TAIWAN GREATER CHINA FUND
Form N-CSR
March 09, 2009

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)

P.O. Box 118-763 Taipei
Taipei 10599, Taiwan
Republic of China
(Address of principal executive offices) (Zip code)

Brown Brothers Harriman & Co.
40 Water Street, P. O. 962047
Boston, MA 02196-2047
(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, 2008

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking rules.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct all comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under clearance requirements of 44 U.S.C. § 3507.

ITEM 1. REPORTS TO STOCKHOLDERS

Annual Report
December 31, 2008

Dear Stockholders

Like markets throughout the world, the Taiwan stock market suffered through a dismal year in 2008, with the overall stock market as measured by the Taiwan Stock Exchange Index (TAIEX) yielding US$denominated total returns of -43.7%. It is scant comfort to note that other emerging markets did even worse during the year, including China -62.6%, Korea -57.2%, India -61.0%, Brazil -55.3%, and Russia -72.3%. From its 2008 peak of 9310 on May 20th, the Taiwan market dropped 50.2% to close the year at 4591. The MSCI Taiwan Index produced a similar negative dollar return of -46.0%. These US dollar returns factor in a 1.1% drop in the value of the Taiwan dollar during the year. The volatility of the overall Taiwan market based on a 30 day annualized rate calculated by Bloomberg was 36.0% at year-end, compared to 27.7% in 2007, and 11.6% in 2006. Interestingly, the Taiwan market was significantly less volatile than the same measure for the S & P 500 Index which reached 59.7% on December 31.

Fund Performance

Considering the worldwide financial turmoil experienced during 2008, it was somewhat surprising that Taiwan's financial stocks outperformed the overall market by 8.8% during the year, much of this out performance coming in January and March. This is important to the Fund since Taiwan's financial sector has little investment in China and, consequently, the Fund holds shares in only one company in the sector. The Fund's primary benchmark, the Taiwan China Strategy Index*, declined 53.0% for the year, and the similar S & P/Polaris China Play 50 Index had US dollar returns of -56.2%. The Fund's shares on the New York Stock Exchange declined 51.2% for the year, and the Fund's net asset value declined 52.5% after expenses of 2.4%, taxes on cash dividends of 1.0%, and taxes on stock dividends of 0.2%.

The Fund's discount to net asset value averaged 9.8% during the year, up from 9.7% in 2007, and 7.3% in 2006. The maximum discount during the year was 21.7% on October 10, and the minimum was 4.1% on October 28.

The Fund's mean and median daily trading –volumes were 37,037 shares and 25,800 shares, respectively, during the year, compared to 42,510 shares and 27,800 shares, respectively, in 2007.

The Fund's net asset value performance is highly correlated with the performance of the broad Taiwan market indices with R2's** of 0.94 and 0.96 relative to the TAIEX and the MSCI Taiwan indexes, respectively. The Fund's betas relative to the two broad indexes are 1.00 and 0.98, respectively, and the Fund's alphas relative to those indexes are +0.8 basis points and -1.0 basis point per week, respectively. Alpha is a measure of "excess return" or returns which cannot be explained by the risk level of an asset. Relative to the S & P/Polaris China Play 50 Index, the Fund has an R2 of 0.93, a beta of 0.99, and a positive alpha of 11 basis points per week.

Performance Attribution

The Fund contracts with MSCI Barra*** to –provide attribution data from their Aegis Performance Analyst model. The attribution model compares the NT$returns of the MSCI Taiwan Index with the NT$returns of the Fund's portfolio. The MSCI Index represents the overall market in Taiwan while the Fund's –strategy calls for investment in Taiwan –companies doing business in China.

For the 12 months ending December 2008, the NT$gross return for the MSCI Taiwan index in the Aegis model was a negative 44.5% while the portfolio-only return for the Fund in the model was a negative 49.9%. This implies that a negative 5.4 percentage points of return can be attributed to the China strategy and the active management of the fund. The negative performance continues to be a result of Q1 2008 results, when the China strategy and the active management showed a negative contribution of 7.4 percentage points. Q1 2008 results were primarily a result of the strong performance of the financial sector and the under-representation of financials in the TFC portfolio given their minimal activity in China, coupled with an over-representation of technology stocks given that they are the major sector operating in China.

