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TAIWAN FUND INC
Form N-CSR
May 06, 2004

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: 811-4893

THE TAIWAN FUND, INC.

(Exact name of registrant as specified in charter)

225 FRANKLIN STREET
BOSTON, MA 02110

(Address of principal executive offices in the United States) (Zip code)

(Name and Address of Agent for
Service)

Copy to:

State Street Bank and
Trust Company
Attention: Ann M. Casey
225 Franklin Street
Boston, MA 02110

Laurence E. Cranch
Clifford Chance US LLP
200 Park Avenue
New York, New York 10166-0153

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

Date of fiscal year end: August 31, 2004

Date of reporting period: September 1, 2003 - February 29, 2004

ITEM 1. REPORTS TO SHAREHOLDERS.

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THE TAIWAN
FUND, INC. (R)

* * * * *

| | THE TAIWAN FUND, INC. | |
|-------------|---|------|
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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, 2004. During this period, the Fund's net asset value ("NAV") increased by 18.41% in U.S. dollar terms. During the same period, the Taiwan Stock Exchange Index (the "TAIEX") increased by 19.46% in New Taiwan ("NT") dollar terms and by 22.77% in U.S. dollar terms. The NT dollar appreciated over the U.S. dollar by 2.77% during this period.

On February 29, 2004, the Fund's shares were trading at US\$13.61 per share, reflecting a discount of 10.34% to the Fund's NAV per share of US\$15.18. The Fund's shares were trading at a discount of 13.49% on August 31, 2003.

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The global economy continued to recover during the six months covered by this report, with most regions posting surprisingly good economic performance. For example, the U.S. economy grew 4.1% in the fourth quarter of 2003, with equipment and software investment growing at an annualized 15.8%. The Japanese economy also delivered unexpectedly strong growth of 6.4% in the fourth quarter of 2003, driven by a lift in business investments at an annual rate of over 25%. The long-awaited recovery in capital spending was evident in the second half of 2003. With low interest rates, improving business outlook, and aging equipment after years of under-investment, the global economy should continue to benefit from this investment-led cycle in the foreseeable future.

Taiwan's economy posted strong growth in the second half of 2003, with 4.18% GDP growth in the third quarter of 2003, followed by a 5.17% growth in the fourth quarter of 2003. Exports were strong and, more encouraging, consumption and investment were also picking up. Private consumption and expenditure was up 1.12% in the third quarter, and fourth quarter growth accelerated to a three-year high of 2.44%. According to the Directorate General of Budget Accounting and Statistics, Taiwan's private consumption should recover and grow 3.33% in 2004, up from 0.6% in 2003 and 1.7% in 2002. In terms of investments, the government expects a growth rate of 14.48% in 2004, a significant boost from -0.7% in 2003 and 2.5% in 2002. In all, Taiwan's GDP growth should increase to 4.74% in 2004 from 3.24% in 2003. This continued momentum in economic growth should be favorable to Taiwan's stock market in 2004.

The risk to the above growth projection continues to be the sustainability of U.S. consumer spending and the sustainability of China's investment boom, both of which are crucial to the aggregate demand in the global economy. The key factors to watch will be

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the U.S. economy's ability to generate jobs, which affects consumer spending, and the Chinese government's monetary policy, which affects investments. By now, such factors are looking positive, but they should continue to be monitored.

The political environment in Taiwan should be mixed in 2004. The disputed outcome of the presidential election in late March and the subsequent reaction from the Opposition Party have caused some movements in the market. Also, the legislative election by the end of 2004 may also present issues regarding the country's political stability. These political developments may therefore lead to fluctuations in the stock market in 2004.

With a sound investment outlook, Taiwan's stock market should perform positively in 2004. The first half of the year should be rewarding for investors because of strong economic momentum and ample liquidity. The second half of the year, however, should be more challenging for investors. We expect to see more volatility during this period due to a potential market correction.

During the six months ended February 29, 2004, the Fund's shares were trading at an average discount of 11.1%, an improvement over the 13.8% average discount for the prior six months. This is a reflection of the growing interest in investing in Taiwan over time, and we expect such a trend to continue in the coming months based on our positive view of Taiwan's stock market.

The Board remains confident in the long-term investment outlook for Taiwan, and believes the Fund should continue to deliver substantial returns to its investors. We appreciate your support to the Fund and wish you a fruitful year in 2004.

Sincerely,

/s/ S.Y. Wang

S. Y. Wang
Chairman

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REPORT OF THE INVESTMENT MANAGER

INVESTMENT PERFORMANCE

The Fund's net asset value ("NAV") increased by 18.41% in U.S. dollar terms during the six months ended February 29, 2004. The Taiwan Stock Exchange Index (the "TAIEX") increased by 22.77% in U.S. dollar terms during the same period. The Fund underperformed the TAIEX primarily because of underperformance in September 2003 and in February 2004. The Fund underperformed in September 2003 because of a correction in the share prices of some of the technology companies in which it invested. The Fund underperformed in February 2004 primarily because of its focus on blue-chip stocks that generated less favorable returns compared to the benchmark. Relative to its peers, however, the Fund has delivered solid performance and maintained its ranking in the second quartile for the past six months.

Based on the performance attribution report generated by FactSet (an investment research service), the Fund saw negative performance contributions from sector allocation as well as from stock selection in the past six months. On the sector level, we received positive contributions from our underweight position in the electronics sector and from our overweight position in the steel sector. However, we also received fairly large negative contributions from our underweight positions in the construction sector and in the finance sector. On the stock level, we benefited from our better selections of a few financial stocks, but we suffered more significantly from keeping our positions in certain technology stocks.

INVESTMENT OUTLOOK

We maintain our positive outlook for Taiwan's stock market and believe it will offer significant opportunities for investors in the coming months. Our view is based on the expectations that (1) liquidity should stay supportive; (2) economic momentum should be sustainable; and (3) valuations should be relatively attractive.

Liquidity in Taiwan is rising rapidly as M1b growth reached a historical high level of 20% in January 2004, up from 6% in March 2003. We expect this level of liquidity to be supported by a continued low interest rate environment, a steady foreign investor's interest, and a favorable outlook for the NT dollar.

Taiwan's economic fundamentals are currently in an upwards cycle and the momentum is expected to continue into the second quarter of 2004 or even beyond. This momentum is primarily supported by rising growth of domestic consumption and investment. While exports should still be robust, their growth is peaking due to the higher recent comparison base. We expect domestic consumption to be stimulated by the

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wealth effect resulting from rising stock prices as well as property prices. Meanwhile, investment should increase because of low interest rates, increasing operating cash flow, and rising capacity utilization. Export growth should also regain momentum later in the second half of 2004, as corporate capital spending gets into full swing. The government is projecting a quarterly GDP growth of 5.16% in the first quarter of 2004, 5.21% in the second quarter, 4.57% in the third quarter, and 4.09% in the fourth quarter.

Attractive valuation is another key element for Taiwan's promising market outlook. Taiwan's market is anticipating over 30% corporate profit growth in 2004, second only to Korea in Asia. In terms of valuation, its price-to-earnings ratio is at approximately 13 times at the end of February, which is at the low end of its historical band. For investors gearing up to profit from Asia's growth in 2004, Taiwan represents a good target with its high growth and attractive valuation.

INVESTMENT STRATEGY

We believe there will be two major investment themes in 2004, asset reflation and capital expenditure recovery. Taiwan's strong liquidity is a major factor behind the asset reflation theme. With the positive currency exchange rate outlook and low interest rates in place, Taiwan's liquidity is at a high level and should stimulate domestic consumption. Such a favorable outlook has led to strong share price performance in recent months in many domestic related sectors, such as cement, food, electrical, wire & cable, glass, construction, transportation, tourism, finance, and retailing. We believe fundamentals are getting better for related companies and there are still upside opportunities for their shares in the coming months.

A more important investment theme for Taiwan, which has yet to materialize, is the return of corporate information technology ("IT") spending. We believe several factors are positive for the CAPEX recovery theme. First, many IT infrastructures that were built during the last boom are now approaching the end of their life cycle. There should be a need to replace them so as to reduce maintenance costs and increase productivity. Secondly, the recovering economy should finally lead to job growth and new IT investments are therefore required. Lastly, corporations have built up very healthy balance sheets during the past years and therefore are better able to invest in IT now. For example, the 2004 operating free cash flow for Taiwanese corporations is expected to exceed the 2000 peak, according to a UBS study. A renewal of IT spending is expected later in the year and should lead to strong performance of technology stocks in 2004.

