

TAIWAN GREATER CHINA FUND  
Form N-CSR  
March 07, 2005

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: **811-05617**

**Taiwan Greater China Fund**

(Exact name of registrant as specified in charter)

Bank Tower, Room 1001  
205 Dun Hua North Road  
Taipei 105, Taiwan  
Republic of China  
(Address of principal executive offices) (Zip code)

Brown Brothers Harriman  
40 Water Street, P. O. 962047,  
Boston, MA 02196-2047  
(Name and address of agent for service)

Registrant's telephone number, including area code: **1-617-742-1818**

Date of fiscal year end: **December 31**

Date of reporting period: **December 31, 2004**

ITEM 1. REPORTS TO STOCKHOLDERS.

TAIWAN GREATER CHINA FUND  
www.taiwangreaterchinafund.com

Taiwan Office:

Room 1001, 205 DunHua North Road  
Taipei, Taiwan, Republic of China  
Tel: 886-2-2715-2988  
Fax: 886-2-2715-3166

Officers and Trustees:

David N. Laux, Chairman and Trustee  
Steven R. Champion, President and Chief Executive Officer  
Edward B. Collins, Trustee and Audit Committee Member  
Frederick C. Copeland, Jr., Trustee and Audit Committee Member  
Robert P. Parker, Trustee and Audit Committee Member  
Cheryl Chang, Chief Financial Officer, Treasurer and Secretary

Administrator & Custodian:

Brown Brothers Harriman & Co.  
40 Water Street  
Boston, MA 02109  
U.S.A.  
Tel: (617) 742-1818

Transfer Agent,

Paying and Plan Agent:

EquiServe Trust Company, N.A.  
P.O. Box 43011  
Providence, RI 02940-3011  
U.S.A.  
Telephone: 1-800-426-5523

Investor Relations & Communications:

Citigate Financial Intelligence  
111 River Street, Suite 1001  
Hoboken, NJ 07030 U.S.A.  
Telephone: (201) 499-3500

U.S. Legal Counsel:

Bingham McCutchen LLP  
150 Federal Street  
Boston, MA 02110-1726  
U.S.A.  
Tel: (617) 951-8000

For information on the Fund, including the NAV,  
please call toll free 1-800-343-9567.

LOGO: Taiwan Greater China Fund

Annual Report  
December 31, 2004

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DEAR STOCKHOLDERS

During 2004, the Fund undertook a major transformation, beginning on January 2 when it began trading on the New York Stock Exchange as Taiwan Greater China Fund (Ticker: "TFC"). This recognized the Board of Trustees' new strategy of investing primarily in Taiwan Stock Exchange listed companies which derive or which are expected to derive a substantial portion of their revenues by exporting to or operating in mainland China. The Fund also underwent a reorganization of its status in Taiwan where it cancelled its longstanding investment contract with International Investment Trust Company and ceased to be regulated as a fund managed by a local Securities Investment Trust Enterprise. Under its new structure, the Fund is self-managed and regulated in Taiwan as a Foreign Institutional Investor. The Fund received cash from the old fund during the last week in February, reinvested the proceeds over the next few trading days, and was substantially reinvested in accordance with the new investment strategy on March 1. The transition was seamless, and the Fund began anew with a unique, tightly focused investment strategy.

The economic logic for the Fund's strategic redirection is compelling. The rapid growth of China is one of the great economic success stories of recent history, and Taiwan-based companies are playing an important role in this process as they shift their manufacturing operations to the mainland. Although the statistics remain somewhat imprecise, Taiwan companies' direct investment into mainland China has been estimated to approximate \$100 billion. Approximately, one million citizens of Taiwan are living in China, and the mainland has become Taiwan's largest export market, which also accounts for most of the growth in the island's exports. Taiwan invested companies account for approximately 15% of total Chinese exports, with levels as high as 60-70% of total exports in information technology hardware.

We believe that Taiwan-listed companies offer a uniquely attractive way to invest in China's economic boom and that businessmen from Taiwan are in many ways the most adaptable and successful investors in the mainland. Additionally, we believe that Taiwan-based companies generally benefit from superior governance and transparency when compared to their mainland-based competitors. We also believe that the regulatory and legal systems governing the operations of Taiwan companies provide a superior risk control mechanism when compared with local companies operating in China.

