

TAIWAN FUND INC
Form N-CSR
November 03, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM N-CSR
CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES
Investment Company Act file number: 811-04893**

THE TAIWAN FUND, INC.

(Exact name of registrant as specified in charter)
C/O STATE STREET BANK AND TRUST COMPANY,
2 AVENUE DE LAFAYETTE, P.O. BOX 5049,
BOSTON, MA 02206-5049

(Address of principal executive offices)(Zip code)

(Name and Address of Agent for Service)

Copy to:

State Street Bank and Trust Company
Attention: Elizabeth A. Watson
Assistant Secretary
4 Copley Place, 5th Floor
Boston, Massachusetts 02116

Leonard B. Mackey, Jr., Esq.
Clifford Chance US LLP
31 West 52nd Street
New York, New York 10019-6131

Registrant's telephone number, including area code: 1-800-636-9242

Date of fiscal year end: August 31

Date of reporting period: August 31, 2009

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Item 1. Report to Stockholders.

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THE TAIWAN FUND, INC.®

Annual Report

August 31, 2009

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Chairman's Statement

Dear Shareholders,

I am pleased to present the Annual Report of The Taiwan Fund, Inc. (the Fund) for the fiscal year ended August 31, 2009. The Fund's net asset value (NAV) per share decreased by 10.29%* in U.S. dollar terms for the fiscal year. During the same period, the Taiwan Stock Exchange Index (the TAIEX) decreased by 7.13%* in U.S. dollar terms. The U.S. dollar depreciated by 4.14% against the NT dollar during this period.

On August 31, 2009, the Fund's shares were trading at a price equal to US\$12.14 per share, reflecting a discount of 12.28% to the Fund's NAV of \$US13.84. The Fund's shares were trading at a discount of 8.85% on August 31, 2008.

During the year, we liquidated the Trust through which the Fund had invested in Taiwan securities since its inception. We believe that this will provide the Fund with greater investment flexibility, as it will no longer be subject to certain Taiwan regulations that restricted the investments made through the Trust. In connection with the liquidation of the Trust, we also restructured the investment management agreement the Fund has with HSBC Global Asset Management (Taiwan) Ltd.

The collapse of Lehman in the second half of 2008 triggered financial turmoil around the globe. The global financial crisis and recession have exposed the vulnerability of global capital markets.

In Taiwan, it is believed that the longer-term outlook is more promising. This year three key events are scheduled to take place: Financial Memorandum of Understanding (MOU), Economic Cooperation Framework Agreement (ECFA, similar to Free Trade Agreement), and mayoral elections at the end of the year. Although the fundamentals are gradually improving and the elements for long-term

* Returns for the Fund are historical total returns that reflect changes in net asset value per share during each period and assume that dividends and capital gains, if any, were reinvested. Return for the TAIEX are not total returns and reflected only changes in share price but do not assume that cash dividends, if any, were reinvested, and thus are not strictly comparable to the Fund returns. Past performance is not indicative of future results of the Fund.

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structural improvement are emerging, it will take some time for the results to be seen.

On behalf of the Board, thank you for your continued support of The Taiwan Fund, Inc. We look forward to sharing with you the results of the Fund over the longer term.

Sincerely,

Harvey Chang
Chairman

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Report of the Investment Manager

Investment Performance

The Fund's net asset value (NAV) decreased by 10.29%* in U.S. dollar terms for the fiscal year ended August 31, 2009. In the same period, the Taiwan Stock Exchange Index (TAIEX) decreased by 7.13% in U.S. dollar terms. The Fund underperformed the TAIEX by 3.16% during the fiscal year of 2009.

The underperformance of the Fund was primarily due to the high cash position that was not timely unwound in the rally earlier this year. As to sector allocation, rubber contributed most positively to the performance. In terms of stock selection, the plastic sector contributed positively to the Fund's performance in the same period.

Market review

The Taiwan equity market was very volatile during the fiscal year ended August 31, 2009. Nevertheless, the TAIEX merely dropped by 3.12% in NT dollar terms. During the fiscal year, with the spill-over of global financial crisis, the TAIEX went down to the 4,000 level and hit 3,955 in late November. Further, in anticipation of an improved economy with closer ties with China and significant turnaround in the flow of Taiwanese investment, the TAIEX rebounded 80% and hit 7,185 in late July. At that time, Taiwan was severely hit by Typhoon Morakat, with the worst flood in 50 years which led to Premier Liu's cabinet reshuffle. Because of this incident, the TAIEX corrected and closed at 6,825 on August 31, 2009.

