

# Matthews Asia Funds | Annual Report

December 31, 2013 | [matthewsasia.com](http://matthewsasia.com)

## ASIA FIXED INCOME STRATEGY

Matthews Asia Strategic Income Fund

## ASIA GROWTH AND INCOME STRATEGIES

Matthews Asian Growth and Income Fund

Matthews Asia Dividend Fund

Matthews China Dividend Fund

## ASIA GROWTH STRATEGIES

Matthews Asia Focus Fund

Matthews Asia Growth Fund

Matthews Pacific Tiger Fund

Matthews Emerging Asia Fund

Matthews China Fund

Matthews India Fund

Matthews Japan Fund

Matthews Korea Fund

## ASIA SMALL COMPANY STRATEGIES

Matthews Asia Small Companies Fund

Matthews China Small Companies Fund

## ASIA SPECIALTY STRATEGY

Matthews Asia Science and Technology Fund



Matthews Asia

## Performance and Expenses

	Average Annual Total Return				Inception Date	2013 Annual Operating Expenses	Prospectus Expense Ratios*
	1 year	5 years	10 years	Since Inception			
<b>Matthews Asia Strategic Income Fund</b>							
Investor Class (MAINX)	-0.50%	n.a.	n.a.	5.80%	11/30/11	1.28%	1.85%
After Fee Waiver and Reimbursement/After Voluntary Fee Waiver and Expense Reimbursement						n.a./1.20% <sup>2</sup>	1.40% <sup>1</sup> /1.17% <sup>2</sup>
Institutional Class (MINCX)	-0.20%	n.a.	n.a.	6.01%	11/30/11	1.09%	1.70%
After Fee Waiver and Reimbursement/After Voluntary Fee Waiver and Expense Reimbursement						n.a./1.00% <sup>2</sup>	1.25% <sup>1</sup> /1.00% <sup>2</sup>
<b>Matthews Asian Growth and Income Fund</b>							
Investor Class (MACSX)	4.83%	14.92%	11.12%	10.74%	9/12/94	1.08%	1.11%
Institutional Class (MICSX)	5.04%	n.a.	n.a.	6.58%	10/29/10	0.93%	0.97%
<b>Matthews Asia Dividend Fund</b>							
Investor Class (MAPIX)	11.27%	17.16%	n.a.	10.77%	10/31/06	1.06%	1.09%
Institutional Class (MIPIX)	11.43%	n.a.	n.a.	7.49%	10/29/10	0.93%	0.97%
<b>Matthews China Dividend Fund</b>							
Investor Class (MCDFX)	13.35%	n.a.	n.a.	11.26%	11/30/09	1.24%	1.47%
After Fee Waiver, Reimbursement and Recapture						1.34%	1.50% <sup>3</sup>
Institutional Class (MICDX)	13.72%	n.a.	n.a.	8.53%	10/29/10	1.08%	1.29%
<b>Matthews Asia Focus Fund</b>							
Investor Class (MAFSX)	n.a.	n.a.	n.a.	-2.63% <sup>4</sup>	4/30/13	3.50%	2.38%
After Fee Waiver and Reimbursement/After Voluntary Fee Waiver and Expense Reimbursement						1.92% <sup>5</sup> /1.71% <sup>6</sup>	1.91% <sup>5</sup> /1.70% <sup>6</sup>
Institutional Class (MIFSX)	n.a.	n.a.	n.a.	-2.48% <sup>4</sup>	4/30/13	3.32%	2.22%
After Fee Waiver and Reimbursement/After Voluntary Fee Waiver and Expense Reimbursement						1.75% <sup>5</sup> /1.50% <sup>6</sup>	1.75% <sup>5</sup> /1.50% <sup>6</sup>
<b>Matthews Asia Growth Fund</b>							
Investor Class (MPACX)	19.35%	17.59%	10.39%	10.55%	10/31/03	1.12%	1.16%
Institutional Class (MIAPX)	19.63%	n.a.	n.a.	7.67%	10/29/10	0.93%	0.98%
<b>Matthews Pacific Tiger Fund</b>							
