

TAIWAN FUND INC  
Form N-CSRS  
May 07, 2008

**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, 6TH FLOOR, PO BOX 5049,  
BOSTON, 02111

(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  
2 Avenue de Lafayette, 6<sup>th</sup> Floor  
Boston, Massachusetts 02111

Leonard B. Mackey, Jr., Esq.  
Clifford Chance US LLP  
31 West 52<sup>nd</sup> 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: February 29, 2008

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**Item 1. Report to Stockholders.**

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**Chairman's Statement**

**Chairman's Statement**

Dear Shareholders,

We are pleased to present the Semi-Annual Report of The Taiwan Fund, Inc. (the Fund) for the six months ended February 29, 2008. During this period, the Fund's net asset value (NAV) decreased by 3.28%\* in U.S. dollar terms, whereas the Taiwan Stock Exchange Index (the TAIEX) was down by 0.02%. In the same period, the Fund underperformed the TAIEX by 3.26% as its portfolio was more tilted towards value as opposed to momentum. The Fund continued to be one of the best performing funds in its onshore peer group during the past six months. During 2007, our shareholders enjoyed handsome investment rewards by receiving dividend distributions of US\$3.19 per share.

Global markets have entered a phase of heightened uncertainty. This has been clearly reflected in increased volatility in equity markets, commodity prices, interest rates, and foreign exchange rates. However, the Greater China region is less affected due to robust economic growth in China. In Taiwan, Presidential election in March was won by Kuomintang (KMT) candidate Ma Ying-jeou. The upcoming change of administration brings hopes for new policy measures, which will lay foundation for closer economic relations with China. It is believed that President-to-be, Mr. Ma, will move quickly to improve cross-strait relations and to boost Taiwan's domestic demand through expansionary fiscal policies.

Looking ahead, we are optimistic about the economic prospects of Taiwan and expect the investor sentiment to improve on the back of more open policies towards China. On behalf of the Board, I would like to thank you for your interest and continued support. We look forward to sharing with you the results of the Fund over the longer term. We wish you a fruitful year in 2008.

Sincerely,

Harvey Chang  
Chairman

\* 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. Returns for the TAIEX are not total returns and reflect 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.

## Report of the Investment Manager

### Investment Performance

The Fund's net asset value (NAV) decreased by 3.28%\*( in U.S. dollar terms from September 1, 2007 to February 29, 2008. In the same period, the Taiwan Stock Exchange Index (TAIEX) decreased by 0.02% in U.S. dollar terms. The Fund underperformed the TAIEX by 3.26% in the past six months.

The underperformance of the Fund was primarily due to sector allocation. On a sector basis, the Fund's overweight positions in technology, especially in the IC design and printed circuit board substrate sector, affected performance; however, overweight positions in retail and stock selection in the petrochemical sector contributed positively to the Fund's performance in the same period.

### Market review

The Taiwan equity market was very volatile in the past six months ended Feb 29, 2008. The TAIEX dropped by 6.34% in NT dollar terms. With the increasing participation of retail investors in the second half of 2007, the TAIEX finally surpass its 52-week high of 9,800 level and hit 9,859 in late October, a seven-year high. But concerns about the sub-prime crisis led to a 22% correction, which resulted in TAIEX trading at 7384 in late January 2008. However, the market rallied after KMT's landslide victory in the Legislative Yuan, the market closed at 8,412 as of Feb 29, 2008.

In terms of sector performance, tourism and retail outperformed, while technology and chemicals underperformed. In terms of fund flows, foreign investors, local institutions and proprietary traders were all net buyers with NT\$55.6 billion, NT\$49 billion and NT\$21.4 billion, respectively, of net purchases. Long margin reduced by NT\$69.1 billion to NT\$302 billion, accounting for only 1.4% of total market cap.

(\* 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. Returns for the TAIEX are not total returns and reflect 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.

### **Economic Outlook**

For 2007 as a whole, Taiwan's real GDP grew by 5.70%. Net exports contributed 3.74% to the change in real GDP. While real domestic demand increased by 2.24% year on year (YOY) and contributed 1.96% to the change in real GDP. Looking forward to 2008, the consensus of world economic projections indicate that the growth of global economy growth will slow down. Taiwan's exports are expected to increase only mildly. With the improving domestic sector contribution, real GDP is predicted to grow by 4.32% in 2008.

