the information they had received, and other relevant factors. The Independent Directors, at their request, received additional information from the Manager pertaining to other institutional and retail accounts managed by the Manager, the Investment Adviser and the Investment Sub-Advisers with investment objectives similar to those of the Fund. They recognized the nature of the services provided to other investment vehicles and separate accounts differed from the range of services provided to the two registered investment companies. They also considered an analysis of the expense allocation methodology used by the Manager. The Independent Directors requested certain additional information from the Manager. The Independent Directors received materials that included, among other items, information provided by the Manager regarding (i) the investment performance of the Fund, performance of other investment companies and performance of the Fund's benchmark, (ii) expenses of the Fund and the management fee paid by the Fund to the Manager, the advisory fee paid by the Manager to the Investment Adviser and the sub-advisory fees paid to the Investment Sub-Advisers, and (iii) the profitability of the Agreements to the Manager, the Investment Adviser and the Investment Sub-Advisers. The Independent Directors sought and received additional information from the Manager and the Investment Adviser. The Independent Directors were advised by independent counsel in considering these materials and the continuance of the Agreements.

In considering the continuance of the Agreements, the Board, including the Independent Directors, did not identify any single factor as determinative. Matters considered by the Directors in connection with their approval of the Agreements included the following:

The nature, extent and quality of the services provided to the Fund under the Agreements. The Board considered the nature, extent and quality of the services provided to the Fund by the Manager, the Investment Adviser and the Investment Sub-Advisers and the resources dedicated by the Manager, the Investment Adviser and the Investment Sub-Advisers. These services included both investment advisory services and related services such as the compliance oversight provided by the Manager. In addition, the Independent Directors discussed in particular the portfolio management personnel involved with management of the Fund. The Independent Directors concluded that the Manager, the Adviser and the Sub-Advisers perform valuable advisory, administrative and compliance services to the Fund. Based on its review of all of these services, the Board, including the Independent Directors, concluded that the nature, extent and quality of these services supported the continuance of the Agreements.

KOREA EQUITY FUND, INC.

Board Review of the Current Management, Investment Advisory and Investment Sub-Advisory Agreements-(Continued)

Investment performance. The Board considered performance information provided by the Manager regarding the Fund's investment performance over a number of time periods, including the one-year, three-year and five-year periods recently ended. The Manager also provided the Directors with comparative performance information that they requested including information about other institutional and retail accounts, as described above.

The Board received information about the performance of the Fund compared to the Fund's benchmark index, data on the Fund's expense ratio and components thereof, and comparative fee, expense ratio and performance information for other funds investing primarily in South Korean stocks. This information showed that, based on changes in net asset value for the one-year, three-year and five-year periods ended June 30, 2009, the Fund ranked third in performance of four U.S. investment companies investing in Korean securities that had been identified by the Manager. The Manager provided information regarding factors impacting the relative performance of the Fund during the most recent year, including investments in sectors that had underperformed the market. The Manager also noted that the Fund had modestly outperformed its benchmark index, the Korea Composite Stock Price Index ("KOSPI"), for the one-year period ended June 30, 2009 and that the Fund's net asset value had increased approximately 24.1% during the quarter ended June 30, 2009.

After considering all factors deemed appropriate, the Board, including the Independent Directors, concluded that the Fund's performance supported the continuance of the Agreements.

The costs of the services to be provided and the profits to be realized by the Manager and its affiliates from their advisory relationships with the Funds. The Board considered the Fund's management fee in connection with other information provided for the Directors' consideration. The Manager also provided the Board with information prepared by the Manager, the Investment Adviser and the Investment Sub-Advisers indicating the profitability of the Agreements to these respective advisors. The Independent Directors reviewed this information with the Manager and requested and received certain supplemental information from the Manager and the Investment Adviser with respect to the methodologies used to charge and allocate expenses relating to the management of the Fund. The Manager and its affiliates also act as advisers to additional investment companies registered under the Investment Company Act of 1940 and the Board of Directors of the Fund compared the advisory arrangements and fees for these companies.

After reviewing the information described above, the Independent Directors concluded that the management fee proposed to be charged to the Fund was reasonable and that the costs of the services provided pursuant to the Agreements and the profitability of the Agreements to the Manager, the Investment Adviser and the Investment Sub-advisers supported the continuance of the Agreements.

Economies of Scale. The Board also considered whether the Manager realizes economies of scale as the Fund grows larger. The Board also noted the reduction in the contractual rate of the management fee that became effective in 2006. The Board further considered the reduction in the Fund's operating expense ratio over the past several years. After consideration of information it considered relevant, the Board concluded that it would not request breakpoints in the management fee to further reduce the Fund's operating expense ratio.

Based on an evaluation of all factors deemed relevant, including the factors described above, the Board, including each of the Independent Directors, concluded that each of the Agreements should be continued through August 31, 2010.

BOARD OF DIRECTORS

William G. Barker, Jr.
Rodney A. Buck
David B. Chemidlin
Shigeru Shinohara
Chor Weng Tan

OFFICERS

Shigeru Shinohara, *President*
Kenneth L. Munt, *Vice President*
Hiroyuki Nakano, *Vice President*
Rita Chopra-Brathwaite, *Treasurer*
Neil A. Daniele, *Secretary and Chief Compliance Officer*

MANAGER

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8 Finance Street
Central, Hong Kong

Nomura Asset Management Singapore Limited
6 Battery Road 34-02
Singapore 049909

CUSTODIAN

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40 Water Street
Boston, Massachusetts 02109-3661

**DIVIDEND PAYING AGENT, TRANSFER AGENT
AND REGISTRAR**

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Providence, RI 02940-3078

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
5 Times Square
New York, New York 10036

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TWO WORLD FINANCIAL CENTER, BUILDING B
NEW YORK, NEW YORK 10281

This Report, including the Financial Statements, is transmitted to the Shareholders of Korea Equity Fund, Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in the Report.

KOREA

Equity

Fund, Inc.

ANNUAL REPORT

OCTOBER 31, 2009