

# THE TAIWAN FUND, INC.<sup>®</sup>

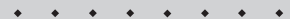


*Annual Report*  
*August 31, 2007*

THE TAIWAN  
FUND, INC.

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Dear Shareholders,

It is my pleasure to present the Annual Report of The Taiwan Fund, Inc. (the "Fund") for the fiscal year ended August 31, 2007. The Fund's net asset value (NAV) was US\$23.73 on August 31, 2007, which increased by 36.5%\* in U.S. dollar terms for the fiscal year. The Taiwan Stock Exchange Index (TAIEX), during the same period, increased by 35.4%\* in U.S. dollar terms in comparison. The Fund outperformed the TAIEX by 0.8% during the fiscal year.

Beginning from this year, the world stock markets have been shaken by two incidents, namely, the sharp fall of Chinese shares at the end of February and the reverse of global markets resulting from sub-prime issues. The Fund outperformed the TAIEX by 1.92% in the first quarter and, 0.64% in August of this year.

At its April 2007 Board meeting, the Board regretfully accepted the resignation of two Board members-my predecessor S. Y. Wang as well as Blair Pickerell. We would like to express our deepest gratitude to Mr. Wang and Mr. Pickerell for their contributions to the Fund over past years. On the other hand, the Board has been joined by two new directors- Mr. Bing Shen and Mr. Michael Holland. We sincerely welcome them and look forward to sharing their wisdom.

On behalf of the Board, I would like to thank you for your continued investment and support of the Fund. We believe that Taiwan will remain one of the favorable places to invest in the Greater China Region.

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."

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### Investment Performance

The Fund's net asset value (NAV) increased by 36.5%\* in U.S. dollar terms for the fiscal year ended August 31, 2007. During the same period, the Taiwan Stock Exchange Index (TAIEX) increased by 35.4%\* in U.S. dollar terms. The Fund outperformed the TAIEX by 0.8% during the year.

The out-performance was due to stock selection. Stock selection in personal computer ("PC") & peripheral, retail, and shipping sectors all contributed to performance during the year.

In the technology sector, the Fund's exposure to the networking company D-Link and IC design company MediaTek positively contributed to performance due to strong earnings growth. PC & peripheral companies such as Hon Hai Precision Industry and Synnex also added to performance. That the Fund was underweight in the financial sector generated a positive performance contribution relative to the benchmark. On the negative side, our overweight position in handset related companies and underweight position in petrochemicals detracted from relative performance during the year.

### Economic Outlook

In the second quarter of 2007, Taiwan's gross domestic product ("GDP") grew by 5.07% year over year, representing the strongest growth since 2005. Thanks to strong fixed capital formation and modest growth in private consumption, real domestic demand showed a 4.72% rebound. In the external sectors, export and import of goods and services increased by 4.62% and 3.98%, respectively. Looking ahead to the second half of 2007, domestic demand is expected to continue to improve. The external sector should remain robust thanks to the export of consumer electronic products and Thin Film Transistor-related products. For the year 2007 as a whole, real GDP is forecasted to grow by 4.58%.

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According to the latest world economic forecast, the world economy in 2008 should continue to show moderate growth. Given Taiwan's strong correlation with the global economy, Taiwan's exports are expected to continue to grow. Taiwan's real GDP is forecasted to grow by 4.51% in 2008, due to a combination of robust exports as well as improved contribution from domestic sectors.

The upcoming presidential election plus resilient demand from China should continue to give strong support to the Taiwan economy well into the first quarter of 2008, with the biggest risk to growth coming mainly from possible weakening of external demand. Because Taiwan is still exposed to the US economy, exports to US will decline if the sub-prime crisis in the US negatively impacts US consumption and business investment. There is increasing speculation on possible improvement in cross-strait relationship after the presidential election in March 2008. Therefore, we believe downside may be limited because of a possible return of capital back into the Taiwan market.

### **Market Review**

The Taiwan equity market was very bullish during the fiscal year ended August 31, 2007. The TAIEX increased by 35.85% in local NT\$. The index consolidated between the 6,500 and 7,500 levels for several months. With the increasing participation of retail investors in the second quarter of 2007, the TAIEX finally broke the 9,000 level to reach 9,807 in mid-July, a seven year high. Concerns about possible ramifications of the US sub-prime crisis led to a pullback. The subsequent sharp correction resulted in the TAIEX trading between 9,807 and 7,987. Late panic selling took the TAIEX briefly below 8,000 in mid- August, followed by a quick rebound to close at 8,982 in the fiscal year ended August 31, 2007.

In terms of sector performance, rubber (up 112.8%), cement (up 101.2%) and textile (up 84.6%) were the best performing sectors. While the worst-performing sectors were tourism (down 4.6%), automobile (up 8.9%) and banking (up 13.2%). Technology sectors in aggregate were up 31.4%.

### **Investment Outlook and Strategy**

After a strong rally in the past twelve months, we believe the market will remain volatile in the near term due to issues such as US

sub-prime related problems. The market remains liquidity driven with domestic investors playing an important role.

Over the mid term, we remain positive on Taiwan, due to: (1) strong corporate earnings (from the China market and tech cycle upturn); (2) liquid conditions; and (3) more market-friendly government policies in the run up to the presidential election in March next year.

As to corporate earnings results and guidance, any disappointment could cause selling since the market has already rebounded strongly and retail investors may prefer to lock in gains if the outlook does not match expectations. Analysis of second-quarter earning results showed that corporate earnings were mostly positive. Consensus numbers are being revised upward, but we have not seen any significant upgrade to 2008 earnings forecasts. Most technology companies delivered decent results but do not have overly exciting outlooks for the second half of 2007. The tech sector pull back was due mostly to concerns about the impact of US sub-prime crisis and its negative impact on US consumer demand. The United States still constitutes approximately 20-25% of global tech demand but the rise of emerging markets in recent years has reduced the dominance of the US market and we anticipate a lower impact on Asian economies from a possible US downturn.