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REPORT OF THE INVESTMENT MANAGER (continued)

Within the technology sector, we believe pricing power is better for upstream component and semiconductor companies because of tight capacity and the long investment cycle. Downstream manufacturers, on the other hand, have to deal with rising costs as well as higher currency risks. Therefore, we will focus more on upstream players in the technology sector.

The year 2004 should be rewarding for investors in Taiwan with several sectors such as technology and industrial cyclical exhibiting sound fundamentals and different attractions. For the near-term, we intend to continue our strategy of maintaining a sector balanced portfolio and try to beat the benchmark through bottom-up stock selections. We believe the market should continue to edge up in the coming months, and then enter into a period of consolidation before moving

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up again. Our long-term view for the market is quite optimistic as Taiwan's economy is showing a broad based upturn that may prove to be only the beginning of a multi-year prosperity.

Thank you for your support and we look forward to presenting our strategy again in coming reports.

Sincerely,

/s/ Victor Shih
Victor Shih
Portfolio Manager

/s/ Jovi Chen
Jovi Chen
Deputy Portfolio Manager

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PORTFOLIO SNAPSHOT*

TOP TEN EQUITY HOLDINGS

| HOLDINGS AS OF FEBRUARY 29, 2004 | % |
|--|-----|
| Taiwan Semiconductor Manufacturing Co. | 7.0 |
| Cathay Financial Holding Co. Ltd. | 4.7 |
| United Microelectronics Corp. Ltd. | 3.8 |
| Au Optronics Corp. | 3.7 |
| China Steel Corp. | 3.6 |
| Hon Hai Precision Industry Co. Ltd. | 3.4 |
| Chinatrust Financial Holding Co. Ltd. | 3.0 |
| Advanced Semiconductor Engineering, Inc. | 2.7 |
| Chunghwa Telecom Co. Ltd. | 2.7 |
| MediaTek, Inc. | 2.5 |

TOP TEN EQUITY INDUSTRY WEIGHTINGS

| WEIGHTINGS AS OF FEBRUARY 29, 2004 | % |
|------------------------------------|------|
| Semi-conductor | 21.5 |
| Financial Services | 16.3 |
| PC & Peripherals | 12.4 |

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| | |
|----------------------------------|-------|
| Electronics | 10.5 |
| ----- | ----- |
| Plastics | 6.4 |
| ----- | ----- |
| Telecommunications | 6.3 |
| ----- | ----- |
| Iron & Steel | 4.5 |
| ----- | ----- |
| Automobiles, Tires & Accessories | 3.7 |
| ----- | ----- |
| Shipping | 2.9 |
| ----- | ----- |
| Others & Miscellaneous | 2.2 |
| ----- | ----- |

TOP TEN EQUITY HOLDINGS

| | |
|--|-------|
| HOLDINGS AS OF AUGUST 31, 2003 | % |
| ----- | ----- |
| Taiwan Semiconductor Manufacturing Co. | 9.3 |
| ----- | ----- |
| Au Optronics Corp. | 3.8 |
| ----- | ----- |
| MediaTek, Inc. | 3.5 |
| ----- | ----- |
| Quanta Computer, Inc. | 2.9 |
| ----- | ----- |
| Compal Electronics, Inc. | 2.8 |
| ----- | ----- |
| Hon Hai Precision Industry Co. Ltd. | 2.5 |
| ----- | ----- |
| Chunghwa Telecom Co. Ltd. | 2.5 |
| ----- | ----- |
| Asustek Computer, Inc. | 2.4 |
| ----- | ----- |
| Formosa Chemicals & Fibre Corp. | 2.4 |
| ----- | ----- |
| United Microelectronics Corp. Ltd. | 2.3 |
| ----- | ----- |

TOP TEN EQUITY INDUSTRY WEIGHTINGS

| | |
|----------------------------------|-------|
| WEIGHTINGS AS OF AUGUST 31, 2003 | % |
| ----- | ----- |
| Semi-conductor | 20.4 |
| ----- | ----- |
| PC & Peripherals | 16.6 |
| ----- | ----- |
| Electronics | 12.1 |
| ----- | ----- |
| Financial Services | 9.5 |
| ----- | ----- |
| Telecommunications | 7.8 |
| ----- | ----- |
| Plastics | 5.2 |
| ----- | ----- |

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| | |
|----------------------------------|-------|
| Automobiles, Tires & Accessories | 5.0 |
| ----- | ----- |
| Textiles & Apparel | 4.0 |
| ----- | ----- |
| Iron & Steel | 3.1 |
| ----- | ----- |
| Others & Miscellaneous | 2.4 |
| ----- | ----- |

* Percentages based on total investments at February 29, 2004 and August 31, 2003.

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THE TAIWAN FUND, INC.
 INVESTMENTS/FEBRUARY 29, 2004 (SHOWING PERCENTAGE OF TOTAL VALUE OF
 INVESTMENT IN SECURITIES) (UNAUDITED)

| | SHARES | US\$ VALUE (NOTE 1) |
|---|-----------|---------------------------|
| | ----- | ----- |
| COMMON STOCKS -- 98.1% | | |
| BASIC INDUSTRIES -- 15.0% | | |
| CEMENT -- 0.7% | | |
| Asia Cement Corp. | 1,064,000 | \$ 758,400 |
| Taiwan Cement Corp. | 1,749,000 | 1,052,030 |
| | | ----- |
| | | 1,810,430 |
| | | ----- |
| CHEMICALS -- 0.6% | | |
| Apex Biotechnology Corp. | 363,000 | 475,994 |
| Ho Tung Chemical Corp. | 942,000 | 433,462 |
| Oriental Union Chemical Corp. | 394,000 | 490,574 |
| | | ----- |
| | | 1,400,030 |
| | | ----- |
| GLASS -- 0.3% | | |
| Taiwan Glass Industrial Corp. | 814,000 | 724,644 |
| | | ----- |
| IRON & STEEL -- 4.5% | | |
| China Steel Corp. | 8,756,000 | 8,953,504 |
| Feng Hsin Iron & Steel Co. Ltd. | 469,000 | 442,905 |
| Tung Ho Steel Enterprise Corp. (a)... | 1,430,000 | 881,654 |
| Yieh Phui Enterprise..... | 761,000 | 750,701 |
| | | ----- |
| | | 11,028,764 |
| | | ----- |
| PAPER & FOREST PRODUCTS -- 0.2% | | |
| Yuen Foong Yu Paper Manufacturing Co. Ltd..... | 1,098,000 | 620,824 |
| | | ----- |
| PETROLEUM SERVICES -- 1.7% | | |
| Formosa Petrochemical Corp. (a)..... | 2,617,000 | 4,250,165 |
| | | ----- |
| PLASTICS -- 6.4% | | |