### **Investment Outlook and Strategy**

The weakening US dollar is driving fund flows into Asia, particularly Taiwan on the positive investment theme of improved interaction with China post-election. Investors' sentiment is buoyed by NT dollar appreciation. Foreign investors have yet to commit to equities due to the weak US economy. Margin loans have increased only slightly this year, indicating retail investors have yet to re-enter the market aggressively. Taiwan's overall economic outlook is positive based on presidential candidates' pledge to improve economic ties with China.

On the back of the strengthening NT dollar, a liquidity-driven rally has pushed up the TAIEX despite volatile global stock markets, making Taiwan one of the best performing markets in the world so far this year. Fund flows have increased substantially in anticipation of the easing of restrictions on cross-straits economic interactions post-election. Also, because of mounting inflation pressure and deteriorating balance of payments (which turned negative in 2007), the central bank is reversing its policy of a soft peg with the US dollar. These factors have led to the NT dollar appreciation this year. Near-term volatility could increase after the recent rally, especially given that global financial markets remain unstable.

Cross-straits liberalization is the key theme driving the TAIEX, with property development/asset plays, tourism companies, airlines and banks the focus of buying interest pre-election. While we could see minor corrections after the election if valuations become stretched, medium-term fundamentals are encouraging regardless of the election outcome.

In short term, tech shares will continue to adversely affect by rising production costs in China, the appreciating NT dollar and slow seasonal demand. However, we still look for deep value stocks,

especially companies with strong market position and innovation capabilities.

In the year ahead, we aim to achieve solid performance through bottom-up stock selection. We are confident that the Taiwan stock market and solid 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 February 29, 2008 %	
Taiwan Semiconductor Manufacturing Co. Ltd.	5.1
Chungwha Telecom Co. Ltd.	4.6
Au Optronics Corp.	4.0
Hon Hai Precision Industry Co. Ltd.	3.9
High Tech Computer Corp.	3.3
Cathay Financial Holding Co. Ltd.	3.1
Asutek Computer Inc.	2.7
Synnex Technology International Corp.	2.6
China Steel Corp.	2.6
Formosa Petrochemical Corp.	2.4

**Top Ten Equity Industry Weightings\***

Weightings As Of February 29, 2008 %	
PC & Peripherals	11.8
Financial Services	11.3
Telecommunications	9.6
Electronic Components	7.9
TFT-LCD	7.2
Semiconductor Manufacturing	6.5
IC Design	5.1
Textile	3.6
Construction	3.2
Food	2.8

**Top Ten Equity Holdings\*\***

Holdings As Of August 31, 2007 %	
MediaTek, Inc.	6.1
Hon Hai Precision Industry Co. Ltd.	5.8
Taiwan Semiconductor Manufacturing Co. Ltd.	3.9
China Steel Corp.	3.6
Synnex Technology International Corp.	3.5
Cathay Financial Holding Co. Ltd.	3.0
Au Optronics Corp.	2.9
Siliconware Precision Industries Co.	2.9
Merry Electronics Co. Ltd.	2.9
Ruentex Development Co. Ltd.	2.7

**Top Ten Equity Industry Weightings\*\***

Weightings As Of August 31, 2007 %	
PC & Peripherals	15.5
IC Design	12.0
Semiconductor Manufacturing	9.5
Electronic Components	8.6
Telecommunications	7.6
Financial Services	6.0
TFT-LCD	5.6
Construction	4.3
Iron & Steel	4.3
Electronics	3.5

\* Percentages based on total net assets at February 29, 2008.

\*\* Percentages based on total investments at August 31, 2007.

**Sector Allocation**

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**The Taiwan Fund, Inc.****Schedule of Investments/February 29, 2008 (Showing Percentage of Net Assets) (unaudited)**