China and emerging markets play a more important role than ever before. As the Chinese economy continues its strong growth, Taiwanese companies that have significant Chinese operations will continue to benefit from their China exposure. China-concept plays are therefore an important theme in the market. While most investors associate sectors such as materials and petrochemicals as beneficiaries of higher growth trends in emerging markets, we believe that technology stocks also may be winners. From consumer electronic to software used for emerging market infrastructure projects, we believe that technology-related stocks will benefit from rapid growth in emerging markets. It appears that exports of computers and electronics may be on the upswing of a new cycle that is likely to last for some time. We think that strong emerging market demand could potentially prove a buffer against any US economic slowdown.

Coordinated moves by central banks worldwide have lowered the risks of a global economic slowdown and uncertainty. This recovery was driven by central banks' efforts to inject funds into the financial system as well as the expectation of interest rate reductions by the US Federal Reserve. As the likely direction of US monetary policy

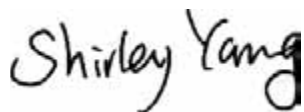
has shifted from tightening to neutral, we expect the Taiwanese central bank to follow the Federal Reserve. Therefore we believe domestic rates in Taiwan will rise only gradually for the remainder of this year.

Based on statistics released by the Financial Supervisory Commission, Taiwanese financial institutions have relatively low exposure to sub-prime mortgage-linked products. The total estimated exposure among Taiwanese financial institutions is estimated to be NT\$75bn, with potential loss estimated at around NT\$2.7bn. The most pessimistic estimate is for a larger loss of up to NT\$7.5bn or around 10% of investments. Nevertheless the total amount of loss is small and the potential negative impact remains well under control.

We remain positive on the Taiwan market in general. The Taiwan government's announcement of a cut in the corporate tax rate to 15% indicates the government's strong determination to boost the stock market. The recent corrections have provided good opportunities to accumulate quality stocks in the expectation of a presidential election cycle rally.

In the year ahead, we will continue to work hard to achieve solid performance through bottom-up stock selection. We believe that the Taiwan stock market and healthy economic conditions will provide good investment opportunities for investors in the foreseeable future. Thank you for your support, and we look forward to presenting our strategy again in the coming reports.

Sincerely,

A handwritten signature in black ink that reads "Shirley Yang". The signature is written in a cursive, flowing style.

Shirley Yang(1)  
Portfolio Manager

(1) Chih-Hui Lee resigned from his position as Portfolio Manager of the Fund, effective June 30, 2007. Ms. Shirley Yang succeeded Mr. Lee as the Fund's lead Portfolio Manager.

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## PORTFOLIO SNAPSHOT\*

### Top Ten Equity Holdings

HOLDINGS AS OF AUGUST 31, 2007	%
MediaTek, Inc.	6.1
Hon Hai Precision Industries Co.	5.8
Taiwan Semiconductor Manufacturing Co.	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
Silicon 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

### Top Ten Equity Holdings

HOLDINGS AS OF AUGUST 31, 2006	%
Hon Hai Precision Industry Co. Ltd.	7.4
High Tech Computer Corp.	6.4
Taiwan Semiconductor Manufacturing Co.	4.4
MediaTek	4.3
Siliconware Precision Industries Co.	4.1
Largan Precision Co. Ltd.	3.9
Cathay Financial Holding Co. Ltd.	3.6
D-Link Corp.	3.4
Au Optronics Corp.	3.3
Cheng Uei Precision Industry Co. Ltd.	3.0

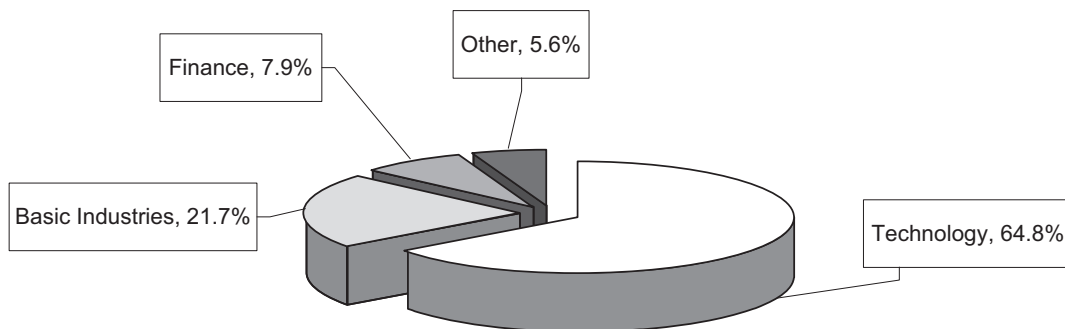
### Top Ten Equity Industry Weightings

WEIGHTINGS AS OF AUGUST 31, 2006	%
Telecommunications	19.3
Electronic Components	14.2
Semiconductor Manufacturing	13.0
PC & Peripherals	12.5
Financial Services	6.9
IC Design	6.8
TFT-LCD	6.2
Electronics	6.1
Memory IC	4.0
Construction	3.5

\* Percentages based on total investments at August 31, 2007 and August 31, 2006.

## SECTOR ALLOCATION

### Sector Allocation (as a percentage of total investments)



Fund holdings are subject to change and percentages shown above are based on total investments as of August 31, 2007. The pie chart illustrates the allocation of the investment by sector. A complete list of holdings as of August 31, 2007 is contained in the Portfolio of Investments included in this report. The most currently available data regarding portfolio holdings and industry allocation can be found on our website, [www.thetaiwanfund.com](http://www.thetaiwanfund.com). You may also obtain updated holdings by calling (800)-636-9242.