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| | | |
|--|-----------|--------------|
| Formosa Chemicals & Fibre Corp. | 3,123,000 | 4,978,015 |
| Formosa Plastic Corp. | 2,659,000 | 4,318,376 |
| Grand Pacific Petrochemical Co. Ltd. | | |
| (a)..... | 1,070,000 | 444,090 |
| Nan Ya Plastics Corp. | 3,563,000 | 4,832,821 |
| Union Petrochemical Technology Corp. | 1,468,000 | 693,161 |
| USI Far East Corp. (a)..... | 1,559,000 | 665,799 |
| | | ----- |
| | | 15,932,262 |
| | | ----- |
| WIRE & CABLE -- 0.6% | | |
| Sampo Corp. (a)..... | 1,089,000 | 497,829 |
| Walsin Lihwa Corp. (a)..... | 1,956,000 | 958,881 |
| | | ----- |
| | | 1,456,710 |
| | | ----- |
| TOTAL BASIC INDUSTRIES..... | | 37,223,829 |
| | | ----- |
| CONSTRUCTION & REAL ESTATE -- 0.6% | | |
| CONSTRUCTION & REAL ESTATE -- 0.6% | | |
| Cathay Real Estate Development Co. Ltd. (a)..... | 2,329,000 | 1,414,911 |
| | | ----- |
| | | |
| | | US\$ |
| | | VALUE |
| | SHARES | (NOTE 1) |
| | ----- | ----- |
| DURABLES -- 6.7% | | |
| AUTOMOBILES, TIRES & ACCESSORIES -- 3.7% | | |
| Cheng Shin Rubber Industry Co. | 2,001,000 | \$ 2,864,589 |
| China Motor Co. | 2,293,000 | 4,620,481 |
| Kenda Rubber Industrial Co. Ltd. | 543,000 | 563,414 |
| Yulon Motor Co. Ltd. | 691,000 | 1,016,238 |
| | | ----- |
| | | 9,064,722 |
| | | ----- |
| ELECTRICAL EQUIPMENT -- 1.4% | | |
| Fu Sheng Industrial Co. Ltd. | 277,000 | 558,165 |
| Pihsiang Machinery Manufacturing Co. Ltd. | 150,000 | 514,286 |
| Ta Yih Industrial Co. Ltd. | 1,189,000 | 1,351,705 |
| Teco Electric & Machinery Co. | 1,203,000 | 531,853 |
| Yungtay Engineering Co. Ltd..... | 619,000 | 470,998 |
| | | ----- |
| | | 3,427,007 |
| | | ----- |
| TEXTILES & APPAREL -- 1.6% | | |
| Far Eastern Textile Co. Ltd. | 1,796,000 | 1,296,361 |
| Formosa Taffeta Co. Ltd. | 1,330,000 | 640,000 |
| Nien Hsing Textile Co. Ltd. | 428,000 | 444,090 |
| Shinkong Synthetic Fibers Corp. (a)..... | 2,090,000 | 606,571 |
| Tainan Enterprises Co. | 302,000 | 448,686 |
| Yi Jinn Industrial Co. Ltd. (a)..... | 2,223,000 | 544,886 |
| | | ----- |

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| | | |
|---|-----------|------------|
| | | 3,980,594 |
| | | ----- |
| TOTAL DURABLES..... | | 16,472,323 |
| | | ----- |
| FINANCE -- 17.9% | | |
| BANKS -- 1.6% | | |
| Chang Hwa Commercial Bank (a)..... | 2,084,000 | 1,422,761 |
| Cosmos Bank Taiwan (a)..... | 918,000 | 599,116 |
| Far Eastern International Bank (a)... | 989,000 | 559,194 |
| Hsinchu International Bank (a)..... | 1,084,000 | 684,631 |
| International Bank of Taipei..... | 887,000 | 693,594 |
| | | ----- |
| | | 3,959,296 |
| | | ----- |
| FINANCIAL SERVICES -- 16.3% | | |
| Cathay Financial Holding Co. Ltd. ... | 5,854,000 | 11,531,940 |
| Chinatrust Financial Holding Co. Ltd. | 6,127,000 | 7,333,973 |
| E. Sun Financial Holding Co. Ltd. (a)..... | 1,536,000 | 1,071,735 |
| First Financial Holdings Co. Ltd. (a)..... | 2,319,000 | 1,924,944 |
| Fubon Financial Holding Co. Ltd. | 3,136,000 | 3,348,211 |
| Fuh-Hwa Financial Holdings Co. Ltd..... | 1,794,000 | 895,651 |
| Hua Nan Financial Holdings Co. Ltd. (a)..... | 2,053,000 | 1,932,598 |
| Mega Financial Holding Co. | 3,903,000 | 2,852,418 |
| Polaris Securities Co. Ltd. (a)..... | 1,160,000 | 753,564 |
| Shin Kong Financial Holdings Co. Ltd. (a)..... | 1,734,000 | 1,606,232 |
| SinoPac Holdings Co. | 2,183,000 | 1,247,429 |
| Taishin Financial Holdings Co. Ltd. | 6,382,000 | 5,815,777 |
| | | ----- |
| | | 40,314,472 |
| | | ----- |
| TOTAL FINANCE..... | | 44,273,768 |
| | | ----- |

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

INVESTMENTS/FEBRUARY 29, 2004 (unaudited) (continued)

| | SHARES | US\$ VALUE (NOTE 1) |
|--------------------------------------|-----------|---------------------------|
| | ----- | ----- |
| COMMON STOCKS -- continued | | |
| NONDURABLES -- 0.4% | | |
| FOODS -- 0.4% | | |
| Uni-President Enterprises Corp. | 1,838,000 | \$ 1,083,453 |
| | | ----- |
| OTHERS & MISCELLANEOUS -- 2.2% | | |
| OTHERS & MISCELLANEOUS -- 2.2% | | |
| CTCI Corp. | 533,000 | 448,842 |

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| | | |
|---|-----------|------------|
| Giant Manufacturing Co. Ltd. | 320,000 | 429,233 |
| National Petroleum Co. Ltd. | 795,000 | 612,090 |
| Nien Made Enterprise Co. Ltd. | 244,000 | 447,639 |
| Pou Chen Corp. | 975,000 | 1,128,947 |
| Taiwan Hon Chuan Enterprise Co. Ltd. | 1,309,000 | 1,929,053 |
| Ton Yi Industrial Corp. (a)..... | 1,456,000 | 529,853 |
| | | ----- |
| | | 5,525,657 |
| | | ----- |
| TOTAL OTHERS & MISCELLANEOUS..... | | 5,525,657 |
| | | ----- |
| RETAIL & WHOLESALE -- 0.7% | | |
| GENERAL MERCHANDISE STORES -- 0.7% | | |
| Far Eastern Department Stores (a).... | 1,267,000 | 689,705 |
| President Chain Store Corp. | 467,000 | 941,023 |
| | | ----- |
| | | 1,630,728 |
| | | ----- |
| TOTAL RETAIL & WHOLESALE..... | | 1,630,728 |
| | | ----- |
| TECHNOLOGY -- 50.9% | | |
| COMPUTER SERVICE & SOFTWARE -- 0.2% | | |
| Springsoft, Inc. | 174,000 | 481,444 |
| | | ----- |
| ELECTRONICS -- 10.5% | | |
| Asia Optical Co., Inc. | 72,000 | 630,135 |
| Au Optronics Corp. | 5,529,000 | 9,228,857 |
| Audix Corp. | 328,000 | 557,353 |
| Cheng Uei Precision Industry Co. Ltd. | 12,000 | 25,263 |
| Chi Mei Optoelectronics Corp. (a).... | 1,254,000 | 1,870,629 |
| Chungwha Picture Tubes Ltd. (a)..... | 2,305,000 | 1,351,805 |
| CMC Magnetics Corp. (a)..... | 1,182,000 | 1,023,808 |
| Compeq Manufacturing Co. Inc. (a).... | 969,000 | 562,457 |
| Delta Electronics, Inc. | 609,000 | 824,211 |
| Everlight Electronics Co. Ltd. | 659,000 | 1,347,729 |
| Formosa Epitaxy Inc. (a)..... | 386,000 | 626,887 |
| Holy Stone Enterprise Co. Ltd. | 267,000 | 542,030 |
| Largan Precision Co. Ltd. | 40,000 | 487,218 |
| Optimax Technology Corp. | 194,000 | 708,902 |
| Quanta Display Inc. (a)..... | 1,545,000 | 1,012,962 |
| Spi Electronic Co. Ltd. | 203,000 | 402,947 |
| Unimicron Technology Corp. | 3,139,000 | 2,690,572 |
| Wintek Corp..... | 504,000 | 522,947 |
| | | |
| | | US\$ |
| | | VALUE |
| | SHARES | (NOTE 1) |
| | ----- | ----- |
| Ya Hsing Industrial Co. Ltd. | 507,000 | \$ 748,683 |
| Yageo Corp. (a)..... | 1,688,000 | 908,728 |
| | | ----- |
| | | 26,074,123 |
| | | ----- |
| PC & PERIPHERALS -- 12.4% | | |
| Acer, Inc. | 671,000 | 1,059,474 |
| Advantech Co. Ltd. | 288,000 | 588,992 |

