

TAIWAN GREATER CHINA FUND
Form N-CSR
March 10, 2010

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)

c/o Nanking Road Capital Management, LLC
111 Gillett Street
Hartford, CT 06105
(Address of principal executive offices) (Zip code)

Brown Brothers Harriman & Co.
40 Water Street
Boston, MA 02106-3604
(Name and address of agent for service)

Registrant's telephone number, including area code: (800) 343-9567

Date of fiscal year end: December 31

Date of reporting period: December 31, 2009

ITEM 1. REPORTS TO STOCKHOLDERS

Annual Report
December 31, 2009–

Dear Shareholders

After its severe collapse in late 2008, Taiwan's stock market staged a dramatic recovery in 2009 and was among the best performing emerging markets worldwide for the year. After reaching an intraday low of 3955 in late November and after closing 2008 at 4591, the Taiwan Stock Exchange index (TAIEX) rose 83.0% in dollar terms during 2009 to close the year at 8188. Additionally, during 2009 the TWSE returned 88.1% on a total return basis, measured in US dollars. The more numerically rigorous MSCI Taiwan index rose 79.2% for the year on a total return basis, net of the impact of withholding taxes on dividends, and the Taiwan China Strategy index rose 96.6%, on the same basis. The volatility of the overall Taiwan stock market based on the 30 day annualized rate calculated by Bloomberg declined significantly to 15.2% at year-end, compared to 36.0% and 27.7% at year-ends 2008 and 2007, respectively. The Fund's stock price on the New York Stock Exchange rose 80.2% and its net asset value increased 88.33%¹ after taxes and expenses of 3.5%.

The Fund's discount to net asset value averaged 9.2% in 2009, slightly lower than the 9.8% and 9.7% discounts recorded in 2008 and 2007, respectively. The highest closing discount for the year was the 14.5% recorded on September 1, and the lowest closing discount was the 0.6% discount reached on May 1. The Fund traded at intraday premiums on April 30 and May 1, the first premiums in many years. The Fund's mean and median daily trading volumes for 2009 declined to 26,435 shares and 16,663 shares, respectively, compared to 37,037 shares and 25,800 shares, respectively, in 2008.

The Fund's net asset value performance remained highly correlated to the overall performance of the Taiwan stock market during 2009 with R-squared's of 0.93 and 0.95 relative to the TAIEX and the MSCI Taiwan indexes, respectively. The Fund's betas relative to the two broad-based indexes are 0.93 and 0.95, respectively, indicating that the Fund's net asset value is slightly less volatile than the overall Taiwan market. The Fund produced alphas (measures of "excess return" which cannot be explained by the risk level) of 18 basis points per week and 19 basis points per week relative to the two indexes, respectively.

Performance Attribution

Taiwan Greater China Fund uses Bloomberg to provide attribution analysis for the Fund's portfolio. The Bloomberg analysis compares the NT\$ total returns of the Fund's portfolio to the NT\$ total returns of the Fund's benchmarks. For the one year period ending December 31, 2009, the NT\$ return of the Fund's portfolio was 90.1% while the return of MSCI Taiwan was 75.6%. Therefore the active return for the fund was a 14.5%. Sector allocation contributed 9.3% to the active return while asset selection contributed 5.2%. There was also contribution of -0.1% due to currency, a result of holding several Hong Kong shares. Telecommunications, computer hardware, financials and semiconductors were all nearly equal contributors to active returns. Cash and cement were the main negative contributors. For the three months ending December 31, 2009, the portfolio returned 9.6% compared to MSCI Taiwan's return of 7.5%, for an active return of 2.1%. Sector allocation contributed 1.7% while stock selection contributed 0.5%, and currency had a very slight negative contribution. Financials and flat panel displays were the main positive sector contributors while cement and cash were the main negative contributors to active sector returns.