In terms of sector performance, tourism and financial underperformed while rubber and paper outperformed the TAIEX. In terms of fund flows, during the Fund's fiscal year proprietary traders and local institutions were net buyers with NT\$21.03 billion and NT\$0.07 billion, respectively, while foreign investors were net sellers with

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NT\$43.72 billion. Long margin decreased NT\$58.04 million to NT\$200.4 billion, accounting for only 1.16% of total market cap.

Economic Outlook

Taiwan's recovery pace has been slow, and export recovery is likely to be just in line with global recovery pace. Domestic demand is also improving gradually in Taiwan given the unemployment rate is still at record highs. In the second quarter of 2009, real exports of goods and services declined by 18.36%. Furthermore, coupled with the decreased fixed capital formation and weakened private consumption, Taiwan's real gross domestic products (GDP) contracted by 7.54%, compared with the same quarter of the previous year. Meanwhile, the GDP decline for the first quarter was revised to -10.13% (formerly -10.24%). Expressed at seasonally adjusted annual rate (saar), the real GDP increased 20.69% in the second quarter, in contrast to a decrease of 10.16% in the first quarter.

Since it is estimated that the world economy began its recovery in the second half of 2009, Taiwan's exports are anticipated to regain momentum. Impacted by Typhoon Morakot, private consumption slipped back into a gloomy state. For 2009 as a whole, real GDP is forecasted to contract 4.04%, and the CPI is expected to fall 0.68%.

According to the latest world economic outlook, the global economy will continue to recover in 2010. Taiwan's trade sector is expected to stay in healthy shape. Combined with the improved contribution from the domestic sector, real GDP is predicted to grow by 3.92% in 2010, with the CPI rising mildly by 0.87%.

Investment Outlook and Strategy

Taiwan's equity market has been one of the best performing markets in Asia. The TAIEX, with its underlying themes of liquidity and linkage to China, is primarily driven by the influx of liquidity. Taiwan's central bank has held the policy re-discount rate at 1.25%, and we expect no changes to Taiwan's monetary policy for the rest of 2009.

Closer economic co-operation with China had, until the typhoon's arrival, been progressing with expectation of a cross-strait deal on banking. However, as allegations of a slow response to the disaster surfaced, the government's popularity fell sharply, which led to questions about the progress of cross-strait ties. The market basically felt that President Ma would have to focus on domestic issues. The

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opposition Democratic Progressive Party's (DPP) invitation to the Dalai Lama to visit Taiwan to pray for the victims of the natural disaster added further concerns to investors that links with China would slow. By making changes to the cabinet, we expect that the government will be able to move forward and begin to get cross-strait discussions back on track.

While we believe that closer economic co-operation will help boost earnings for Taiwanese companies through increasing their client bases on the mainland, investors will need to be patient in terms of EPS uplifts arriving early. There are still a number of key agreements that Taiwan needs to reach with China in order to take down trade barriers and remove taxation issues. Investors should not expect significant improvements in earnings in the near term but instead should view the Taiwan market as an asset rerating story. Given Taiwan is extremely leveraged to the global economy, should a quick turnaround in demand for tech products occur in 2010, it would then be reasonable for there to be better-than-expected earnings.

In the year ahead, we aim to achieve solid performance through robust bottom-up stock selection as well as top-down macro research ability. We are confident that the Taiwan stock market and gradually recovering economic conditions will provide significant investment opportunities for investors in the foreseeable future. Thank you for your support and we look forward to presenting our strategy again in coming reports.

Sincerely,

Shirley Yang
Portfolio Manager

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Portfolio Snapshot*

Top Ten Equity Holdings

Holdings As Of August 31, 2009 %	
Taiwan Semiconductor Manufacturing Co., Ltd.	7.8
MediaTek, Inc.	5.7
Hon Hai Precision Industry Co., Ltd.	5.4
Chunghwa Telecom Co., Ltd.	3.9
Cheng Shin Rubber Industry Co., Ltd.	3.5
Synnex Technology International Corp.	3.4
China Steel Corp.	3.2
Fubon Financial Holding Co., Ltd.	2.9
Formosa Petrochemical Corp.	2.6
Au Optronics Corp.	2.6

Top Ten Equity Industry Weightings

Weightings As Of August 31, 2009 %	
Semiconductor Manufacturing	10.6
IC Design	8.7
Telecommunications	8.1
Financial Services	8.1
Optoelectronics	6.2
PC & Peripherals	5.4
Other Electronic	5.4
Electronics Distribution	4.9
Rubber	4.8

Food	4.5
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Top Ten Equity Holdings

Holdings As Of August 31, 2008 %

Taiwan Semiconductor Manufacturing Co., Ltd.	6.4
Chunghwa Telecom Co., Ltd.	6.2
Hon Hai Precision Industry Co., Ltd.	4.7
MediaTek, Inc.	4.2
Au Optronics Corp.	2.8
Pou Chen Corp.	2.5
President Chain Store Corp.	2.4
Ruentex Industries, Ltd.	2.4
Synnex Technology International Corp.	2.2
Fubon Financial Holding Co., Ltd.	2.2

Top Ten Equity Industry Weightings

Weightings As Of August 31, 2008 %

Financial Services	10.3
Semiconductor Manufacturing	10.3
PC & Peripherals	10.1
IC Design	8.8
Telecommunications	7.2
TFT-LCD	5.6
Electronic Components	5.1
Electronics	4.3
Textile	3.8
Automobiles, Tires & Accessories	3.6
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* Percentages based on total net assets.