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Over the longer term, since the inception of the Fund's China focused strategy in 2004, the China strategy and the active management of the Fund has contributed 2.6 percentage points with the MSCI Taiwan returning a negative 22.1% in NT$in the model while the Fund returned a negative 19.5%. This represents a 12% improvement over the MSCI Taiwan Index returns in NT$. Sector selection was the key source of returns over this period, contributing more than the total active return of the Fund but momentum stocks and smaller cap stocks positively contributed to active return, while growth stocks and overall asset selection were detriments. The dramatic effects of the last quarter of 2008 shifted asset selection from being a positive contributor to active returns over the long term to a negative factor.

Portfolio Valuation Measures

Corporate valuations in Taiwan remain at low levels despite the eroding business climate. Due to improvements in Taiwan's financial reporting, we can now calculate more up-to-date valuation statistics than in the past, and at year-end, the Fund's heavily tech-weighted portfolio was composed of companies with a weighted average price-earnings ratio of 12.6, a weighted average price-book ratio of 2.2, a weighted average cash dividend yield of 10.7%, and a weighted average return on equity of 22.1%.

Taiwan Political and Economic Developments

Last year marked a major political shift for Taiwan as a new administration began to implement its promises to improve relations with China. But the positive impact of the political developments was more than offset by the global economic crisis and falling demand in Taiwan's main export markets.

The year started off with a Kuomintang (KMT) victory in the Taiwan legislative elections in January, with the Pan-Blue coalition winning 75% of the seats. In March, the voters elected the KMT's Ma Ying-jeou as President by a margin of 58% to 42% over Frank Hsieh, the pro-independence Democratic Progressive Party candidate. Chen Shui-bian, the President for the last eight years, was unable to run because of term limits. During the campaign, Ma emphasized improving cross-strait relations and domestic investment to spur economic growth.

Within about six weeks after Ma's inauguration in May, he fulfilled one of his key promises as direct weekend passenger flights commenced between Taiwan and China. Initially, 36 charter flights were established and by the end of the year the flights were expanded to a daily basis, the total number of weekly flights was increased to 108 and flights were allowed to fly a direct route rather than entering Taiwan only through Hong Kong airspace. Direct cargo flights and shipping links were also launched at the end of the year. Another campaign promise was to –liberalize limitations on investments by Taiwan companies in mainland China. In August, the government lifted investment limitations for about 60% of Taiwan's listed companies, while most other companies had their limits increased to 60% of net worth. This ultimately will help to rationalize corporate and capital structures of Taiwan companies that have invested in China. A number of other firsts related to China also happened during the year, including the opening of Taiwan to Chinese tourists, the visit of Chen Yunlin, China's top envoy to Taiwan and the highest ranking Chinese official to visit Taiwan since 1949, and the change of rules to allow banks and securities companies to invest in their Chinese counterparts through third-country subsidiaries.

On the economic side, the news was not so positive. During the first half of the year, Taiwan's export growth was an impressive 18.1% YOY, driven by exports to China, much of which went into goods ultimately exported to the US and Europe. But by September, exports were beginning to slide and in December exports fell 41.9% YOY, with exports to China slowing 57.1%. Export orders in December, representing shipments 1-3 months in the future, also declined 33% YOY. The impact of the dramatically weakening global economy was also seen in GDP –figures, as foreign demand accounts traditionally for 60% of GDP. After first half GDP growth of 5.4% compared to the year earlier period, third quarter growth came in at a negative 1.5% and fourth quarter as well as the first two quarters of 2009 are forecast to be negative. The government has revised its overall 2008 growth forecast to 1.9% and is expecting 2009 growth to be 2.1%, although the Taiwan Institute of Economic Research believes that 2009 GDP will only grow 0.9%.