# THE TAIWAN FUND, INC.

## Schedule of Investments/August 31, 2007 (Showing Percentage of Net Assets)

	SHARES	US\$ VALUE (NOTE 1)		SHARES	US\$ VALUE (NOTE 1)
<b>COMMON STOCKS — 95.2%</b>					
<b>BASIC INDUSTRIES — 21.4%</b>					
<b>Chemicals — 1.0%</b>					
Asia Polymer Co. Ltd. . . . . .	6,000,000	\$ 3,909,209			
<b>Construction — 4.3%</b>					
Goldsun Development & Construction Co. Ltd. . . . . .	11,271,000	6,387,094			
Ruentex Development Co. Ltd. . . . . .	8,500,000	10,303,343			
		<u>16,690,437</u>			
<b>Glass — 1.1%</b>					
Taiwan Glass Industrial Corp. . . . . .	4,500,000	4,091,033			
<b>Iron &amp; Steel — 4.2%</b>					
China Steel Corp. . . . . .	10,300,000	13,983,454			
Tung Ho Steel Enterprise Corp. . . . . .	1,800,000	2,410,982			
		<u>16,394,436</u>			
<b>Paper — 0.8%</b>					
Long Chen Paper Co. Ltd. . . . . .	7,565,162	3,163,709			
<b>Petroleum Services — 1.1%</b>					
Formosa Petrochemical Corp. . . . . .	1,600,000	4,460,741			
<b>Plastics — 1.4%</b>					
Nan Ya Plastics Corp. . . . . .	2,266,000	5,493,500			
<b>Retail — 0.9%</b>					
Far Eastern Department Stores Co Ltd . . . . .	3,500,000	3,494,803			
<b>Textile — 3.5%</b>					
Far Eastern Textile Co Ltd. . . . . .	3,200,500	3,763,126			
Formosa Taffeta Co. Ltd. . . . . .	8,500,000	9,659,384			
		<u>13,422,510</u>			
<b>Transportation — 3.1%</b>					
U-Ming Marine Transport Corp.* . . . . .	3,200,000	9,522,713			
Yang Ming Marine Transport * . . . . .	3,645,000	2,573,669			
		<u>12,096,382</u>			
TOTAL BASIC INDUSTRIES . . . . .		<u>83,216,760</u>			
<b>FINANCE — 7.8%</b>					
<b>Banks — 1.8%</b>					
Far Eastern International Bank . . . . .	16,000,000	7,151,732			
<b>Financial Services — 6.0%</b>					
Cathay Financial Holding Co. Ltd. . . . . .	5,248,593	\$ 11,690,402			
Fubon Financial Holding Co Ltd. . . . . .	7,000,000	6,035,031			
Fuhwa Financial Holding Co. Ltd.* . . . . .	5,270,000	3,002,394			
KGI Securities Co. Ltd. . . . . .	4,750,000	2,288,706			
		<u>23,016,533</u>			
TOTAL FINANCE . . . . .		<u>30,168,265</u>			
<b>MISCELLANEOUS — 1.8%</b>					
<b>Athletic Footwear — 1.8%</b>					
Pou Chen Corp. . . . . .	7,069,531	7,069,745			
<b>Golf Equipment — 0.0%</b>					
Advanced International Multitech Co., Ltd. . . . . .	71,684	187,470			
TOTAL MISCELLANEOUS . . . . .		<u>7,257,215</u>			
<b>TECHNOLOGY — 64.2%</b>					
<b>Electronic Components — 8.6%</b>					
Cyntec Co. Ltd. . . . . .	162,096	278,519			
Epistar Corp. . . . . .	1,234,267	5,797,490			
Everlight Electronics Co. Ltd. . . . . .	1,029,920	4,463,122			
Kinsus Interconnect Technology Corp. . . . . .	2,737,029	9,455,477			
Nan Ya Printed Circuit Board Corp. . . . . .	1,000,000	6,500,197			
Tripod Technology Corp. . . . . .	161,000	663,535			
Unimicron Technology Corp. . . . . .	3,876,000	6,084,330			
		<u>33,242,670</u>			
<b>Electronics — 3.5%</b>					
Synnex Technology International Corp. . . . . .	4,926,000	13,524,519			
<b>IC Design — 11.8%</b>					
MediaTek, Inc. . . . . .	1,386,000	23,520,713			
Novatek Microelectronics Corp. Ltd. . . . . .	1,471,703	5,931,589			
Orise Technology Co. Ltd.* . . . . .	1,600,000	4,368,617			
Realtek Semiconductor Corp. . . . . .	1,050,000	5,138,792			
RichTek Technology Corp. . . . . .	639,500	7,015,334			
		<u>45,975,045</u>			
<b>Memory IC — 2.5%</b>					
Inotera Memories, Inc. . . . . .	9,646,000	9,631,677			