	<i>SHARES</i>	<i>US\$ VALUE (NOTE 1)</i>
<b>COMMON STOCKS 91.7%</b>		
<b>BASIC INDUSTRIES 23.9%</b>		
<b>Automobiles, Tires &amp; Accessories 1.3%</b>		
Yulon Motor Co., Ltd.	3,300,000	\$ 4,611,354
<b>Construction 3.2%</b>		
Ruentex Development Co. Ltd.	7,200,000	7,930,131
Taiwan Cement Corp.	2,000,000	3,558,143
		11,488,274
<b>Food 2.8%</b>		
Great Wall Enterprise Co., Ltd.	3,600,000	4,762,736
Uni-President Enterprises Corp	3,500,000	5,173,864
		9,936,600
<b>Glass 2.2%</b>		
Taiwan Glass Industrial Corp.	6,500,000	7,884,522
<b>Iron &amp; Steel 2.6%</b>		
China Steel Corp.	6,000,000	9,121,786
<b>Paper 1.4%</b>		
Chung Hwa Pulp Corp.	7,000,000	4,845,544
<b>Petroleum Services 2.4%</b>		
Formosa Petrochemical Corp.	3,100,000	8,723,920
<b>Plastics 1.5%</b>		
Nan Ya Plastics Corp.	2,266,000	5,438,693
<b>Retail 2.1%</b>		
Far Eastern Department Stores Co Ltd	4,000,000	7,504,448
<b>Textile 3.6%</b>		
Far Eastern Textile Co Ltd.	4,500,500	7,540,867
Ruentex Industries Ltd	5,800,000	5,478,247
		13,019,114

**Transportation 0.8%**

Eva Airways Corp*	5,000,000	2,814,168
<b>TOTAL BASIC INDUSTRIES</b>		<b>85,388,423</b>

**FINANCE 13.0%****Banks 1.7%**

Far Eastern International Bank*	18,000,000	6,200,873
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**Financial Services 11.3%**

Cathay Financial Holding Co. Ltd.	4,300,593	11,128,820
First Financial Holding Co., Ltd.	7,500,000	6,865,599
Fubon Financial Holding Co Ltd	7,500,000	8,406,114
Shin Kong Financial Holding Co., Ltd.	1,900,000	1,416,626
Taishin Financial Holdings Co., Ltd.*	13,000,000	6,181,465
Yuanta Financial Holding Co. Ltd.*	7,000,000	6,362,607

40,361,231

**TOTAL FINANCE**

46,562,104

**MISCELLANEOUS 1.7%****Athletic Footwear 1.7%**

Pou Chen Corp.	7,069,531	6,242,866
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**TECHNOLOGY 53.1%****Electronic Components 7.9%**

Epistar Corp.	1,600,267	4,917,528
Everlight Electronics Co. Ltd.	1,600,920	6,084,687
Kinsus Interconnect Technology Corp.	1,800,029	4,844,328
Nan Ya Printed Circuit Board Corp.	1,330,401	6,713,329
Unimicron Technology Corp.	3,500,000	5,434,255

27,994,127

**Electronics 2.6%**

Synnex Technology International Corp.	3,700,000	9,359,211
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**IC Design 5.1%**

MediaTek, Inc.	700,000	8,060,812
Novatek Microelectronics Corp. Ltd.	1,700,703	6,133,863
Orise Technology Co. Ltd.*	2,000,000	3,920,427

		18,115,102
<b>Memory IC 2.4%</b>		
Inotera Memories, Inc.	9,646,000	8,580,463
<b>PC &amp; Peripherals 11.8%</b>		
Asustek Computer Inc.	3,451,363	9,690,387
Clevo Co.*	4,500,000	6,826,783
Foxconn Technology Co. Ltd.	800,000	5,330,746
GeoVision Inc.	450,000	2,998,544
Hon Hai Precision Industry Co. Ltd.	2,300,760	13,991,360
Portwell Inc.	1,800,000	3,097,525
		41,935,345
<b>Semiconductor Manufacturing 6.5%</b>		
Siliconware Precision Industries Co.	3,000,074	5,026,810
Taiwan Semiconductor Manufacturing Co. Ltd.	9,200,009	18,331,572
		23,358,382

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The accompanying notes are an integral part of the financial statements.

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**Schedule of Investments/February 29, 2008** *(unaudited) (continued)*

	<i>SHARES</i>		<i>US\$ VALUE (NOTE 1)</i>
<b>TECHNOLOGY (continued)</b>			
<b>Telecommunications 9.6%</b>			
Chunghwa Telecom Co. Ltd.	6,500,454	\$	16,295,817
High Tech Computer Corp.	550,000		11,706,291
Merry Electronics Co. Ltd.	2,500,866		6,382,608
			34,384,716
		&	