

THE TAIWAN FUND, INC. (THE 'FUND')

IN BRIEF



The Martin Currie
Shanghai team

Net asset value per share	US\$14.85
Market price	US\$13.15
Premium/(discount)	(11.45%)
Fund size	US\$275.8m

Source: State Street Bank and Trust Company.

	At June 30, 2010	Fund*	US\$ return TSE Index†
		%	%
One month		(0.2)	(1.1)
Three months		(6.9)	(8.5)
One year		17.0	16.4
Three years % pa		(7.5)	(5.5)

Past performance is not a guide to future returns. Returns are annualized, except for periods of less than one year.

*Source: State Street Bank and Trust Company. NAV performance.
†Source for index data: TWSE.

MANAGER'S COMMENTARY

The Taiwanese stockmarket held up relatively well in June, helped by the signing of the free-trade agreement between Taiwan and mainland China.

For Taiwan's capital markets, there were two big news stories in June. On June 24, 2010, the central bank started to raise interest rates (albeit by only 0.125%) ahead of schedule. This reflects low CPI growth (just 0.7% in May) and an attempt by the government to restrain the residential property market, which was being distorted by ultra-low rates. The move coincides with mainland China's cooling policies (though China has chosen to rely on administrative measures rather than interest rates). Overall, we believe that the effect will be to improve net interest-rate spreads slightly for the insurance and banking industries (13.2% of our portfolio). Given the potential for Chinese capital inflows, we have not changed our positive stance on Taiwan's property market (especially the commercial side).

The second big event was the signing of the free-trade agreement on June 29, 2010. This marks a new chapter in relations between island and mainland. The agreement will be effective from January 1, 2011, after its approval by Taiwan's Legislative Yuan (in which the Kuomintang has a dominant majority). A total of 539 items have been included in the 'early harvest' list of products that will benefit from tariff cuts. Of these, 88 are petrochemical, 136 textile, 107 machinery, 50 transport equipment and 18 agricultural. The estimated direct tariff-cut benefit to Taiwan is around US\$815 million. The size of the cuts depends on current levels: tax rates below 2.5% will be cut to 0%; those up to 7.5% will be cut to 2.5% in the first year and to zero in the second year; taxes above 7.5% will be cut to 5% in the first year, 2.5% in second year and zero in third year.

Meanwhile, Taiwan's banks are to be allowed to open mainland branches one year after a representative office has been set up. This is a better deal than that given to Hong Kong's banks. And if the mainland branch of a Taiwanese bank is profitable after a year, it will be allowed to offer renminbi business to Taiwanese companies in China. The investment ceiling for Chinese companies to acquire Taiwanese financial institutions (5% individually and 10% in total) is not to be lifted immediately, but may be amended at the next cross-strait meeting in response to the preferential terms that China has given Taiwan's banks.

Clearly, the results of the agreement will take time to show. But one benefit that should not be overlooked is that it will allow President Ma to sign free-trade agreements with other trading partners; this was previously hampered by Beijing. Also, we expect negotiations on round two, which will broaden the agreement, to start within six months of the first agreement being put into effect.

Direct flights are to increase by 100 per week (+37%) to meet the surging demand from Chinese tourists, whose numbers have already surpassed Taiwan's ceiling of an average of 3,000 tourists per day. The Taiwanese government estimates that the number of Chinese tourists will double to 1.2 million in 2010.

Amid all the noise, news that Taiwan had achieved a record monthly export figure of US\$25.5 billion in May (+57% year on year) was rather lost.

INVESTMENT STRATEGY

The Fund is 98.2% invested with holdings in 52 companies. The median market cap of the invested companies is US\$690 million.

In June we completed the portfolio transition, adding approximately US\$18 million to existing positions and selling US\$13 million.

The Fund performed roughly in line with the market over the month. The list of outperformers was led by recent acquisitions Powercom, KGI Securities and PC Home Online. The main underperformers were two large inherited technology positions, HonHai Precision Industry and MediaTek, which your managers had been slow to trim to avoid crystallizing large capital gains. We have belatedly cut the former position.

*Chris Ruffle, Martin Currie Inc**

*Martin Currie Ltd and Heartland Capital Management Ltd (HCML) have established MC China Ltd (MCCL), as a joint venture company, to provide investment management or investment advisory services to the range of China investment products managed by Martin Currie.

MCCL has appointed Martin Currie Investment Management Ltd (MCIM), or its affiliates, as investment manager of Martin Currie's China investment products. HCML has seconded both Chris Ruffle and Shifeng Ke to MCIM, or its affiliates, on a full time basis with the same roles and responsibilities as if they were full time employees.