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|---|-----------|-----------|
| AmTRAN Technology Co. Ltd. | 492,000 | 507,537 |
| Aopen, Inc. | 309,000 | 297,383 |
| Asustek Computer, Inc. | 1,860,000 | 4,894,737 |
| Benq Corp. | 2,715,000 | 3,747,925 |
| Compal Electronics, Inc. | 1,128,000 | 1,526,617 |
| Gigabyte Technology Co. Ltd. | 274,000 | 519,158 |
| High Tech Computer Corp. | 172,000 | 703,519 |
| Hon Hai Precision Industry Co. Ltd. | 1,869,000 | 8,319,158 |
| Inventec Co. Ltd. | 1,090,000 | 721,203 |
| Lite-On Technology Corp. | 871,000 | 1,074,015 |
| Micro-Star International Co. Ltd. ... | 313,000 | 517,744 |
| Premier Image Technology Corp. | 306,000 | 515,368 |
| Quanta Computer, Inc. | 1,677,000 | 4,261,850 |
| Synnex Technology International Corp. | 399,000 | 696,000 |
| Wistron Corp. | 741,000 | 650,743 |

30,601,423

SEMI-CONDUCTOR -- 21.5%

| | | |
|--|------------|------------|
| Advanced Semiconductor Engineering, Inc. (a)..... | 5,974,000 | 6,755,561 |
| Edom Technology Co. Ltd. | 294,000 | 543,789 |
| Elite Semiconductor Memory Technology Inc. | 156,000 | 433,985 |
| Faraday Technology Corp. | 186,000 | 478,286 |
| King Yuan Electronics Co. Ltd (a).... | 428,000 | 581,823 |
| MediaTek, Inc. | 551,000 | 6,264,000 |
| Nanya Technology Corp. (a)..... | 1,420,000 | 1,050,587 |
| Novatek Microelectronics Corp. Ltd. | 588,000 | 2,387,368 |
| Realtek Semiconductor Corp. | 273,000 | 509,053 |
| Richtek Technology Corp. (a)..... | 114,000 | 716,571 |
| Sigurd Microelectronics Corp. | 367,000 | 634,662 |
| Siliconware Precision Industries Co. (a)..... | 750,000 | 818,797 |
| Sunplus Technology Co. Ltd. | 1,000,000 | 2,255,639 |
| Taiwan Semiconductor Manufacturing Co. (a)..... | 9,079,000 | 17,338,842 |
| Transcend Information Co. Ltd. | 136,000 | 345,624 |
| United Microelectronics Corp. Ltd. (a)..... | 10,406,000 | 9,514,057 |
| Via Technologies, Inc. | 579,000 | 785,350 |
| Weikeng Industrial Co. Ltd. | 581,000 | 426,358 |
| Winbond Electronics Corp. (a)..... | 1,950,000 | 1,038,045 |
| Yosun Industrial Corp. | 297,000 | 360,866 |

53,239,263

TELECOMMUNICATIONS -- 6.3%

| | | |
|------------------------------|---------|---------|
| Abocom Systems Inc. | 767,000 | 525,943 |
| Accton Technology Corp. | 508,000 | 453,762 |

The accompanying notes are an integral part of the financial statements. 9

INVESTMENTS/FEBRUARY 29, 2004 (unaudited) (continued)

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| | SHARES ----- | US\$ VALUE (NOTE 1) ----- |
|--|--------------------------------------|------------------------------------|
| COMMON STOCKS -- continued | | |
| TELECOMMUNICATIONS -- continued | | |
| Ambit Microsystems Corp. | 159,000 | \$ 463,850 |
| Askey Computer Co. | 589,000 | 434,000 |
| Chunghwa Telecom Co. Ltd. | 4,016,000 | 6,582,617 |
| CyberTAN Technology Inc. | 308,000 | 467,789 |
| D-Link Corp. | 363,000 | 458,526 |
| Gemtek Technology Corp. | 197,000 | 527,308 |
| Ichia Technologies, Inc. | 1,176,000 | 2,511,158 |
| Meiloon Industrial Co. Ltd. | 467,000 | 688,210 |
| Microelectronics Technology Inc. (a)..... | 862,000 | 471,832 |
| Taiwan Cellular Corp. | 1,472,000 | 1,425,516 |
| Zyxel Communications Corp. | 209,000 | 487,143 |
| | | ----- |
| | | 15,497,654 |
| | | ----- |
| TOTAL TECHNOLOGY..... | | 125,893,907 |
| | | ----- |
| TRANSPORTATION -- 3.7% | | |
| AIR TRAVEL -- 0.8% | | |
| China Airlines (a)..... | 1,773,000 | 1,077,131 |
| EVA Airways Corp. | 1,654,000 | 910,321 |
| | | ----- |
| | | 1,987,452 |
| | | ----- |
| SHIPPING -- 2.9% | | |
| Evergreen Marine Corp. | 881,000 | 964,463 |
| Wan Hai Lines Ltd. | 551,000 | 575,029 |
| Yang Ming Marine Transport..... | 4,544,000 | 5,534,797 |
| | | ----- |
| | | 7,074,289 |
| | | ----- |
| TOTAL TRANSPORTATION..... | | 9,061,741 |
| | | ----- |
| TOTAL COMMON STOCKS (Identified Cost -- \$152,836,149)..... | | |
| | | 242,580,317 |
| | | ----- |
| | PRINCIPAL AMOUNT NT\$ ----- | |
| COMMERCIAL PAPER -- 1.5% | | |
| Chiao Tung Bank | | |
| 00.80%, 5/19/04 (b)..... | 14,964,121 | 450,049 |
| Fu Sheng Group | | |
| 00.90%, 4/08/04 (b)..... | 39,902,339 | 1,200,070 |
| Haojey Co Ltd | | |
| 00.775%, 3/08/04 (b)..... | 33,086 | 995 |
| Tai Shin Enterprise | | |
| 00.80%, 5/31/04 (b)..... | 19,947,967 | 599,939 |

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| | PRINCIPAL AMOUNT NT\$ ----- | US\$ VALUE (NOTE 1) ----- |
|---|--------------------------------------|------------------------------------|
| COMMERCIAL PAPER -- continued | | |
| Teco Electric & Machinery Ltd. 00.82%, 3/25/04 (b)..... | 37,463,326 | \$ 1,126,717 |
| Totalife International Co. Ltd. 00.82%, 3/31/04 (b)..... | 9,986,889 | 300,357 ----- |
| TOTAL COMMERCIAL PAPER (Identified Cost -- \$3,665,459)..... | | 3,678,127 ----- |
| | Maturity Amount US\$ ----- | |
| REPURCHASE AGREEMENTS -- 0.4% | | |
| State Street Bank and Trust Co. 0.050% dated 2/23/04 due 3/1/04 (collateralized by U.S. Treasury Note 8.750%, 5/15/20, market value \$959,563)..... | \$ 937,009 | 937,000 ----- |
| TOTAL INVESTMENTS -- 100% (Cost -- \$157,438,608)..... | | \$247,195,444 ===== |

LEGEND:

US\$ - United States dollar

NT\$ - New Taiwan dollar

(a) Non-income producing

(b) Certificates of Deposit and Commercial Paper that are traded through Bills Finance Corporations must be guaranteed by either a bank, a trust company or a Bills Finance Corporation. Since there is no recognized credit rating system in the Republic of China, the guarantee may not be comparable to a guarantee issued by a U.S. institution.

INCOME TAX INFORMATION:

At February 29, 2004, the aggregate cost basis of the Fund's investment securities for income tax purposes was \$157,693,814.

Net unrealized appreciation of the Fund's investment securities was \$89,501,630 of which \$90,380,506 related to appreciated investment securities and \$878,876 related to depreciated investment securities. In addition, as of August 31, 2003, the Fund's last fiscal year end, the Fund had a capital loss carryforward of \$82,718,763 for Federal income tax purposes which may be utilized to offset future capital gains through August 31, 2009 (\$18,722,303), August 31, 2010 (\$39,995,101) and August 31, 2011 (\$24,001,359). As of August 31, 2003, the Fund elected for Federal income tax purposes to defer \$9,650,144 in current year post October 31 capital losses as though the losses were incurred on the first day of the next fiscal year.