As we began implementing our new investment strategy, we had three related goals, all focused on increasing shareholder value: improving investment performance, controlling expenses, and eliminating or narrowing TFC's discount to its net asset value. We believe that we made great progress in all these areas during the last year.

During the first two months of 2004, prior to the refocusing and reinvestment of the Fund, the trend of underperformance relative to the Taiwan Stock Exchange Index ("TAIEX") continued. During this period, TFC's share price underperformed the TAIEX by 13.85 percentage points on both a price appreciation and total return basis, and the Fund's net asset value lagged the index by 9.21 percentage points on the same basis.

This situation changed dramatically following the implementation of the new strategy and the change to self-management. During the period from March 1 to year-end, TFC's share price declined 1.41% on a price appreciation basis and 1.18% on a total return basis which compares favorably to declines of 8.03% and 5.73%, respectively, in the Taiwan China Strategy

Index ("TCSI"). Likewise, the Fund's net asset value after expenses outperformed the TCSI by 3.41 percentage points on a price appreciation basis and 1.32 percentage points on a total return basis. The TCSI was developed by the Fund in cooperation with MSCI and is calculated by MSCI. It is available on our website, [www.taiwangreaterchinafund.com](http://www.taiwangreaterchinafund.com).

TFC's share price also outperformed the TAIEX during the March 1 to December 31 period by 5.30 percentage points on a price appreciation basis and by 3.37 percentage points on a total return basis. The Fund's net asset value after expenses outperformed the TAIEX by 2.09 percentage points on a price appreciation basis and by 0.13 percentage points on a total return basis. All returns are on a US dollar basis. These strong returns are even more positive when one adds back the 2.31% in expenses incurred in the year's final ten months to isolate pure investment return.

We view ourselves as long-term investors and under most circumstances make no effort to time the market or to trade aggressively in the short-term. The 137% turnover ratio shown in the annual report should be looked at in the context of the Fund being required to liquidate its entire portfolio as a part of our legal restructuring in Taiwan and to reinvest it in accordance with our new strategy. We tilt the Fund toward value stocks, and at year-end 2004, using MSCI data, it had a weighted average price-earnings ratio of 11.2, a weighted average price-book ratio of 2.1, and a weighted average dividend yield of 3.3%.

The Fund's expense ratio in 2004 was 2.79%, and we are taking aggressive steps to reduce this figure. Approximately, 29% of last year's total expense was in the category of legal expenses, and we have taken steps to reduce this expense in 2005. Many routine legal tasks which had previously been handled by external counsel will now be provided more economically by our new administrator and custodian, Brown Brothers Harriman. We also hope to avoid some of the significant expenses associated with our need to respond to activist shareholders during the past few years. We have budgeted for a major reduction in the expense ratio for 2005, and we will keep you informed on our progress in this area along the way.

During 2004, the Fund's average discount to net asset value was 9.99%, a sharp reduction from previous years and the lowest average discount for the Fund since 1996. The Fund tendered for one-third of its shares at 99% of net asset value in September, 2004 and also commenced a share buy-back program for up to 10% of total shares outstanding. To date, the Fund has repurchased 318,000 shares at an average price of \$4.69 and an average discount of 8.2%. From year-end 2004 to the date of this letter, the Fund's discount has averaged 8.2%.

We believe that the Fund's focus on shareholder value, its unique investment strategy, and its improved performance are beginning to be recognized by the market. We will continue to focus our attention on providing value through investment performance, reduced expenses, and close attention to our discount.