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Sector Allocation

Fund holdings are subject to change and percentages shown above are based on total net assets as of August 31, 2009. The pie chart illustrates the allocation of the investment by sector. A complete list of holdings as of August 31, 2009 is contained in the Schedule of Investments included in this report. The most current available data regarding portfolio holdings and industry allocation can be found on our website, www.thetaiwanfund.com. You may also obtain updated holdings by calling (800)-636-9242.

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	<i>SHARES</i>		<i>US\$ VALUE (NOTE 1)</i>
COMMON STOCKS 89.2%			
BASIC INDUSTRIES 30.9%			
Automobiles, Tires & Accessories 2.3%			
China Motor Corp.*	2,500,000	\$	1,378,488
Tong Yang Industry Co., Ltd.	2,060,000		2,719,214
Yulon Nissan Motor Co., Ltd.*	900,000		1,957,681
			6,055,383
Cement 0.7%			
Asia Cement Corp.	1,699,500		1,812,236
Chemicals 0.5%			
Sesoda Corp.*	1,500,000		1,303,298
Electric & Machinery 1.1%			
Yungtay Engineering Co., Ltd.	4,500,000		2,857,230
Food 4.5%			
Great Wall Enterprise Co., Ltd.	3,675,355		3,684,678
Uni-President Enterprises Corp.	5,220,000		5,407,683
Wei Chuan Food Corp.*	2,000,000		2,378,746
			11,471,107
Glass 1.4%			
Taiwan Glass Industrial Corp.	5,665,000		3,528,094
Iron & Steel 4.4%			
China Steel Corp.	9,000,500		8,175,685
Tung Ho Steel Enterprise Corp.	3,090,000		3,154,163
			11,329,848
Paper NM			

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Kang Na Hsiung Enterprise Co., Ltd.	20,000	15,311
Petroleum Services 2.6%		
Formosa Petrochemical Corp.	2,832,500	6,729,194
Plastics 4.0%		
Formosa Chemicals & Fibre Corp.	1,000,000	1,752,920
Formosa Plastics Corp.	2,300,000	4,136,527
Nan Ya Plastics Corp.	3,090,000	4,304,118
		10,193,565
Retail 3.4%		
President Chain Store Corp.	2,840,000	6,539,942
Ruentex Industries, Ltd.*	1,800,000	2,088,922
		8,628,864
Rubber 4.8%		
Cheng Shin Rubber Industry Co., Ltd.	4,675,000	8,919,235
TSRC Corp.	3,000,000	3,449,638
		12,368,873
Textile 1.2%		
Far Eastern Textile, Ltd.	3,060,000	3,049,170
TOTAL BASIC INDUSTRIES		79,342,173
FINANCE 8.1%		
Financial Services 8.1%		
Cathay Financial Holding Co., Ltd.*	4,500,622	6,296,345
China Bills Finance Corp.	5,000,000	1,382,285
China Life Insurance Co., Ltd.*	2,000,000	1,166,588
E. Sun Financial Holding Co. Ltd.*	180,000	55,778
First Financial Holding Co., Ltd.	8,200,512	4,446,984
Fubon Financial Holding Co., Ltd.*	8,000,000	7,473,456
TOTAL FINANCE		20,821,436
TECHNOLOGY 50.2%		
Electronic Components 0.9%		
Silitech Technology Corp.	1,010,000	2,335,030

Electronics Distribution 4.9%

Synnex Technology International Corp.	4,950,000	8,646,879
WPG Holdings Co., Ltd.	3,000,000	3,873,437
		12,520,316

IC Design 8.7%

MediaTek, Inc.	1,000,400	14,527,401
Novatek Microelectronics Corp. Ltd.	1,600,382	3,758,283
RichTek Technology Corp.	501,250	3,974,488
		22,260,172

Optoelectronics 6.2%

Altek Corp.	1,312,200	2,164,643
Au Optronics Corp.	6,500,715	6,556,704
Everlight Electronics Co., Ltd.*	400,000	1,105,828
Largan Precision Co., Ltd.	153,000	1,859,250
Motech Industries, Inc.	79,928	199,84