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

FINANCIAL STATEMENTS

STATEMENTS OF ASSETS AND LIABILITIES

February 29, 2004 (Unaudited)

ASSETS

| | |
|---|---------------|
| Investments in securities, at value (cost \$157,438,608) (Notes 1 and 2) - See accompanying schedule..... | \$247,195,444 |
| Cash..... | 952 |
| Cash in New Taiwan dollars (cost \$258,146)..... | 256,981 |
| Receivable for investments sold..... | 23,085,804 |
| Interest receivable..... | 2,239 |
| | ----- |
| Total assets..... | 270,541,420 |
| | ----- |

LIABILITIES

| | | |
|---|------------|--|
| Payable for investments purchased..... | 21,762,386 | |
| Accrued management fee (Note 3)..... | 154,036 | |
| Taiwan withholding tax payable (Note 1)..... | 443 | |
| Other payables and accrued expenses..... | 184,824 | |
| | ----- | |
| Total liabilities..... | 22,101,689 | |
| | ----- | |

| | |
|-----------------|---------------|
| NET ASSETS..... | \$248,439,731 |
| | ----- |
| | ===== |

Net Assets consist of (Note 1):

| | |
|--|--------------|
| Paid in capital..... | 242,144,109 |
| Undistributed net investment loss..... | (1,849,656) |
| Accumulated undistributed net realized loss on investments in securities and foreign currency..... | (81,604,741) |
| Net unrealized appreciation on investment securities and foreign currency..... | 89,750,019 |
| | ----- |

| | |
|-----------------|---------------|
| NET ASSETS..... | \$248,439,731 |
| | ----- |
| | ===== |

| | |
|---|---------|
| NET ASSET VALUE, per share (\$248,439,731/ 16,365,572 shares outstanding)..... | \$15.18 |
| | ----- |
| | ===== |

STATEMENTS OF OPERATIONS

Six Months Ended February 29, 2004 (Unaudited)

INVESTMENT INCOME

| | | |
|--|------------|--|
| Dividends..... | \$ 103,421 | |
| Interest..... | 15,163 | |
| | ----- | |
| | 118,584 | |
| Less: Taiwan withholding tax (Note 1)..... | (10,771) | |

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| | | |
|---|--------------|------------------------|
| Total Income..... | | ----- 107,813 |
| EXPENSES: | | |
| Management fee (Note 3) | | |
| Basic fee..... | \$ 1,439,244 | |
| Performance adjustment..... | (337,371) | |
| Custodian fees and expenses..... | 186,609 | |
| Administration and accounting fees (Note 3)..... | 110,946 | |
| Directors compensation (Note 3)..... | 168,024 | |
| Legal..... | 223,686 | |
| Audit..... | 28,568 | |
| Shareholder communications..... | 20,626 | |
| Delaware franchise tax..... | 23,303 | |
| Insurance fees..... | 40,040 | |
| Miscellaneous..... | 22,163 | |
| Transfer agent fees..... | 11,102 | |
| Taiwan stock dividend tax (Note 1)..... | 20,529 | |
| | ----- | |
| Total expenses..... | | 1,957,469 |
| | | ----- |
| NET INVESTMENT LOSS..... | | (1,849,656) |
| | | ----- |
| REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS (NOTE 1) | | |
| Net realized gain on: | | |
| Investment securities..... | 10,992,844 | |
| Foreign currency transactions..... | 21,852 | |
| | ----- | |
| | | 11,014,696 |
| Change in net unrealized appreciation on: | | |
| Investment securities..... | 29,439,596 | |
| Assets and liabilities denominated in foreign currencies..... | (14,129) | |
| | ----- | |
| | | 29,425,467 |
| | | ----- |
| Net realized and unrealized gain..... | | 40,440,163 |
| | | ----- |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS..... | | \$ 38,590,507 ===== |

The accompanying notes are an integral part of the financial statements. 11

FINANCIAL STATEMENTS (continued)

STATEMENTS OF CHANGES IN NET ASSETS

Six Months Ended
February 29,
2004

Year Ended
August 31, 2003

(Unaudited)

INCREASE (DECREASE) IN NET ASSETS

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| | | |
|--|----------------|--------------|
| Operations: | | |
| Net investment loss..... | \$ (1,849,656) | \$ (101,994) |
| Net realized gain (loss) on investments and foreign currency transactions..... | 11,014,696 | (18,213,889) |
| Change in net unrealized appreciation on investments and foreign currency transactions..... | 29,425,467 | 43,111,605 |
| | ----- | ----- |
| Net increase in net assets resulting from operations..... | 38,590,507 | 24,795,722 |
| | ----- | ----- |
| NET ASSETS | | |
| Beginning of period..... | 209,849,224 | 185,053,502 |
| | ----- | ----- |
| End of period..... | 248,439,731 | 209,849,224 |
| | ===== | ===== |
| Undistributed Net Investment Loss | | |
| End of period..... | \$ (1,849,656) | \$ -- |
| | ===== | ===== |

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

FINANCIAL STATEMENTS (continued)

FINANCIAL HIGHLIGHTS

| | Six Months Ended February 29, 2004 (Unaudited) | Year Ended August 31 | | |
|--|--|----------------------|-----------|-----------|
| | | 2003 | 2002 | 2001 |
| SELECTED PER SHARE DATA | | | | |
| Net asset value, beginning of period.... | \$ 12.82 | \$ 11.31 | \$ 10.75 | \$ 21.42 |
| | ----- | ----- | ----- | ----- |
| Income from Investment Operations | | | | |
| Net investment loss(a)..... | (0.11) | (0.01) | (0.12) | (0.21) |
| Net realized and unrealized gain (loss) on investments..... | 2.47 | 1.52 | 0.68 | (10.26) |
| | ----- | ----- | ----- | ----- |
| Total from investment operations..... | 2.36 | 1.51 | 0.56 | (10.47) |
| | ----- | ----- | ----- | ----- |
| Less Distributions | | | | |
| From net realized gains..... | -- | -- | -- | (0.20) |
| | ----- | ----- | ----- | ----- |
| Total distributions..... | -- | -- | -- | (0.20) |
| | ----- | ----- | ----- | ----- |
| Net asset value, end of period..... | \$ 15.18 | \$ 12.82 | \$ 11.31 | \$ 10.75 |
| | ===== | ===== | ===== | ===== |
| Market value, end of period..... | \$ 13.61 | \$ 11.09 | \$ 9.27 | \$ 9.88 |
| | ===== | ===== | ===== | ===== |
| TOTAL RETURN | | | | |
| Per share market value..... | 22.72% | 19.63% | (6.17)% | (43.16)% |
| RATIO AND SUPPLEMENTAL DATA | | | | |
| Net assets, end of period (000 omitted)..... | \$248,440 | \$209,849 | \$185,054 | \$175,962 |
| Ratio of expenses to average net assets(b)..... | 1.77% (c) | 2.12% | 2.20% | 2.63% |

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| | | | | |
|--|-------------|---------|---------|---------|
| Ratio of expenses to average net assets, excluding stock dividend tax expense... | 1.75% (c) | 1.83% | 1.98% | 2.15% |
| Ratio of net investment loss to average net assets..... | (1.67)% (c) | (0.06)% | (0.97)% | (1.50)% |
| Portfolio turnover rate..... | 30% | 148% | 167% | 125% |

- (a) Based on average shares outstanding during the period.
- (b) Expense ratio includes 20% tax paid on stock dividends received by the Fund.
- (c) Annualized
- (d) Net investment loss per share reflects a regular dividend from China Steel Corp. of \$0.04 per share. (Based on shares outstanding at 8/31/99.)

The accompanying notes are an integral part of the financial statements. 13

NOTES TO FINANCIAL STATEMENTS (unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

The Taiwan Fund, Inc. (the "Fund"), a Delaware corporation, is registered under the Investment Company Act of 1940, as amended (the "Act"), as a diversified closed-end management investment company.

The Fund is not permitted to invest directly in the securities of Republic of China ("ROC") companies. Therefore, it invests through a contractual securities investment trust fund arrangement. This arrangement was established by means of the Securities Investment Trust, Investment Management and Custodian Contract ("Management Contract") among HSBC Asset Management (Taiwan) Limited ("Adviser"), the International Commercial Bank of China (Custodian), and the Fund. Under the Management Contract the Adviser manages and invests the assets of the Fund and the Custodian holds the assets. The Fund is the sole beneficiary of the assets held under the Management Contract and, as required by ROC regulations, its interest in the assets is evidenced by units of beneficial interest.