## SCHEDULE OF INVESTMENTS/AUGUST 31, 2007 *(continued)*

	<u>SHARES</u>	<u>US\$ VALUE (NOTE 1)</u>		<u>PRINCIPAL AMOUNT NT\$</u>		<u>US\$ VALUE (NOTE 1)</u>
<b>TECHNOLOGY — (continued)</b>						
<b>PC &amp; Peripherals — 15.3%</b>						
Asia Vital Components Co. Ltd.* . . . . .	6,500,000	\$ 6,647,929	Bai-Ding Investment Co. (a) . . . . .	\$149,503,714		4,530,553
Asustek Computer Inc. . . . .	3,000,363	8,955,900	Fcb Leasing Co Ltd:			
Catcher Technology Co. Ltd.* . . . . .	987,921	7,903,607	1.9200%, 10/12/2007 (a) . . . . .	99,736,598		3,022,413
Foxconn Technology Co. Ltd. . . . .	1,035,000	9,409,376	1.9500%, 10/12/2007 (a) . . . . .	99,516,005		3,015,728
GeoVision Inc. . . . .	100,000	725,780	First Commercial Bank (a) . . . . .	99,484,338		3,014,768
Hon Hai Precision Industry Co. Ltd. . . . .	3,029,760	22,494,354	TOTAL COMMERCIAL PAPER			
Portwell Inc. . . . .	1,300,000	3,242,219	(Identified Cost — \$13,646,385) . . . . .			13,583,462
		<u>59,379,165</u>				
<b>Semiconductor Manufacturing — 9.4%</b>						
Advanced Semiconductor Engineering, Inc. . . . .	6,313,627	6,246,854		<u>MATURITY AMOUNT US\$</u>		
Ardentec Corp. . . . .	2,747,054	2,235,170	<b>REPURCHASE AGREEMENT — 0.2%</b>			
King Yuan Electronics Co. Ltd. . . . .	2,551,214	1,577,162	State Street Bank and Trust Co. at			
Siliconware Precision Industries Co. . . . .	5,609,074	11,303,477	1.5% dated 8/27/07 due 9/4/07			
Taiwan Semiconductor Manufacturing Co. Ltd. . . . .	8,000,009	15,200,478	(collateralized by U.S. Treasury			
		<u>36,563,141</u>	Note 4.375%, 8/15/12, market value	\$ 857,000	\$ 857,000	
			\$875,838) . . . . .			
<b>Telecommunications — 7.6%</b>						
CyberTAN Technology Inc. . . . .	1,000,000	3,075,851	TOTAL INVESTMENTS — 98.9%			\$384,213,343
D-Link Corp. . . . .	2,120,000	4,670,566	(COST — \$268,637,110) . . . . .			
High Tech Computer Corp. . . . .	390,000	5,288,797	OTHER ASSETS AND LIABILITIES, NET —			4,102,544
Merry Electronics Co. Ltd. . . . .	3,272,866	11,108,245	1.1% . . . . .			
Zyxel Communications Corp. . . . .	2,982,920	5,188,630	NET ASSETS — 100% . . . . .			<u>\$388,315,887</u>
		<u>29,332,089</u>				
<b>TFT-LCD — 5.5%</b>						
Au Optronics Corp. . . . .	7,852,674	11,374,824	<b>Legend:</b>			
InnoLux Display Corp. . . . .	1,039,840	4,380,065	NT\$ — New Taiwan dollar			
Wintek Corp. . . . .	5,000,000	5,727,446	US\$ — United States dollar			
		<u>21,482,335</u>	* Non-income producing			
TOTAL TECHNOLOGY . . . . .		<u>249,130,641</u>	(a) 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.			
TOTAL COMMON STOCKS (Identified Cost — \$254,133,725) . . . . .		<u>369,772,881</u>	<b>Income Tax Information:</b>			
			At August 31, 2007, the aggregate cost basis of the Fund's investment securities for income tax purposes was \$268,648,963.			
			Net unrealized appreciation of the Fund's investment securities was \$115,564,380 of which \$125,893,129 related to appreciated investment securities and \$10,328,749 related to depreciated investment securities. In addition, as of August 31, 2007, the Fund's last fiscal year end, the Fund utilized all of the available capital loss carry- forward of \$32,501,720 for Federal income tax purposes.			

# FINANCIAL STATEMENTS

## STATEMENT OF ASSETS AND LIABILITIES

August 31, 2007

### Assets

Investments in securities, at value (cost \$268,637,110) (Notes 1 and 2) – See accompanying schedule . . . . .	\$384,213,343
Cash . . . . .	609
Cash in New Taiwan dollars (cost \$793,937) . . . . .	796,712
Dividend receivable . . . . .	3,876,415
Receivable for securities sold . . . . .	3,365,198
Prepaid expenses . . . . .	62,492
Interest receivable . . . . .	23,386
Total assets . . . . .	<u>392,338,155</u>

### Liabilities

Payable for securities purchased . . . . .	\$2,670,137
Accrued management fee (Note 3) . . . . .	371,778
Taiwan withholding tax payable (Note 1) . . . . .	809,676
Other payables and accrued expenses . . . . .	<u>170,677</u>
Total liabilities . . . . .	4,022,268

**Net Assets** . . . . . \$388,315,887

Net Assets consist of (Note 1):

Paid in capital . . . . .	\$249,972,915
Undistributed net investment income . . . . .	2,329,181
Accumulated over distributed net realized gain on investments in securities and foreign currency . . . . .	20,442,210
Net unrealized appreciation on investment securities and foreign currency . . . . .	<u>115,571,581</u>

**Net Assets** . . . . . \$388,315,887

**Net Asset Value**, per share

(\$388,315,887/16,365,572 shares outstanding) . . . . . \$23.73

## STATEMENT OF OPERATIONS

For the Year Ended August 31, 2007

### Investment Income

Dividends . . . . .	\$ 10,616,574
Interest . . . . .	130,148
	<u>10,746,722</u>
Less: Taiwan withholding tax (Note 1) . . . . .	<u>(2,115,420)</u>
Total Income . . . . .	8,631,302

