

month provided only short-term relief for worried Taiwan investors. Their attention for the rest of the period was drawn to the spread of severe acute respiratory syndrome (SARS) and its possible effects on the economy. By the end of March, the government in Taiwan had banned civil servants from travel to China and Hong Kong. One listed company had to shut its head office for a few days after several employees were diagnosed with the illness. Taiwan's economy performed reasonably well under the difficult conditions. This was largely a result of strong foreign demand, which had also lifted the economy out of recession to growth of 3.5% in 2002. Merchandise exports--equivalent to about 40% of gross national product--increased 11.4% in the first quarter from the corresponding quarter in 2002. Driving this growth was a 27% jump in shipments to China (including Hong Kong), which absorbed a third of total exports during the period. Private consumption, however, was weak as unemployment remained near record-high levels and the stock market declined. And, after advancing more than 16% in the second half of last year, private investment was estimated to increase at a low single-digit rate. Still, we project that Taiwan's economy grew 3.6% in the first quarter compared to the year earlier period.

Our forecast calls for full-year growth of 3.3%. The major impact of SARS has so far been on Taiwan's relatively small tourism industry. To a lesser extent, it has affected general consumer spending. But to date, the disease has had no noticeable effect on industrial production or the level of new orders received by manufacturers. The government has also set up an emergency \$1.4 billion fund to aid in treating SARS patients and help offset SARS-related losses to industries such as tourism.

The Fund's investments in Taiwanese companies with growing China business held up well during most of the first quarter. But this concentration in stocks particularly exposed to China had a correspondingly greater vulnerability to the effect of SARS on the market. As a result, the Fund underperformed the TAIEX during the period.

We have adopted, after a thorough study and analysis of various reports and data on SARS, a mid-level prediction that by the end of June the disease will be contained and commercial activity will begin to return to normal. If this prediction proves to be accurate, we believe that delayed demand will then help economic activity pick up in the second half of the year. China still ought to grow 7.5% this year, which should make our forecast for Taiwan achievable.

The strengthening economy should also lend solid fundamental support to Taiwan's stock market, which has become oversold because of the lack of confidence following the SARS outbreak. Our strategy is to remain fully invested in a broadly diversified portfolio. We will also continue to focus about half of the Fund's investments on those Taiwanese companies whose business is becoming increasingly integrated with the economy of China.

We are grateful for your support and look forward to discussing our market outlook and portfolio strategy with you in future reports.

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Respectfully submitted,

/s/ Michael Ding

Michael Ding
President

May 5, 2003

PORTFOLIO HIGHLIGHTS
Three Months Ended March 31, 2003

KEY STATISTICS

| | |
|-------------------------------------|-----------------|
| Change in N.A.V. (\$4.37 to \$4.03) | -\$0.34 |
| Total Net Assets | \$131.7 Million |

SECURITY CLASSIFICATION

| Percent of Net Assets | | Value (000) |
|------------------------------|---------|----------------|
| Common Stocks | 98.63% | \$129,901 |
| Short-term Investments | 0.72 | 949 |
| Total Investments | 99.35 | 130,850 |
| Other Assets LessLiabilities | 0.65 | 851 |
| Net Assets | 100.00% | \$131,701 |

TEN LARGEST HOLDINGS

| Company | Percent of Net Assets |
|--|--------------------------|
| Taiwan Green Point Enterprises Co., Ltd. | 5.86% |
| Chunghwa Telecom Co., Ltd. | 4.72 |
| Pihsiang Machinery Manufacturing Co., Ltd. | 4.40 |
| Synnex Technology International Corp. | 4.28 |
| Lite-on Technology Corp. | 3.94 |
| Taiwan Semiconductor Manufacturing Co., Ltd. | 3.70 |
| Sonix Technology Co., Ltd. | 3.69 |

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| | |
|-------------------------------|------|
| United Microelectronics Corp. | 3.68 |
| Zyxel Communications Corp. | 3.66 |
| Taiwan Paiho Ltd. | 3.54 |

INDUSTRY DIVERSIFICATION

| | Percent of Net Assets |
|------------------------------|--------------------------|
| Electronics | 16.48% |
| Semiconductors | 14.28 |
| Plastics | 9.13 |
| Banking | 8.09 |
| Computers & Office Equipment | 6.69 |
| Retailing | 5.99 |
| Communications Equipment | 5.16 |
| Telephone Services | 4.72 |
| Chemical | 4.40 |
| Other Financials | 3.08 |

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 Michael Ding, President and Trustee
 Edward B. Collins, Trustee and Audit Committee Member
 Alex Hammond-Chambers, Trustee and Audit Committee Member
 Pedro-Pablo Kuczynski, Trustee and Audit Committee Member
 David N. Laux, Trustee and Audit Committee Member
 Robert P. Parker, Trustee and Audit Committee Member
 Cheng-Cheng Tung, Trustee
 Peggy Chen, Chief Financial Officer, Treasurer and Secretary

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1-800-343-9567.