The Fund concentrates its investments in the securities listed on the Taiwan Stock Exchange. Because of this concentration, the Fund may be subject to additional risks resulting from future political or economic conditions in Taiwan and the possible imposition of adverse governmental laws of currency exchange restrictions affecting Taiwan.

The policies described below are consistently followed by the Fund in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America.

Security Valuation. All securities, including those traded over-the-counter, for which market quotations are readily available are valued at the last sales price prior to the time of determination of the Fund's net asset value per share or, if there were no sales on such date, at the closing price quoted for such securities (but if bid and asked quotations are available, at the mean between the last current bid and asked prices, rather than such quoted closing price). In certain instances where the price determined above may not represent fair market value, the value is determined in such manner as the Board of Directors may prescribe. Short-term investments, having a maturity of 60 days or less are valued at amortized cost, which approximates market value, with accrued interest or discount earned included in interest receivable.

Repurchase Agreements. In connection with transactions in repurchase agreements, it is the Fund's policy that its custodian take possession of the

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underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction, including accrued interest, at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the Fund may be delayed or limited.

Foreign Currency Translation. The financial accounting records of the Fund are maintained in U.S. dollars. Investment securities, other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current exchange rate. Purchases and sales of securities, income receipts, and expense payments are translated into U.S. dollars at the exchange rate on the dates of the transactions.

Reported net realized gains and losses on foreign currency transactions represent net gains and losses from disposition of foreign currencies, currency gains and losses realized between the trade dates and settlement dates of security transactions, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. The effects of changes in foreign currency exchange rates on investments in securities are not segregated in the Statement of Operations from the effects of changes in market prices of those securities, but are included in realized and unrealized gain or loss on investments in securities.

Forward Foreign Currency Transactions. A forward foreign currency contract ("Forward") is an agreement between two parties to buy or sell currency at a set price on a future

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NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

1. SIGNIFICANT ACCOUNTING POLICIES - continued

date. The Fund may enter into Forwards in order to hedge foreign currency risk or for other risk management purposes. Realized gains or losses on Forwards include net gains or losses on contracts that have matured or which the Fund has terminated by entering into an offsetting closing transaction. Unrealized appreciation or depreciation of Forwards is included in the Statement of Assets and Liabilities and is measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the rates at the reporting date. The portfolio could be exposed to risk of loss if the counterparty is unable to meet the terms of the contract or if the value of the currency changes unfavorably. As of February 29, 2004, the Fund had no open Forwards.

Taxes. As a qualified regulated investment company under Subchapter M of the Internal Revenue Code, the Fund is not subject to income taxes to the extent that it distributes all of its investment company taxable income and net realized capital gains for its fiscal year. In addition to federal income tax for which the Fund is liable on undistributed amounts, the Fund is subject to federal excise tax on undistributed investment company taxable income and net realized capital gains. The Schedule of Investments includes information regarding income taxes under the caption "Income Tax Information." The Fund is organized in Delaware and as such is required to pay Delaware an annual franchise tax. Also, the Fund is currently subject to a Taiwan security transaction tax of 0.3% on equities and 0.1% on mutual fund shares of the transaction amount.

The Fund's functional currency for tax reporting purposes is the New Taiwan dollar.

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Investment Income. Dividend income is recorded on the ex-dividend date, except where the ex-dividend date may have passed; certain dividends from foreign securities are recorded as soon as the Fund is informed of the ex-dividend date.

Taiwanese companies typically declare dividends in the fund's third fiscal quarter of each year. As a result, the Fund receives substantially less dividend income in the first half of its year. Interest income, which includes accretion of original discount, is accrued as earned.

Dividend and interest income generated in Taiwan is subject to a 20% withholding tax. Stock dividends received (except those which have resulted from capitalization of capital surplus) are taxable at 20% of the par value of the stock dividends received.

Distributions to Shareholders. The distributable income from the assets held under the Management Contract, which is limited to cash dividends and interest income received, may be distributed to the Fund only once in each year at the Fund's discretion and is recorded on the ex-dividend date. Realized capital gains and stock dividends may also be distributed to the Fund. Within the above limitations the Fund will, under current ROC regulations, be able to remit out of the ROC the proceeds of income and capital gains distributions, unit redemptions and other distributions of assets held under the Management Contract.

The Fund distributes to shareholders at least annually, substantially all of its taxable ordinary income and expects to distribute its taxable net realized gains. Certain foreign currency gains (losses) are taxable as ordinary income and, therefore, increase (decrease) taxable ordinary income available for distribution. Pursuant to the Dividend Reinvestment and Cash Purchase Plan (the "Plan"), shareholders may elect to have all distributions automatically reinvested in Fund shares. (See the summary of the Plan.) Shareholders who do not participate in the Plan will receive all distributions in cash paid by check in U.S. dollars. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. These differences are primarily due to differing treatments for foreign currency transactions, losses deferred due to wash sales, and excise tax regulations. Permanent

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NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

1. SIGNIFICANT ACCOUNTING POLICIES - continued

book and tax basis differences relating to shareholder distributions will result in reclassifications to paid in capital.

Security Transactions. Security transactions are accounted for as of the trade date. Gains and losses on securities sold are determined on the basis of identified cost.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. PURCHASES AND SALES OF SECURITIES

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For the six months ended February 29, 2004, purchases and sales of securities, other than short-term securities, aggregated \$67,393,796 and \$65,996,161, respectively.

3. FEES AND OTHER TRANSACTIONS WITH AFFILIATES

Management Fee. As the Fund's investment adviser, HSBC receives a fee that is computed daily at an annual rate of 1.30% of the Fund's average net assets. The basic fee is subject to a performance adjustment (up to a maximum of + or -0.30%) based on the Fund's investment performance as compared to the Taiwan Stock Exchange Index over a rolling 36-month period.

For the six months ended February 29, 2004, the management fee, including the performance adjustments, was equivalent to an annual rate of 1.00% of average net assets.

Directors Fees. No director, officer or employee of the Adviser or its affiliates will receive any compensation from the Fund for serving as an officer or director of the Fund. The Fund pays each of its directors who is not a director, officer or employee of the Adviser an annual fee of \$10,000 plus \$2,000 for each Board of Directors' meeting or Audit Committee meeting attended, and \$1,000 for each meeting attended by telephone. In addition, the Fund will reimburse each of the directors for travel and out-of-pocket expenses incurred in connection with Board of Directors' meetings.

Administration Fees. State Street Corporation ("State Street") provides, or arranges for the provision of certain administrative and accounting services for the Fund, including maintaining the books and records of the Fund, and preparing certain reports and other documents required by federal and/or state laws and regulations. The Fund pays State Street a fee at the annual rate of 0.11% of the Fund's average daily net assets up to \$150 million, 0.08% of the next \$150 million, and 0.05% of those assets in excess of \$300 million, subject to certain minimum requirements.

4. FUND SHARES

At February 29, 2004, there were 20,000,000 shares of \$0.01 par value capital stock authorized, of which 16,365,572 were issued and outstanding.

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OTHER INFORMATION

----- RESULTS OF ANNUAL STOCKHOLDER MEETING VOTING HELD JANUARY 26, 2004

1. Election of Directors -- The stockholders of the Fund elected M. Christopher Canavan Jr., David Dean, Benny T. Hu, Lawrence J. Lau, Anthony Kai Yiu Lo, Joe O. Rogers, Jack C. Tang, Gloria Wang, Lawrence Weber, and Shao-Yu Wang to the Board of Directors to hold office until their successors are elected and qualified.

| | FOR ----- | WITHHELD ----- |
|-------------------------------|--------------|-------------------|
| Benny T. Hu | 9,566,360 | 44,114 |
| Anthony Kai Yiu Lo | 9,566,189 | 44,285 |
| M. Christopher Canavan Jr. | 9,565,678 | 44,796 |

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| | | |
|-----------------|-----------|--------|
| Lawrence J. Lau | 9,562,878 | 47,596 |
| Joe O. Rogers | 9,559,814 | 50,659 |

| | FOR | WITHHELD |
|-------------------|-----------|-----------|
| | ----- | ----- |
| Lawrence F. Weber | 9,552,805 | 57,669 |
| Gloria Wang | 8,440,062 | 1,170,412 |
| Jack C. Tang | 8,428,848 | 1,181,626 |
| David Dean | 8,428,381 | 1,182,092 |
| Shao-Yu Wang | 8,426,554 | 1,183,919 |

SHARE REPURCHASE PROGRAM

The Board of Directors of the Fund, at a meeting held on April 23, 2001, authorized the Fund to repurchase up to 15% of the Fund's outstanding shares of common stock. The Fund will purchase such shares in the open market at times and prices determined by management of the Fund to be in the best interest of stockholders of the Fund. As of February 29, 2004, no shares had been repurchased by the Fund.