FUND DETAILS		PERFORMANCE	(US\$ RETURNS)	
Market cap	US\$244.3m		NAV %	Market price %
Shares outstanding	18,575,112			
Exchange listed	NYSE	One month	(0.2)	2.9
Listing date	1986	Three months	(6.9)	(5.9)
Investment manager	Martin Currie Inc	Three years % pa	(7.5)	(7.3)

Source: State Street Bank and Trust Company.

Past performance is not a guide to future returns.

Source: State Street Bank and Trust Company.

SECTOR ALLOCATION

	Fund*	Benchmark†
Electronics	38.3%	54.1%
Financial	13.2%	12.7%
Wholesale and retail	12.5%	5.5%
Plastics	7.6%	7.4%
Construction	4.6%	1.8%
Foods	3.3%	1.5%
Electric and machinery	3.0%	1.0%
Chemicals	2.8%	1.9%
Transportation	2.6%	2.6%
Steel and iron	2.4%	3.1%
Textiles	2.3%	1.8%
Glass and ceramics	2.1%	0.4%
Rubber	1.5%	1.2%
Cement	1.0%	1.1%
Other	1.0%	2.0%
Other assets and liabilities	1.8%	—

*Source: State Street Bank and Trust Company.

†Source for index data: TWSE.

15 LARGEST HOLDINGS (49.7%)

		% of net assets
Taiwan Semiconductor Manufacturing	Electronics	7.6%
Hon Hai Precision Industry	Electronics	5.1%
MediaTek	Electronics	3.6%
Synnex Technology International	Electronics	3.6%
Nan Ya Plastics	Plastics	3.3%
President Chain Store	Wholesale and retail	3.0%
Cathay Financial Holding	Finance	3.0%
Fubon Financial Holding	Finance	2.9%
KGI Securities	Finance	2.7%
Formosa Petrochemical	Wholesale and retail	2.6%
Far Eastern Department Stores	Wholesale and retail	2.6%
Yuanta Financial	Finance	2.5%
Uni-President Enterprises	Foods	2.4%
Tung Ho Steel Enterprise	Steel and iron	2.4%
WPG Holdings	Electronics	2.4%

*Source: State Street Bank and Trust Company.

PERFORMANCE

	(US\$ RETURNS)							
	One month %	Three months %	Calendar year to date %	One year %	Three years % pa	Five years % pa	Ten years % pa	Since launch % pa
The Taiwan Fund, Inc	(0.2)	(6.9)	(9.8)	17.0	(7.5)	3.7	(2.3)	8.6
TSE Index	(1.1)	(8.5)	(10.9)	16.4	(5.5)	2.9	(1.6)	8.7
TAIEX Total Return Index	(1.1)	(8.5)	(10.8)	19.6	(2.0)	6.9	na	na
MSCI Taiwan Index	(1.9)	(9.3)	(12.8)	16.1	(5.6)	3.3	(1.1)	na

Past performance is not a guide to future returns. Source: State Street Bank and Trust Company. Launch date December 23, 1986. 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 are annualized, except for periods of less than one year.

Source for index data: MSCI for the MSCI Taiwan Index and TWSE for the TAIEX Total Return Index and the TSE Index. For a full description of each index please see the index descriptions section.

Returns for the TSE Index are not total returns and reflect only changes in the share price but do not assume that cash dividends, if any, were reinvested, and thus are not strictly comparable to the Fund returns.

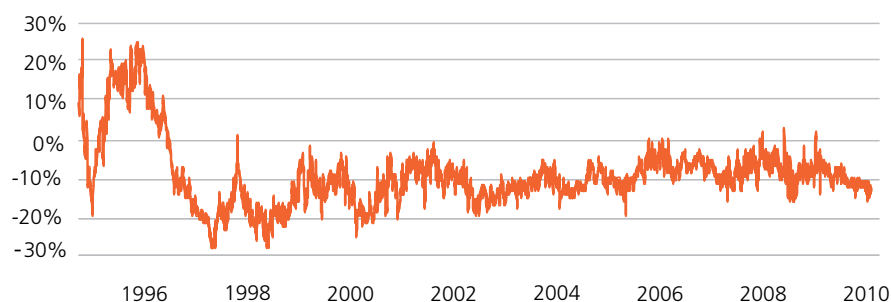
The TAIEX Total Return Index commenced January 1, 2003.