Portfolio Valuation Measures

Market valuations for the Fund's portfolio of generally high quality companies at the end of the 4th quarter moved toward a more normal range as profitability continued to improve. The heavily technology weighted portfolio had a weighted average historical price-earnings ratio of 20.1, a weighted average price-book ratio of 2.7, a weighted average cash dividend yield of 2.3%, and a weighted average return on equity of 10.4%. On a forward-looking basis based on consensus earnings from Bloomberg for 2010, the price earnings ratio of the portfolio is 15.0. The Fund generally holds shares in companies with high liquidity levels, low leverage, and high quality earnings.

1 While we normally round return percentages to one decimal point, we have shown this number with two decimal places because it is an extremely auspicious number in Chinese numerology.

1

Taiwan Political and Economic Developments

Despite the strong showing for Taiwan in the markets, its heavily export-oriented economy was significantly impacted by the global financial crisis. In the first quarter of 2009, exports were down 36.7% Year over Year (“YoY”). But the economy showed a steady recovery over the year and by the 4th quarter, YoY exports were actually up 16.9%, albeit from Q4 2008’s low base. Overall for the year, 2009 exports were down 20.4%. Direct exports to China, however, were an exception. For the year, exports to China grew 1.6% and Q4 2009 China exports were up 45.8% YoY. This is partially a result of China’s successful stimulus policy to promote domestic demand in response to the global downturn and its impact on Chinese exports. Taiwan, in particular, benefited from Chinese government subsidies to consumers for computers, cell phones and LCD TV’s. China accounted for 41.1% of total Taiwan exports in 2009. The Taiwan government is projecting 2010 export growth to be in the 15-20% range.

Taiwan also enacted its own stimulus amounting to US\$4.4 billion in 2009, as part of a 4-year plan for public works spending. In addition, the Central Bank of China, Taiwan’s central bank, has kept interest rates at 1.25% since February 2009. The consumer price index declined YoY for 11 straight months during 2009, allowing the CBC to keep an accommodative monetary policy. The CBC has faced upward speculative pressure on the Taiwan dollar. In early 2009, the NT\$ depreciated to NT\$35.2 per US\$ but by the end of the year had appreciated to NT\$32.0, for a YoY appreciation of 2.5%. The CBC felt there was an inflow of foreign funds to Taiwan not being invested in the market but rather held for currency speculation. The CBC has taken a number of steps including allowing investors only a week to invest after incoming funds are converted to local currency and banning foreigners from placing funds in NT\$ time deposits.

In the first quarter of 2009, Taiwan’s GDP fell by 9.1%. However, the third quarter decline was only 1.3% YoY. Overall, the government statistics bureau expects a positive 4th quarter but an overall decline in GDP of 2.5% for the entire year. The GDP decline was exacerbated by Typhoon Morakot, which struck the island in August. It was the worst storm in 50 years and the death toll was over 600 people. The statistics bureau is projecting 2010 GDP growth of 4.4%.

2009 was a year for significant progress on cross-strait policy. On April 30th, China Mobile, China’s largest telecommunications company announced that it had come to an agreement with Taiwan’s 3rd largest telecom operator, Far Eastone Telecommunications to buy 12% of the company. The announcement caught the market by surprise and over 2/3’s of the stocks on the TWSE closed up limit (7%) the following day. Both China and Taiwan followed over the next month with policy changes to accommodate Chinese investment in over 100 industries and projects in Taiwan, although telecom was not on the allowed investment list so the China Mobile acquisition has not moved ahead. In the six months since the official June 30th opening of Chinese investments in Taiwan, only 23 investments totalling US\$37.5 million have been approved but these investments mark an almost 60-year milestone in Taiwan and China relations.

Another major event was the enactment of three financial services memoranda of understanding covering cooperation in the banking, securities and insurance industries. The MOU’s were executed in November and took effect on January 16, 2010. The banking MOU paves the way for Taiwan banks to open or upgrade representative offices to branches in China without the normal 3-year wait and for Chinese banks to establish branches in Taiwan. Investments in existing banks are not covered in the MOU.