### Expenses:

Management fee (Note 3)	
Basic fee . . . . .	\$ 4,272,341
Performance adjustment . . . . .	(129,176)
Custodian fees and expenses . . . . .	536,128
Administration and accounting fees (Note 3) . . . . .	306,556
Directors compensation (Note 3) . . . . .	370,833
Legal . . . . .	214,676
Audit . . . . .	105,015
Shareholder communications . . . . .	47,496
Insurance fees . . . . .	95,928
Delaware franchise tax . . . . .	81,567
Miscellaneous . . . . .	78,071
Transfer agent fees . . . . .	14,074
Taiwan stock dividend tax (Note 1) . . . . .	<u>401,404</u>

Total expenses . . . . . 6,394,913

Management Fee Waiver . . . . . (403,159)

Net Expenses . . . . . 5,991,754

**Net investment income** . . . . . 2,639,548

### Realized and Unrealized Gain (Loss) on Investment and Foreign Currency Transactions (Note 1)

Net realized gain (loss) on:	
Investment securities . . . . .	53,134,225
Foreign currency transactions . . . . .	<u>(2,305,538)</u>
	50,828,687

Change in net unrealized appreciation (depreciation) on:	
Investment securities . . . . .	50,284,378
Assets and liabilities denominated in foreign currencies . . . . .	<u>2,120</u>
	50,286,498

Net investment and foreign currency  
transactions . . . . . 101,115,185

**Net increase in net assets resulting from  
operations** . . . . . \$103,754,733

## FINANCIAL STATEMENTS *(continued)*

### STATEMENTS OF CHANGES IN NET ASSETS

	<i>Year Ended</i> <u>August 31, 2007</u>	<i>Year Ended</i> <u>August 31, 2006</u>
<b>Increase (Decrease) in Net Assets</b>		
Operations:		
Net investment gain (loss) . . . . .	\$ 2,639,548	\$ 42,635
Net realized gain on investments and foreign currency transactions . . . . .	50,828,687	27,993,384
Change in net unrealized appreciation on investments and foreign currency transactions . . . . .	50,286,498	15,827,889
Net increase in net assets resulting from operations . . . . .	<u>103,754,733</u>	<u>43,863,908</u>
Distributions to shareholders		
From net investment income . . . . .	—	(856,410)
Total increase in net assets . . . . .	<u>103,754,733</u>	<u>43,007,498</u>
<b>Net Assets</b>		
Beginning of year . . . . .	284,561,154	241,553,656
End of year . . . . .	<u>388,315,887</u>	<u>284,561,154</u>
Undistributed net investment income End of period . . . . .	<u>\$ 2,329,181</u>	<u>\$ —</u>

## FINANCIAL STATEMENTS (continued)

### FINANCIAL HIGHLIGHTS

	Year Ended August 31,				
	2007	2006	2005	2004	2003
<b>Selected Per Share Data</b>					
Net asset value, beginning of year	\$ 17.39	\$ 14.76	\$ 12.78	\$ 12.89(c)	\$ 11.37(c)
Income from Investment Operations					
Net investment income (loss)(a)	.16	0.00*	0.08	0.03	0.00(c)*
Net realized and unrealized gain (loss) on investments	6.18	2.68	1.93	(0.14)	1.52
Total from investment operations	6.34	2.68	2.01	(0.11)	1.52(c)
Less Distributions					
From net investment income	—	(0.05)	(0.03)	—	—
Total distributions	—	(0.05)	(0.03)	—	—
Net asset value, end of year	\$ 23.73	\$ 17.39	\$ 14.76	\$ 12.78	\$ 12.89(c)
Market value, end of year	\$ 21.43	\$ 15.83	\$ 13.34	\$ 10.99	\$ 11.09
<b>Total return</b>					
Per share market value	35.38%	19.05%	21.68%	(0.90)%	19.63%
<b>Ratios to Average Net Assets and Supplemental Data</b>					
Net assets, end of period (000 omitted)	\$388,316	\$284,561	\$241,554	\$209,166	\$210,949(c)
Ratio of expenses before fee waiver (b)	1.94%	1.92%(e)	2.23%(d)	2.07%	2.05%(c)
Ratio of expenses before fee waiver, excluding stock dividend tax expense	1.82%	1.77%(e)	1.93%(d)	1.82%	1.76%(c)
Ratio of expenses after fee waiver	1.82%	1.77%(e)	1.93%(d)	1.82%	1.76%(c)
Ratio of net investment income (loss)	0.80%	0.02%(e)	0.45%(d)	0.21%	0.01%(c)
Portfolio turnover rate	78%	110%	80%	76%	148%

(a) Based on average shares outstanding during the period.

(b) Expense ratio includes 20% tax paid on stock dividends received by the Fund.

(c) Restated (Note 6)

(d) Ratio includes charge to the Management fee; see Note 3. Without this charge the ratios would be 2.00%, 1.70% and 0.68%, respectively.

(e) Ratio includes reduction of the Management fee; see Note 3. Without this reduction the ratios would be 1.98%, 1.82% and -0.04%, respectively.

\* Amount represents less than \$0.005 per share.

## NOTES TO FINANCIAL STATEMENTS

### 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 Investments (Taiwan) Limited (“Adviser”), the Mega International Commercial Bank Co., Ltd., previously known as, 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 U.S. generally accepted accounting principles.

**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. Foreign securities may be valued at fair value according to procedures approved by the Board of Directors if the closing price is not reflective of current market values due to trading or events occurring in the valuation time of the Fund. In addition, substantial changes in values in the U.S. markets subsequent to the close of a foreign market may also affect the values of securities traded in the foreign market. The value of foreign securities may be adjusted if such movements in the U.S. market exceed a specified threshold. 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 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.

## NOTES TO FINANCIAL STATEMENTS (continued)

### 1. Significant Accounting Policies – continued

**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 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 carried on a net basis. 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 August 31, 2007 the Fund had no open Forwards.