Sector	Company (BGB ticker)	Price	Holding	Value US\$	% of net assets
Electronics					38.3
Taiwan Semiconductor Manufacturing	2330 TT	NT\$60.6	11,200,426	\$21,124,000	7.6
Hon Hai Precision Industry	2317 TT	NT\$114.0	4,000,005	\$14,191,699	5.1
MediaTek	2454 TT	NT\$452.5	700,400	\$9,863,560	3.6
Synnex Technology International	2347 TT	NT\$70.1	4,500,000	\$9,817,469	3.6
WPG Holdings	3702 TT	NT\$60.0	3,500,000	\$6,535,643	2.4
Tatung	2371 TT	NT\$5.7	31,231,000	\$5,540,255	2.0
Chicony Electronics	2385 TT	NT\$71.9	2,342,790	\$5,242,413	1.9
WT Microelectronics	3036 TT	NT\$33.7	4,102,000	\$4,302,239	1.6
Powercom	3043 TT	NT\$48.0	2,795,000	\$4,175,342	1.5
Syncmold Enterprise	1582 TT	NT\$64.8	2,003,000	\$4,039,475	1.4
Clevo	2362 TT	NT\$67.8	1,650,000	\$3,481,630	1.3
ST Shine Optical	1565 TT	NT\$258.0	392,000	\$3,147,566	1.1
PC Home Online	8044 TT	NT\$110.5	886,000	\$3,046,948	1.1
Aurora	2373 TT	NT\$43.1	2,196,000	\$2,945,633	1.1
Wah Lee Industrial	3010 TT	NT\$43.3	2,105,000	\$2,833,395	1.0
Soft-World International	5478 TT	NT\$157.0	555,000	\$2,711,825	1.0
Avermedia Technologies	2417 TT	NT\$42.2	2,053,000	\$2,693,119	1.0
Finance					13.2
Cathay Financial Holding	2882 TT	NT\$48.1	5,500,622	\$8,225,725	3.0
Fubon Financial Holding	2881 TT	NT\$36.1	7,000,000	\$7,864,557	2.9
KGI Securities	6008 TT	NT\$12.6	19,144,000	\$7,507,100	2.7
Yuanta Financial	2885 TT	NT\$17.4	13,013,000	\$7,026,611	2.5
China Life Insurance	2823 TT	NT\$26.2	3,683,000	\$2,997,384	1.1
SinoPac Financial Holdings	2890 TT	NT\$10.3	9,135,000	\$2,914,080	1.0
Wholesale and retail					12.5
President Chain Store	2912 TT	NT\$95.1	2,840,000	\$8,405,583	3.0
Formosa Petrochemical	6505 TT	NT\$77.9	3,000,500	\$7,274,449	2.6
Far Eastern Department Stores	2903 TT	NT\$26.5	8,580,000	\$7,062,882	2.6
Taiwan Tea	2913 TT	NT\$17.2	8,231,000	\$4,406,057	1.6
Test-Rite International	2908 TT	NT\$18.4	7,225,000	\$4,137,373	1.5
Mercuries & Associates	2905 TT	NT\$16.3	6,362,000	\$3,227,381	1.2
Plastics					7.6
Nan Ya Plastics	1303 TT	NT\$51.7	5,700,000	\$9,171,374	3.3
China Petrochemical Development	1314 TT	NT\$16.3	11,711,000	\$5,940,877	2.2
Formosa Chemicals & Fibre	1326 TT	NT\$74.1	2,500,000	\$5,765,371	2.1
Construction					4.6
Prince Housing & Development	2511 TT	NT\$13.9	9,519,000	\$4,117,893	1.5
Taiwan Land Development	2814 TT	NT\$12.4	7,488,000	\$2,889,725	1.1
Hung Poo Real Estate Development	2536 TT	NT\$40.1	2,270,000	\$2,829,420	1.0
Continental Holdings	3703 TT	NT\$11.8	7,468,000	\$2,730,934	1.0
Foods					3.3
Uni-President Enterprises	1216 TT	NT\$35.6	6,000,000	\$6,647,682	2.4
Lien Hwa Industrial	1229 TT	NT\$15.8	4,815,000	\$2,367,677	0.9
Electric and machinery					3.0
Depo Auto Parts Industrial	6605 TT	NT\$75.2	1,232,000	\$2,883,351	1.0
Awea Mechantronic	1530 TT	NT\$38.2	2,264,000	\$2,691,589	1.0
Yungtay Engineering	1507 TT	NT\$26.3	3,274,000	\$2,679,807	1.0
Chemicals					2.8
China Steel Chemical	1723 TT	NT\$94.0	1,600,000	\$4,680,765	1.7
Excelsior Medical	4104 TT	NT\$71.4	1,421,000	\$3,157,630	1.1
Transportation					2.6
Eastern Media International	2614 TT	NT\$8.1	16,546,000	\$4,181,365	1.5
Farglory F T Z Investment	5607 TT	NT\$30.2	3,322,000	\$3,122,307	1.1
Steel and iron					2.4
Tung Ho Steel Enterprise	2006 TT	NT\$25.4	8,315,000	\$6,573,020	2.4

THE PORTFOLIO — IN FULL (CONTINUED)

JUNE 30, 2010

Sector	Company (BGB ticker)	Price	Holding	Value US\$	% of net assets	
Textiles						
	Far Eastern New Century	1402 TT	NT\$33.4	3,060,000	\$3,180,804	1.2
	Li Peng Enterprise	1447 TT	NT\$13.4	7,411,000	\$3,090,655	1.1
Glass and ceramics						
	Taiwan Glass Industrial	1802 TT	NT\$29.6	6,344,000	\$5,844,184	2.1
Rubber						
	TSRC	2103 TT	NT\$44.6	3,057,000	\$4,243,257	1.5
Cement						
	Wei Mon Industry	8925 TT	NT\$23.8	3,862,000	\$2,860,607	1.0
Others						
	Globe Union Industrial	9934 TT	NT\$36.0	2,388,000	\$2,675,505	1.0
Other assets and liabilities					\$4,764,071	1.8



Source: State Street Bank and Trust Company as of June 30, 2010.