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Like many other countries, Taiwan reacted to the global crisis by enacting a number of measures targeted at boosting the economy and strengthening the financial system. The Central Bank began cutting interest rates in September and has now lowered them six times from 3.625% to 1.5%, with the latest cut in January 2009. Early in the crisis, the government lowered the bank reserve ratio, expanded the REPO mechanism and fully guaranteed bank deposits. A US$28 billion stimulus package is now also being implemented which calls for US$15 billion on infrastructure spending over four years as well as US$2.5 billion on shopping vouchers which were distributed prior to Chinese New Year in late January. The stimulus package also focuses on encouraging investment through tax incentives and land purchase subsidies, boosting exports through export financing, and providing credit guarantees for small and medium businesses and targeted assistance for key industries. President Ma's election proposal for 12 major domestic infrastructure projects implemented through public-private partnerships remains on the drawing board.

The worldwide economic slowdown notwithstanding, China's economy is expected to grow at a 7.5% rate in 2009, and well managed, well governed Taiwan related companies will continue to be deeply involved in the China market. With low corporate valuations and less volatility than many markets the Taiwan companies in which the Fund invests will continue to make it a smart way to play China for long term investors.

Yours truly,
Steven R. Champion
President, CEO and Portfolio Manager

January 30, 2009

*Source: MSCI. This information is for internal use only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data (the "MSCI Parties") makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

The Taiwan China Strategy Index is a custom index calculated by MSCI for, and as requested by, Taiwan Greater China Fund. To calculate this Index MSCI starts with the MSCI Taiwan Index and then excludes those securities selected by Taiwan Greater China Fund on a quarterly basis based on Taiwan Greater China Fund's screening criteria. MSCI has no role in developing, reviewing or approving Taiwan Greater China Fund's investing criteria or the list of companies excluded from the MSCI Taiwan Index by Taiwan Greater China Fund to create the Taiwan China Strategy Index.

**R2 is a measure of the correlation between the dependent and independent variables in a regression analysis. In this report, it measures the extent to which the Fund's movements can be explained by movements in a benchmark index. The measurement ranges from 0 to 1, where 1 indicates that all movements of the Fund can be explained by movements in the index.

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TAIWAN GREATER CHINA FUND
PORTFOLIO HIGHLIGHTS
SCHEDULE OF INVESTMENTS BY INDUSTRY AS OF DECEMBER 31, 2008

Industry Diversification

Industry		U.S. $ Value	Percent of Net Assets
Computer Systems & Hardware		10,228,047	20.57%
Semiconductors		8,543,149	17.18
Plastics		5,911,088	11.89
Electronic Components		3,976,560	7.99
Flat-Panel Displays		3,896,762	7.84
Steel		3,622,504	7.29
Food		2,977,387	5.99
Cement		2,087,961	4.20
Computer Peripherals/ODM		1,811,457	3.64
Other		1,389,317	2.79
Financial Services		1,036,534	2.09
Electronics/Other		849,017	1.71
Textiles		616,257	1.24
Transportation		577,271	1.16
Rubber		433,734	0.87
Electrical & Machinery		354,496	0.71
Glass, Paper & Pulp		351,211	0.71
Retailing		314,164	0.63
Communications Equipment		232,372	0.47
Short-Term Securities		122,307	0.25
Other Assets (Less Liabilities)		388,096	0.78
Net Assets	$	49,719,691	100.00

TAIWAN GREATER CHINA FUND
Schedule of Investments / December 31, 2008

COMMON STOCK — 98.97%

Shares		% of Net Assets		U.S. Dollar Value
Cement — 4.20%				
838,615	Asia Cement Corp.	1.46	$	726,975
1,657,373	Taiwan Cement Corp.	2.74		1,360,986
				2,087,961
Communications Equipment — 0.47%				
165,787	Gemtek Technology	0.47		232,372
Computer Peripherals/ODM — 3.64%				
108,899	HTC Corp.	2.18		1,085,041
1,111,433	Lite-on Technology Corp.	1.46		726,416
				1,811,457
Computer Systems & Hardware — 20.57%				
500,651	Acer Inc.	1.31		649,859
90,980	Advantech Co., Ltd.	0.26		131,678
2,151,154	Asustek Computer Inc.	4.85		2,412,093
460,494	Compal Electronics Inc.	0.49		242,040
2,515,531	Hon Hai Precision Industry Co., Ltd.	9.90		4,920,841
426,242				