Taiwan continues to see the benefits of improved transportation links and the lifting of travel restrictions for Chinese tourists to visit Taiwan. Taiwan opened to Chinese tourists in mid-2008 and in 2009 about 960,000 tourists visited the island. It is estimated by tourism officials that Chinese tourists may have contributed slightly over US\$1 billion to the Taiwan economy. The improved political climate is also reflected in the recent Business Environment Risk Intelligence report ranking Taiwan as 5th globally in terms of its overall investment climate out of 50 nations surveyed. Taiwan ranked behind Switzerland, Singapore, the Netherlands and Norway.

Taiwan's economy and corporate earnings are expected to continue their recovery in the coming year. The economic integration between Taiwan and China is accelerating, and we believe this will continue to be a positive force for Taiwan equities.

Yours truly,

Steven R. Champion
President, CEO and Portfolio Manager

February 25, 2010

TAIWAN GREATER CHINA FUND

PORTFOLIO HIGHLIGHTS

Schedule of Investments by Industry as of December 31, 2009

Industry Diversification

Industry	U.S. \$ Value	Percent of Net Assets
Computer Systems & Hardware	21,154,421	25.01%
Semiconductors	16,466,685	19.46
Plastics	9,302,615	10.99
Electronic Components	9,035,743	10.68
Flat-Panel Displays	6,058,814	7.16
Steel	3,629,119	4.29
Food	3,360,573	3.98
Financial Services	3,096,415	3.66
Computer Peripherals/ODM	2,678,768	3.17
Cement	2,177,492	2.57
Electronics/Other	1,860,153	2.20
Other Non-Tech	1,295,422	1.53
Textiles	1,105,228	1.31
Rubber	984,625	1.16
Electrical & Machinery	456,495	0.54
Glass, Paper & Pulp	400,599	0.47
Transportation	322,913	0.38
Communications Equipment	282,613	0.33
Circuit Boards	242,958	0.29
Retailing	226,413	0.27
Internet Content-Entertainment	119,229	0.14
Hotels	98,760	0.12
Short-Term Securities	218,733	0.26
Other Assets (Less Liabilities)	17,292	0.03
Net Assets	\$ 84,592,078	100.00

TAIWAN GREATER CHINA FUND
Schedule of Investments / December 31, 2009

COMMON STOCK — 99.72%

Shares	% of Net Assets	U.S. Dollar Value
Cement — 2.57%		
719,683 Asia Cement Corp.	0.92	\$ 778,024
1,317,373 Taiwan Cement Corp.	1.65	1,399,468
		2,177,492
Circuit Boards — 0.29%		
72,000 Tripod Technology Corp.	0.29	242,958
Communications Equipment — 0.33%		
156,491 Gemtek Technology	0.33	282,613
Computer Peripherals/ODM — 3.17%		
174,628 Chicony Electronics Co., Ltd.	0.50	423,400
98,843 HTC Corp.	1.34	1,131,867
748,350 Lite-on Technology Corp.	1.33	1,123,501
		2,678,768
Computer Systems & Hardware — 25.01%		
455,397 Acer Inc.	1.62	1,368,802
1,940,228 Asustek Computer Inc.	4.43	3,746,421
823,676 Compal Electronics Inc.	1.35	1,141,367
2,333,860 Hon Hai Precision Industry Co., Ltd.	13.06	11,047,470
1,077,046 Quanta Computer Inc.	2.77	2,342,172
777,300 Wistron Corp.	1.78	1,508,189
		21,154,421
Electrical & Machinery — 0.54%		
366,000 Teco Electric & Machinery Co., Ltd.	0.19	160,097
793,837* Walsin Lihwa Corp.	0.35	296,398
		456,495
Electronic Components — 10.68%		
277,343 Catcher Technology Co., Ltd.	0.92	