PRIVACY POLICY

PRIVACY NOTICE

The Taiwan Fund, Inc. collects nonpublic personal information about its shareholders from the following sources:

- [] Information it receives from shareholders on applications or other forms;
- [] Information about shareholder transactions with the Fund, its affiliates, or others; and
- [] Information it receives from a consumer reporting agency.

THE FUND'S POLICY IS TO NOT DISCLOSE NONPUBLIC PERSONAL INFORMATION ABOUT ITS SHAREHOLDERS TO NONAFFILIATED THIRD PARTIES (OTHER THAN DISCLOSURES PERMITTED BY LAW).

The Fund restricts access to nonpublic personal information about its shareholders to those agents of the Fund who need to know that information to provide products or services to shareholders. The Fund maintains physical, electronic, and procedural safeguards that comply with federal standards to guard it shareholders' nonpublic personal information.

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OTHER INFORMATION (continued)

PROXY VOTING POLICIES AND PROCEDURES

A description of the policies and procedures that are used by the Fund's investment adviser to vote proxies relating to the Fund's portfolio securities is available (1) without charge, upon request, by calling 1-800-636-9242; and (2) as an exhibit to the Fund's annual report on Form N-CSR, which is available on the website of the Securities and Exchange Commission (the "Commission") at <http://www.sec.gov>. Information regarding how the investment adviser votes these proxies will become available by calling the same number and on the Commission's website when the Fund files its first report on Form N-PX, which is due by

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August 31, 2004, covering the Fund's proxy voting record for the 12-month period ending June 30, 2004.

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SUMMARY OF DIVIDEND REINVESTMENT AND

CASH PURCHASE PLAN

WHAT IS THE DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN?

The Dividend Reinvestment and Cash Purchase Plan (the "Plan") offers shareholders of The Taiwan Fund, Inc. (the "Fund") a prompt and simple way to reinvest their dividends and capital gains distributions in shares of the Fund. The Fund will distribute to shareholders, at least annually, substantially all of its net income and expects to distribute annually its net realized capital gains. Equiserve Trust Company, N.A. ("Equiserve" or the "Plan Administrator"), a federally chartered trust institution, acts as Plan Administrator for shareholders in administering the Plan. The Plan also allows you to make optional cash investments in Fund shares through the Plan Administrator.

WHO CAN PARTICIPATE IN THE PLAN?

If you own shares in your own name, you can elect to participate directly in the Plan. If you own shares that are held in the name of a brokerage firm, bank, or other nominee, you should contact your nominee to arrange for them to participate on your behalf.

WHAT DOES THE PLAN OFFER?

The Plan has two components; reinvestment of dividends and capital gains distributions, and a voluntary cash purchase feature.

REINVESTMENT OF DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS

If you choose to participate in the Plan, your dividends and capital gains distributions will be promptly invested for you, automatically increasing your holdings in the Fund. If the Fund declares a dividend or capital gains distribution payable in cash, you will automatically receive shares purchased by the Plan Administrator on the New York Stock Exchange or otherwise on the open market.

If a distribution is declared which is payable in shares or cash at the option of the shareholder and if on the valuation date (generally the payable date) the market price of shares is equal to or exceeds their net asset value, the Fund will issue new shares to you at the greater of the following: (a) net asset value per share or (b) 95% of the market price per share. If the market price per share on the valuation date is less than the net asset value per share, the Fund will issue new shares to you at the market price per share on the valuation date.

All reinvestments are in full and fractional shares, carried to three decimal places. In the case of foreign (non-U.S.) shareholders, reinvestment will be made net of applicable withholding tax.

VOLUNTARY CASH PURCHASE OPTION

Plan participants have the option of making investments in Fund shares through the Plan Administrator. You may invest any amount from \$100 to \$3,000 semi-annually. The Plan Administrator will purchase shares for you on the New

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York Stock Exchange or otherwise on the open market on or about February 15 and August 15. If you hold shares in your own name, you should deal directly with the Plan Administrator. We suggest you send your check to the following address to be received on or about February 5 or August 5 to allow time for processing: Equiserve, c/o The Taiwan Fund, Inc. at P.O. Box 43010, Providence, RI 02940-3010. The Plan Administrator will return any cash payments received more than thirty days prior to February 15 or August 15, and you will not receive interest on uninvested cash payments. If you own shares that are held in the name of a brokerage firm, bank, or other nominee, you should contact your nominee to arrange for them to participate in the cash purchase option on your behalf.

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SUMMARY OF DIVIDEND REINVESTMENT AND

CASH PURCHASE PLAN (continued)

IS THERE A COST TO PARTICIPATE?

Each participant will pay a pro rata portion of brokerage commissions payable with respect to purchases of shares by the Plan Administrator on the New York Stock Exchange or otherwise on the open market. Otherwise, there is no charge to participants for reinvesting dividends and capital gains distributions, since the Plan Administrator's fees are paid by the Fund. Brokerage charges for purchasing shares through the Plan are expected to be less than the usual brokerage charges for individual transactions, because the Plan Administrator will purchase stock for all participants in blocks, resulting in lower commissions for each individual participant.

For purchases from voluntary cash payments, participants are charged a service fee of \$.75 for each investment and a pro rata share of the brokerage commissions.

Brokerage commissions and service fees, if any, will be deducted from amounts to be invested.

WHAT ARE THE TAX IMPLICATIONS FOR PARTICIPANTS?

You will receive tax information annually for your personal records and to help you prepare your federal income tax return. The automatic reinvestment of dividends and capital gains distributions does not relieve you of any income tax which may be payable on dividends or distributions.

If the Fund issues shares upon reinvestment of a dividend or capital gains distribution, for U.S. federal income tax purposes, the amount reportable in respect of the reinvested amount of the dividend or distribution will be the fair market value of the shares received as of the payment date, which will be reportable as ordinary dividend income and/or long term capital gains. The shares will have a tax basis equal to such fair market value, and the holding period for the shares will begin on the day after the payment date. State, local and foreign taxes may also be applicable.

ONCE ENROLLED IN THE PLAN, MAY I WITHDRAW FROM IT?

You may withdraw from the Plan without penalty at any time by written notice to the Plan Administrator.

If you withdraw, you will receive, without charge, stock certificates issued in your name for all full shares, or, if you wish, the Plan Administrator will sell your shares and send you the proceeds, less a service fee of \$2.50 and less

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brokerage commissions. The Plan Administrator will convert any fractional shares you hold at the time of your withdrawal to cash at the current market price and send you a check for the proceeds.

WHOM SHOULD I CONTACT FOR ADDITIONAL INFORMATION?

If you hold shares in your own name, please address all notices, correspondence, questions, or other communications regarding the Plan to: Equiserve, c/o The Taiwan Fund, Inc. at P.O. Box 43010, Providence, RI 02940-3010, 1-800-426-5523. If your shares are not held in your name, you should contact your brokerage firm, bank, or other nominee for more information and to arrange for them to participate in the Plan on your behalf.

Either the Fund or the Plan Agent may amend or terminate the Plan. Except in the case of amendments necessary or appropriate to comply with applicable law, rules or policies or a regulatory authority, participants will be mailed written notice at least 90 days before the effective date of any amendment. In the case of termination, participants will be mailed written notice at least 90 days before the record date of any dividend or capital gains distribution by the Fund.