INDEX DESCRIPTIONS

MSCI Taiwan Index

The MSCI Total Return Taiwan Index is a free-float adjusted market capitalization index. The index represents Taiwanese companies that are available to investors worldwide. The index has a base date of December 31, 1987. As of June 24, 2010 it contained 117 constituents.

TSE Index

As of December 31, 2009, the Taiwan Stock Exchange had 741 listed companies.

TAIEX Total Return Index

The TWSE, or TAIEX, Index is a capitalization-weighted index of all listed common shares traded on the Taiwan Stock Exchange. The index was based in 1966. The index is also known as the TSEC Index.

OBJECTIVE

The Fund was launched on December 23, 1986 to allow US and other investors to access and participate in the growth of the economy and the stock market in Taiwan, the Republic of China. The Fund's investment objective is to seek long-term capital appreciation primarily through investments in equity securities listed in Taiwan. The Fund is a diversified, closed-end management investment company listed on the New York Stock Exchange (NYSE) under the symbol 'TWN'.

Taiwan, with its global market leadership in high technology goods and its significant investments throughout mainland China and Southeast Asian economies, is now an integral economic player in the Asia Pacific Region as well as around the world. Investing in Taiwan not only allows investors to capitalize on Taiwan's dynamic economy, but also allows investors to reap the growth and investment potential of the mainland China and other emerging economies of the region.

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The Fund is classified as a diversified investment company under the US Investment Company Act of 1940 as amended. It meets the criteria of a closed ended US mutual fund and its shares are listed on the New York Stock Exchange. MC Inc has been appointed investment adviser to the Fund.

Investors are advised that they will not generally benefit from the rules and regulations of the United Kingdom Financial Services and Markets Act 2000 and the FSA for the protection of investors, nor benefit from the United Kingdom Financial Services Compensation Scheme, nor have access to the Financial Services Ombudsman in the event of a dispute. Investors will also have no rights of cancellation under the FSA's Conduct of Business Sourcebook of the United Kingdom.

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It should not be assumed that any of the securities transactions or holdings discussed here were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Investing in the Fund involves certain considerations in addition to the risks normally associated with making investments in securities. The value of the shares issued by the Fund, and the income from them, may go down as well as up and there can be no assurance that upon sale, or otherwise, investors will receive back the amount originally invested. There can be no assurance that you will receive comparable performance returns, or that investments will reflect the performance of the stock examples contained in this document. Movements in foreign exchange rates may have a separate effect, unfavorable as well as favorable, on the gain or loss otherwise experienced on an investment. Past performance is not a guide to future returns. Accordingly, the Fund is only suitable for investment by investors who are able and willing to withstand the total loss of their investment. In particular, prospective investors should consider the following risks:

- it should be noted that investment in the Fund is only suitable for sophisticated investors who are aware of the risk of investing in Taiwan and should be regarded as long term. Funds which invest in one country carry a higher degree of risk than those with portfolios diversified across a number of markets.
- investment in the securities of smaller and unquoted companies can involve greater risk than is customarily associated with investment in larger, more established, companies. In particular, smaller companies often have limited product lines, markets or financial resources and their management may be dependent on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock. Proper information for determining their value, or the risks to which they are exposed, may not be available.
- investments within emerging markets such as Taiwan can be of higher risk. Many emerging markets, and the companies quoted on their stock exchanges, are exposed to the risks of political, social and religious instability, expropriation of assets or nationalization, rapid rates of inflation, high interest rates, currency depreciation and fluctuations and changes in taxation which may affect the Fund's income and the value of its investments.
- the marketability of quoted shares may be limited due to foreign investment restrictions, wide dealing spreads, exchange controls, foreign ownership restrictions, the restricted opening of stock exchanges and a narrow range of investors. Trading volume may be lower than on more developed stockmarkets, and equities are less liquid. Volatility of prices can also be greater than in more developed stockmarkets. The infrastructure for clearing, settlement and registration on the primary and secondary markets may be undeveloped. Under certain circumstances, there may be delays in settling transactions in some of the markets.

Martin Currie Inc, registered in Scotland (no BR2575)

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