**Indemnification Obligations.** Under the Fund’s organizational documents, its Officers and Trustees are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In addition, in the normal course of business the Fund enters into contracts that provide general indemnifications to other parties. The Fund’s maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred.

**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.

**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

## NOTES TO FINANCIAL STATEMENTS (continued)

### 1. Significant Accounting Policies – continued

U.S. generally accepted accounting principles. No capital gain distributions shall be made until any capital loss carryforwards have been fully utilized or expired.

These differences are primarily due to differing treatments for foreign currency transactions, losses deferred due to wash sales and net operating losses. Permanent book and tax basis differences relating to shareholder distributions will result in reclassifications to paid in capital. For the period ended August 31, 2007, the Fund decreased undistributed net investment income by \$310,367, decreased paid-in capital by \$1,816,793, and increased accumulated net realized gain by \$2,127,160. These reclassifications have no effect on the net assets or net asset value per share.

**Security Transactions.** Security transactions are accounted 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 U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

### 2. Purchases and Sales of Securities

For the fiscal year ended August 31, 2007, purchases and sales of securities, other than short-term securities, aggregated \$249,822,367 and \$265,318,178, respectively.

### 3. Fees and Other Transactions with Affiliates

**Management Fee.** As the Fund's investment adviser, HSBC Investments (Taiwan) Limited receives a basic 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 monthly performance adjustment based on the Fund's investment performance as compared to the Taiwan Stock Exchange Index over a rolling 36-month period (the

"performance adjustments"). The basic fee may increase or decrease by + or -0.30% depending on the fund's performance.

During the period ending August 31, 2006, the basic fee included a one-time charge of approximately \$154,000 as a further revision to correct errors in the calculation of performance fee adjustments for the fiscal years prior to 2000 (See footnote 6).

Effective February 1, 2007, the Adviser has agreed to waive a portion of the basic fee so that the basic fee will not exceed 1.10% of the Fund's average daily net assets through October 31, 2008. The performance adjustments remain unchanged by this fee waiver.

For the year ended August 31, 2007, the management fee, including the performance adjustments, and management fee waiver was equivalent to an annual rate of 1.14% 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 \$15,000 plus \$2,000 for each Board of Directors' meeting or Other Committee meeting attended, and \$2,000 for each meeting attended by telephone. On July 17, 2007 the Board of Directors approved an increase in the annual fee from \$15,000 to \$20,000 and an increase in the meeting fees from \$2,000 to \$2,500, including phone meetings effective that day. 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. The fund also pays State Street \$130,000 per year for certain legal administrative services, including corporate secretarial services and preparing regulatory filings.

## NOTES TO FINANCIAL STATEMENTS (continued)

### 4. Fund Shares

At August 31, 2007, there were 20,000,000 shares of \$0.01 par value capital stock authorized, of which 16,365,572 were issued and outstanding.

### 5. Distributions

The Fund did not make any distributions from ordinary income or capital gains during the year ended August 31, 2007. The fund made a distribution of \$856,410 from ordinary income during the year ended August 31, 2006. As of August 31, 2007, the components of distributable earnings on a tax basis were \$2,329,181 of Undistributed Ordinary Income, \$20,454,064 of Undistributed Long-Term Capital Gain and \$115,559,727 of Unrealized Appreciation.

The difference between book basis and tax basis unrealized appreciation and depreciation is attributable primarily to the tax deferral of losses on wash sales.

### 6. Prior Periods Restatement

On August 31, 2004, the Fund restated its statement of changes in net assets for the year ended August 31, 2003 and its financial highlights for the years ended August 31, 2000 through 2003 to reflect correction of errors in the calculation of management fee performance adjustments recorded by the Fund during these years and prior. The incorrect performance adjustments were calculated based on average net assets of the Fund over a period different than the period over which average net assets of the Fund should have been calculated as stipulated in the Management Contract and resulted in overpayments being made to the investment adviser. The cumulative effect at September 1, 1999, and the yearly net effect, of these corrections on net assets, net asset value per share and the ratio of expenses were as follows:

	<u>Net Assets</u>	<u>NAV Per Share</u>	<u>Expense Ratio</u>
Cumulative effect at September 1, 1999	\$1,088,492	\$ 0.06	n/a
Effect on Year Ended August 31, 2000	58,392	0.01	(0.02%)
Effect on Year Ended August 31, 2001	(163,948)	(0.01)	0.06%
Effect on Year Ended August 31, 2002	(4,479)	0.00	0.00%
Effect on Year Ended August 31, 2003	121,015	0.01	(0.07%)

### 7. Recent Accounting Pronouncement

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 – *Accounting for Uncertainty in Income Taxes*, which requires the tax effects of certain tax positions to be recognized. These tax positions must meet a “more likely than not” standard that based on their technical merits, have a more than 50 percent likelihood of being sustained upon examination. FASB Interpretation No. 48 is effective for fiscal periods beginning after December 15, 2006. At adoption, the financial statements must be adjusted to reflect only those tax positions that are more likely than not to be sustained. Management of the fund is currently evaluating the impact that FASB Interpretation No. 48 will have on the fund’s financial statements.

In September 2006, the Financial Accounting Standard Board issued Statement of Financial Accounting Standards (“SFAS”) 157, *Fair Value Measurements*, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. At this time, management is in the process of reviewing the Standard against its current valuation policies to determine future applicability.

### 8. Change in Independent Registered Public Accountant

On April 23, 2007, the Fund’s Board of Directors (the “Directors”), upon the recommendation of the Audit Committee, appointed Tait, Weller & Baker LLP as the Fund’s independent registered public accountant.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### To the Board of Directors and Shareholders of The Taiwan Fund, Inc.