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DIRECTORS AND OFFICERS (Unaudited)

 The following table sets forth certain information concerning each of the directors and officers of the Fund.

| NAME, ADDRESS AND (AGE) | PRESENT OFFICE WITH THE FUND | DIRECTOR SINCE | PRINCIPAL OCCUPATION OR EMPLOYMENT DURING PAST FIVE YEARS | DIRECTORSHIP PUBLICLY-HELD |
|--|---------------------------------------|-------------------|---|--|
| ----- | ----- | ----- | ----- | ----- |
| Shao-Yu Wang (80) Apt. 5H No. 56 Tun Hwa South Road, Section 2 Taipei, Taiwan, ROC | Chairman of the Board and Director | 1986 | Chairman of the Board of Trustees, Soochow University (1987-present); Chairman of the Board of Trustees, Min Chuan University, (1986- present); Chairman of the Board of Trustees, Fu-Dan High School (1986-present) Chairman, Evernew Biotech, Inc. (1985-Present); Director, TSR Corp. (1985-present) | -- |
| David Dean (77) 8361 B. Greensboro Drive McLean, Virginia 22102 | Director | 1991 | Senior Advisor of the Chiang-Ching-Kuo Foundation (1990- present) | -- |
| Lawrence J. Lau (58) Stanford University Landau Economics Building, Room 340 | Director | 1998 | Kwoh-Ting Li Professor of Economic Development, Stanford University (1992-present); | Director, Medi Partners Inter Holdings, Inc. (2001-present) |

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579 Serra Mall
Stanford, CA
94305-6072

Director, Stanford
Institute for Economic
Policy Research at
Stanford University
(1997-1999)

Joe O. Rogers (55)
2477 Foxwood Drive
Chapel Hill, NC 27514

Director

1986

Manager, The J-Squared
Team LLC (2003-present)
The Rogers Team LLC,
Organizing Member (July
2001-present); Executive
Vice President, Business
Development, Planet
Portal Inc. (September
1999-May 2001);
President, Rogers
International, Inc.
(September 1986-
September 1999); Vice
President, Business
Development, Thomson
Consulting (1998-1999)

Director, The
Fund, Inc.
(1992-present)

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DIRECTORS AND OFFICERS (continued) (unaudited)

| NAME, ADDRESS AND (AGE) | PRESENT OFFICE WITH THE FUND | DIRECTOR SINCE | PRINCIPAL OCCUPATION OR EMPLOYMENT DURING PAST FIVE YEARS | DIRECTORSHIP PUBLICLY-HELD |
|---|---------------------------------|-------------------|--|--|
| Jack C. Tang (75) Tristate Holdings Ltd. 66-72 Lei Muk Road Kwai Chung New Territories Hong Kong | Director | 1989 | Honorary Chairman (April 2001-present), Co- Chairman (April 1999- April 2001), Chairman & CEO (June 1998-April 1999), Chairman Emeritus (January 1997-June 1998), Tristate Holdings Ltd. | -- |
| Lawrence F. Weber (69) 156 Ide Rd. Williamstown, MA 01267 | Director | 1995 | Independent Consultant (1993-present) | -- |
| M. Christopher Canavan, Jr. (64) 73 Brook Street Wellesley, MA 02482 | Director | 2003 | Independent Consultant (2000-present); Pricewaterhouse Coopers LLP (Coopers & Lybrand) (1972-1999) | Director and C of The Audit C Bruker Bioscie Inc. |
| Anthony Kai Yiu Lo (54) 1201 Sun Hung Kai Centre 30 Harbor Road Wanchai, Hong Kong | Director | 2003 | Founder and Managing Director, Advantage Ltd. (1999-present); Vice Chairman, ABN Amro HG Asia Ltd. (1998-1999) | Member of List Committee, Sto Exchange of Ho Ltd. (1996-pre |

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DIRECTORS AND OFFICERS (continued) (unaudited)

| NAME, ADDRESS AND (AGE) | PRESENT OFFICE WITH THE FUND | DIRECTOR SINCE | PRINCIPAL OCCUPATION OR EMPLOYMENT DURING PAST FIVE YEARS | DIRECTORSHIP PUBLICLY-HELD C |
|---|------------------------------|----------------|---|---|
| ----- | | | | |
| Directors Considered Interested Persons | | | | |
| *Benny T. Hu (54) 29 F, 97 Tun Hwa South Road, Section 2 Taipei, Taiwan, ROC | President and Director | 1993 | Chairman, China Development Industrial Bank (June 2003-present); Chairman, China Development Asset Management Corp. (June 2001-present); Ambassador-at-Large, Republic of China (May 2001-present) | Director, Compa Electronics Inc present); Super Winbond Electro Corp. (2002-pre Director, China Development Fin Holding Corp. (2001-present) |
| *Gloria Wang (48) 99 Tun Hwa South Road, Section 2 Taipei, Taiwan, ROC | Director | 1998 | President, HSBC Asset Management (Taiwan) Limited (February 2002- Present); Vice President, HSBC Asset Management (Taiwan) Limited (1996-February 2002); Secretary and Treasurer of the Fund (1994-October 1998) | -- |
| Carol Wang (38) 99 Tun Hwa South Road, Section 2 Taipei, Taiwan, ROC | Secretary and Treasurer | | Manager of Legal Department, HSBC Asset Management (Taiwan) Limited (April 1994-June 2002); Manager of General Administration Office, HSBC Asset Management (Taiwan) Limited (June 2002-present) | -- |

* Director is considered to be an "interested person" (as defined in the Investment Company Act of 1940, as amended (the "1940 Act")) of the Fund or of the Fund's investment adviser. Ms. Wang is deemed to be an interested person because of her affiliation with the Fund's investment adviser. Mr. Hu is considered to be an interested person because he is the President of the Fund.

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UNITED STATES ADDRESS

The Taiwan Fund, Inc.
225 Franklin Street
Boston, MA
1-800-636-9242
www.thetaiwanfund.com

INVESTMENT ADVISER

HSBC Asset Management (Taiwan) Limited
Taipei, Taiwan

DIRECTORS AND OFFICERS

S.Y. Wang, Chairman of the Board and Director
Benny T. Hu, President and Director
David Dean, Director
Joe O. Rogers, Director
Jack C. Tang, Director
Lawrence J. Lau, Director
Gloria Wang, Director
Lawrence F. Weber, Director
M. Christopher Canavan, Jr., Director
Anthony Kai Yiu Lo, Director
Carol Wang, Secretary and Treasurer
Laurence E. Cranch, Assistant Secretary

ADMINISTRATOR AND ACCOUNTING AGENT

State Street Bank and Trust Company
Boston, MA

CUSTODIANS

The International Commercial Bank of China
Taipei, Taiwan
State Street Bank and Trust Company
Boston, MA

TRANSFER AGENT, DIVIDEND PAYING AGENT AND REGISTRAR

Equiserve Trust Company, N.A.

LEGAL COUNSEL

Clifford Chance US LLP
New York, NY
Lee and Li
Taipei, Taiwan

INDEPENDENT AUDITORS

KPMG LLP
Boston, MA

ITEM 2. CODE OF ETHICS.

Not applicable to this semi-annual report.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable to this semi-annual report.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable to this semi-annual report.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

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Not applicable to this semi-annual report.

ITEM 6. SCHEDULE OF INVESTMENTS.

Not applicable at this time.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable to this semi-annual report.

ITEM 8. [RESERVED]

ITEM 9. CONTROLS AND PROCEDURES.

(a) Within 90 days of the filing date of this Form N-CSR, Benny T. Hu, the registrant's President, and Carol Wang, the registrant's Treasurer, reviewed the registrant's disclosure controls and procedures (the "Procedures") and evaluated their effectiveness. Based on their evaluation, Mr. Hu and Ms. Wang determined that the Procedures adequately ensure that information required to be disclosed by the registrant in its periodic reports is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission's rules and regulations.

(b) Following the discovery of errors in past monthly reports to shareholders, the registrant's procedures for calculating, reviewing and verifying figures in monthly reports have been enhanced significantly, including by adding a reasonability check on historical ratios and verifying historical data, and the registrant's independent accountants have agreed to conduct certain procedures with respect to the monthly reports.

ITEM 10. EXHIBITS

(a) Certifications required by Rule 30a-2(a) of the Investment Company Act of 1940, as amended, and Sections 906 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE TAIWAN FUND, INC.

By: /s/ Benny T. Hu

Benny T. Hu
President of The Taiwan Fund, Inc.

Date: May 6, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934 and the

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Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Benny T. Hu

Benny T. Hu
President of The Taiwan Fund, Inc.

Date: May 6, 2004

By: /s/ Carol Wang

Carol Wang
Treasurer of The Taiwan Fund, Inc.

Date: May 6, 2004