Respectfully submitted,

Steven R. Champion President and  
Chief Executive Officer

February 15, 2005

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## Portfolio Highlights

## SCHEDULE OF INVESTMENTS BY INDUSTRY AS OF DECEMBER 31, 2004

## Industry Diversification

Industry	Percent of	
	U.S. \$ Value	Net Assets
Computer Systems & Hardware	22,706,730	19.50%
Semiconductors	16,138,715	13.86
Plastics	14,035,071	12.05
Steel & Other Metals	10,059,536	8.64
Computer Peripherals/ODM	9,988,456	8.58
Flat Panel Displays	9,831,222	8.44
Other - Non-Technology	5,265,230	4.52
Transportation	4,207,577	3.61
Electronics Components	4,128,776	3.54
Automobile	3,424,359	2.94
Electrical & Machinery	3,121,687	2.68
Cement	2,677,127	2.30
Foods	2,390,911	2.05
Communications Equipment	2,345,166	2.01
Rubber	1,789,646	1.54
Textiles	695,035	0.60
Glass, Paper & Pulp	679,070	0.58
Chemicals	577,599	0.50
Retailing	534,813	0.46
Electronics - General	516,205	0.44
Other Assets in Excess of Liability	1,014,831	0.87
Short Term Investments	338,875	0.29
Net Assets	<b>\$116,466,637</b>	<b>100.00</b>

## TAIWAN GREATER CHINA FUND

Consolidated Schedule of Investments / December 31, 2004

COMMON STOCKS —		% of	Market
98.84%			Value
Automobile —		Net	U.S.
2.94%		Assets	Dollars
	1,071,000 shs.	China Motor Corp.	\$ 1,354,435
	181,528	Tong Yang Industry Co., Ltd.	0.24% 279,948
	302,000	TYC Brother Industrial Co., Ltd.	0.25% 292,395
	1,286,885	Yulon Motor Co., Ltd.	1.29% 1,497,581
			3,424,359
Cement — 2.30%			
	1,912,090	Asia Cement Corporation	1.16% 1,350,768
	2,012,290	Taiwan Cement Corp.	1.14% 1,326,359
			2,677,127
Chemicals —			
0.50%			
	844,000	Eternal Chemical Co., Ltd.	0.50% 577,599
Communications			
Equipment —			
2.01%			
	947,748	D-Link Corp.	0.95% 1,105,908
	527,450	Zyxel Communicationns Corp.	1.06% 1,239,258
			2,345,166
Computer Systems & Hardware —			
19.50%			
	781,286	Acer Inc.	1.11% 1,293,581
	117,166	Advantech Co., Ltd.	0.25% 284,523
	2,161,000	Asustek Computer Inc.	4.95% 5,758,850
	1,076,284	Compal Electronics Inc.	0.92% 1,075,996
	751,600	Elitegroup Computer Systems Co., Ltd.	0.44% 516,735

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	201,950	Giga-Byte Technology Co., Ltd.	0.21%	244,568
	2,535,417	Hon Hai Precision Industry Co., Ltd.	10.09%	11,754,145
	800,550	Inventec Corp.	0.35%	409,004
	761,743	Quanta Computer Inc.	1.18%	1,369,328
				22,706,730
Electrical & Machinery — 2.68%				
	861,000	Teco Electric & Machinery Co., Ltd.	0.24%	279,682
	5,209,000	*Walsin Lihwa Corp.	2.44%	2,842,005
				3,121,687
Electronic Components — 3.54%				
	199,000	Career Technology (MFG.) Co., Ltd.	0.24%	285,554
	89,800	Catcher Technology Co., Ltd.	0.25%	295,949
	447,150	Delta Electronics Inc.	0.68%	789,706
	108,400	Largan Precision Co., Ltd.	0.52%	605,100
	109,909	Merry Electronics Co., Ltd.	0.23%	263,434
	230,347	Tripod Technology Corp.	0.28%	331,989
	755,996	Wus Printed Circuit Co., Ltd.	0.30%	350,478
	3,356,000	*Yageo Corp.	1.04%	1,206,566
				4,128,776
Electronics — 0.44%				
	349,000	Synnex Technology International Corp.	0.44%	516,205
Flat-Panel Displays — 8.44%				
	3,912,000 shs.	AU Optronics Corp.	4.86%	5,662,860
	1,375,913	Chi Mei Optoelectronics	1.59%	1,857,202



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	Corp.		
3,897,000	*Chunghwa Picture Tubes, Ltd.	1.52%	1,769,772
918,000	*Quanta Display Inc.	0.47%	541,388
			9,831,222
Food — 2.05%			
4,567,000	Uni-President Enterprise Corp.	2.05%	2,390,911
Glass, Paper & Pulp — 0.58%			
409,160	Taiwan Glass Ind. Corporation.		