We have audited the accompanying statement of assets and liabilities of The Taiwan Fund, Inc. (the "Fund"), including the schedule of investments, as of August 31, 2007, and the related statement of operations, the statement of changes in net assets and the financial highlights for the year then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. The statement of changes in net assets for the year ended August 31, 2006 and the financial highlights for each of the four years in the period ended August 31, 2006 have been audited by other auditors, whose report dated October 19, 2006 expressed an unqualified opinion on such statement and financial highlights.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of August 31, 2007, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The Taiwan Fund, Inc. as of August 31, 2007, the results of its operations, the changes in its net assets, and the financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER & BAKER LLP

Philadelphia, Pennsylvania

October 26, 2007

## OTHER INFORMATION *(unaudited)*

*Federal Tax Information.* The Taiwan Fund, Inc. has made an election under Internal Revenue Code Section 853 to pass through foreign taxes paid by the Fund to its shareholders. For the year ended August 31, 2007, the total amount that will be passed through to shareholders and foreign source income for information reporting purposes will be \$2,564,065 (representing taxes withheld plus taxes on stock dividends) and \$10,989,829, respectively.

### 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 August 31, 2007 no shares have 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 its shareholders' nonpublic personal information.

### 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 voted these proxies during the most recent 12-month period ended June 30 is available with out change, upon request, by calling the same number on the Commission's website.

### Quarterly Portfolio of Investments

The Fund files with the Securities and Exchange Commission its complete schedule of portfolio holdings on Form N-Q for the first and third quarters of each fiscal year. The Fund's Form N-Q's are available on the Commission's website at <http://www.sec.gov>. Additionally, the Portfolio of Investments may be reviewed and copied at the Commission's Public Reference Room in

## OTHER INFORMATION *(unaudited) (continued)*

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Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The most recent Form N-Q is available without charge, upon request, by calling 1-800-636-9242.

### **Certifications**

The Fund's chief executive officer has certified to the New York Stock Exchange that, as of February 16, 2007, he was not aware of any violation by the Fund of applicable New York Stock Exchange corporate governance listing standards. The Fund also has included the certifications of the Fund's chief executive officer and chief financial officer required by Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002 in the Fund's Form N-CSR file with the Securities and Exchange Commission, for the period of this report.

## 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 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. Computershare Trust Company, N.A. (formerly, EquiServe Trust Company, N.A.) (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 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. Checks should be made payable to “Computershare”. The Plan Administrator will not accept cash, traveler’s checks, money orders, or third party checks for voluntary cash purchase. We suggest you send your check to the following address to be received at least two business days before the investment date: Computershare, 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

## SUMMARY OF DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN *(continued)*

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.

### **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 calling the Plan Administrator at 1-800-426-5523, by accessing your Plan account at the Plan Administrator's web site, [www.computershare.com/equishere](http://www.computershare.com/equishere) or 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 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.

All sale requests having an anticipated market value of \$100,000.00 or more are expected to be submitted in the written form. In addition, all sale requests within thirty (30) days of an address change are expected to be submitted in written form.

## SUMMARY OF DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN *(continued)*

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### **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: Computershare, c/o The Taiwan Fund, Inc. at P.O. Box 43010, Providence, RI 02940-3010, by telephone at 1-800-426-5523 or through the Internet at [www.computershare.com/equiserve](http://www.computershare.com/equiserve). 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 Administrator 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 30 days before the effective date of any amendment. In the case of termination, participants will be mailed written notice at least 30 days before the record date of any dividend or capital gains distribution by the Fund.*

## DIRECTORS AND OFFICERS *(unaudited)*

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

<u>Name, Address and (Age)</u>	<u>Present Office With the Fund</u>	<u>Director Since</u>	<u>Principal Occupation or Employment During Past Five Years</u>	<u>Directorships in Publicly-Held Companies</u>
<b>Directors Considered Independent Persons</b>				
Harvey Chang (56) 21/F, No. 172-1, Section 2 Ji-Lung Road Taipei, Taiwan, ROC 106	Chairman of the Board (since July 2005) and Director	2005	President and Chief Executive Officer, Taiwan Mobile Company Limited (September 2003 - present); Senior Vice President and Chief Financial Officer, Taiwan Semiconductor Manufacturing Co. (February 1998-September 2003)	Director, Taiwan Mobile Company Limited (2003-present)
Christina Liu (50) Suite 312, No. 3-1 Jinan Road Taipei, Taiwan, ROC	Director	2005	Legislator, Legislative Yuan, ROC (2002-present), Chairperson, Finance Committee, Legislative Yuan, ROC (2002-2005), Chairman, Director and Professor, Department of Finance, National Taiwan University (1993-2001), Consultative Board Member, Commission On Economic Planning and Development, Executive Yuan, Taiwan, ROC (1996-2001); Consultative Board Member, Central Deposit Insurance Corp. Taiwan, ROC (1996-2001)	Director, Taiwan Stock Exchange (1995-2002)
Joe O. Rogers (58) 2477 Foxwood Drive Chapel Hill, NC 27514	Director	1986	Organizing Member, The Rogers Team LLC, (July 2001-present); Manager, The J-Squared Team LLC (April 2003-May 2004);	Director and Member of the Audit Committee, The China Fund, Inc. (1992-present)
M. Christopher Canavan, Jr. (68) 73 Brook Street Wellesley, MA 02482	Director	2003	Independent Consultant (2000-present); Partner, Pricewaterhouse Coopers LLP (Coopers & Lybrand) (1972-1999)	Director and Chairman of The Audit Committee, Bruker Biosciences, Inc. (2000-May 2007)

## DIRECTORS AND OFFICERS (unaudited) (continued)

<u>Name, Address and (Age)</u>	<u>Present Office With the Fund</u>	<u>Director Since</u>	<u>Principal Occupation or Employment During Past Five Years</u>	<u>Directorships in Publicly-Held Companies</u>
Anthony Kai Yiu Lo (58) 23/F, Shun Ho Tower 24-30 Ice House Street Central, Hong Kong	Director	2003	Chairman and Co-CEO, Shanghai Century Acquisition Inc. (October 2005-present); Director, Advantage Ltd. (2004-January 2006); Founder and Managing Director, Advantage Ltd. (1999-2004);	Member of Listing Committee, Stock Exchange of Hong Kong Ltd. (1996-May 2006)
Bing Shen (58) 1755 Jackson Street, #405 San Francisco, CA 94109	Director	2007	Independent Consultant (2005-present); Director, Delta Networks, Inc. (June 2007-present); President, CDIB & Partners Investment Holding Corporation (May 2004-August 2005); Executive Vice President, China Development Industrial Bank ("CDIB") (March 1999-May 2004); Mr. Shen retired in September 2005.	Supervisor, CTCI Corporation; Independent Non-Executive Director, Delta Networks, Inc., Chairman, Audit Committee, Delta Networks, Inc. (June 2007-present)
Michael F. Holland (62) 375 Park Avenue New York, New York 10152	Director	2007	Chairman, Holland & Company L.L.C. (1995-present)	Director, The Holland Balanced Fund, Inc., The China Fund, Inc. and Reaves Utility Income Fund; Trustee, State Street Master Funds and State Street Institutional Investment Trust.
<b>Director Considered Interested Person</b>				
*Benny T. Hu (58) 6F, 76 Tun Hwa South Road Section 2, Taipei, Taiwan ROC	President and Director	1993	Chairman, China Development Industrial Bank (June 2003-May 2004); Chairman, China Development Asset Management Corp. (June 2001-May 2004); Ambassador-at-Large, Republic of China (May 2001-May 2006)	Director, USI Far East Corp. (2004-present); Supervisor, China Steel Corp. (2004-present); Supervisor, Winbond Electronics Corp. (2002-present); Director, China Development Financial Holding Corp. (June 2001-May 2004); Director, Yangming Marine Transport Corp (2001-present)

## DIRECTORS AND OFFICERS (unaudited) (continued)

<u>Name, Address and (Age)</u>	<u>Present Office With the Fund</u>	<u>Officer Since</u>	<u>Principal Occupation or Employment During Past Five Years</u>	<u>Directorships in Publicly-Held Companies</u>
<b>Officers</b>				
Adelina N Y Louie (41) Deputy Chief Operating Officer, Asia Pacific HSBC Investments (Hong Kong) Limited Level 22 HSBC Main Building 1 Queen's Road Central Hong Kong	Secretary and Treasurer	2004	Deputy Chief Operating Officer, Asia Pacific, HSBC Investments (Hong Kong) Limited (May 2006 - present), Chief Operating Officer, HSBC Investments (Taiwan) Limited (March 2004-April 2006); Area Commercial Manager, HSBC (UK) Ltd (February 2002-March 2004); Senior Vice President, Custody & Clearing, HSBC (Indonesia) Limited (June 2000 - February 2002)	—
Richard F. Cook, Jr. (56) Foreside Compliance Services, LLC. Two Portland Square Portland, ME 04101	Chief Compliance Officer	2007	Employee of Foreside Fund Services, LLC (November 2005-January 2006), Director of Foreside Compliance Services LLC, (January 2006-present). Chief Compliance Officer of the Guinness Atkinson Funds (November 2006-present), and the Japan Fund, Inc. (April 2007-present). Founder and Managing Member of NorthLake, LLC (2002-present). Executive Officer, Director and Shareholder of Century Capital Management, Inc. and Secretary of Century Shares Trust (1985-2002).	—
Mary Moran Zeven (46)	Assistant Secretary	2005	Senior Vice President and Senior Managing Counsel, State Street Bank and Trust Company (2002-present); and Vice President and Counsel, State Street Bank and Trust Company (2000-2002)	—

## DIRECTORS AND OFFICERS *(unaudited) (continued)*

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\* 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.

Mr. Hu is considered to be an interested person because he is the President of the Fund.





## UNITED STATES ADDRESS

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c/o State Street Bank and Trust Company  
2 Avenue de Lafayette  
P.O. Box 5049  
Boston, MA  
1-800-636-9242  
[www.thetaiwanfund.com](http://www.thetaiwanfund.com)

## INVESTMENT ADVISER

HSBC Investments (Taiwan) Limited  
Taipei, Taiwan

## DIRECTORS AND OFFICERS

Harvey Chang, Chairman of the Board and Director  
Benny T. Hu, President and Director  
Bing Shen, Director  
Christina Liu, Director  
Joe O. Rogers, Director  
Michael Holland, Director  
M. Christopher Canavan, Jr., Director  
Anthony Kai Yiu Lo, Director  
Adelina N.Y. Louie, Secretary and Treasurer  
Richard F. Cook, Jr., Chief Compliance Officer  
Mary Moran Zeven, Assistant Secretary

## ADMINISTRATOR AND ACCOUNTING AGENT

State Street Bank and Trust Company  
Boston, MA

## CUSTODIANS

The Mega International Commercial Bank Co., Ltd.  
Taipei, Taiwan  
State Street Bank and Trust Company  
Boston, MA

## TRANSFER AGENT, DIVIDEND PAYING AGENT AND REGISTRAR

Computershare Trust Company, N.A.

## LEGAL COUNSEL

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

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Tait, Weller & Baker, LLP  
Philadelphia, PA