Investor Class (MAPTX)	3.63%	18.96%	12.68%	8.89%	9/12/94	1.09%	1.11%
Institutional Class (MIPTX)	3.78%	n.a.	n.a.	3.74%	10/29/10	0.92%	0.95%
<b>Matthews Emerging Asia Fund</b>							
Investor Class (MEASX)	n.a.	n.a.	n.a.	-0.61% <sup>4</sup>	4/30/13	2.39%	2.83%
After Fee Waiver and Reimbursement/After Voluntary Fee Waiver and Expense Reimbursement						2.18% <sup>5</sup> /1.98% <sup>6</sup>	2.16% <sup>5</sup> /1.95% <sup>6</sup>
Institutional Class (MIASX)	n.a.	n.a.	n.a.	-0.55% <sup>4</sup>	4/30/13	2.21%	2.67%
After Fee Waiver and Reimbursement/After Voluntary Fee Waiver and Expense Reimbursement						2.00% <sup>5</sup> /1.75% <sup>6</sup>	2.00% <sup>5</sup> /1.75% <sup>6</sup>
<b>Matthews China Fund</b>							
Investor Class (MCHFX)	6.84%	14.89%	12.27%	10.76%	2/19/98	1.08%	1.12%
Institutional Class (MICFX)	6.97%	n.a.	n.a.	-1.31%	10/29/10	0.91%	0.91%
<b>Matthews India Fund</b>							
Investor Class (MINDX)	-5.90%	15.50%	n.a.	8.62%	10/31/05	1.13%	1.18%
Institutional Class (MIDNX)	-5.67%	n.a.	n.a.	-7.72%	10/29/10	0.95%	0.98%
<b>Matthews Japan Fund</b>							
Investor Class (MJFOX)	34.03%	12.01%	3.96%	5.53%	12/31/98	1.10%	1.20%
Institutional Class (MIJFX)	34.27%	n.a.	n.a.	13.51%	10/29/10	0.96%	1.04%
<b>Matthews Korea Fund</b>							
Investor Class (MAKOX)	10.11%	20.46%	12.20%	6.23%	1/3/95	1.13%	1.16%
Institutional Class (MIKOX)	9.87%	n.a.	n.a.	10.96%	10/29/10	0.97%	1.00%
<b>Matthews Asia Small Companies Fund</b>							
Investor Class (MSMLX)	7.19%	23.92%	n.a.	17.12%	9/15/08	1.47%	1.50%
Institutional Class (MISMXX) <sup>7</sup>	7.36%	23.96%	n.a.	17.15%	4/30/13	1.25%	1.36%
<b>Matthews China Small Companies Fund</b>							
Investor Class (MCSMX)	28.85%	n.a.	n.a.	0.15%	5/31/11	2.04%	3.26%
After Fee Waiver and Reimbursement						2.00% <sup>8</sup>	2.00% <sup>8</sup>
<b>Matthews Asia Science and Technology Fund</b>							
Investor Class (MATFX)	35.61%	21.92%	10.14%	2.11%	12/27/99	1.18%	1.18%
Institutional Class (MITEX) <sup>7</sup>	35.75%	21.95%	10.15%	2.12%	4/30/13	1.00%	1.02%

\* These figures are from the Fund's prospectus dated as of April 30, 2013 and may differ from the actual expense ratios for fiscal year 2013, as shown in the Financial Highlights section of this report, and may not reflect actual expense ratios for the newer Funds or Classes that commenced operations in 2013.

- Matthews has contractually agreed to waive fees and reimburse expenses until August 31, 2014 to the extent needed to limit Total Annual Fund Operating Expenses to 1.25% for the Institutional Class and agreed to reduce the expense ratio by an equal amount for the Investor Class. Because certain expenses of the Investor Class are higher than the Institutional Class, the Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement for the Investor Class may exceed 1.25%. The amounts of the waivers and reimbursements are based on estimated Fund expenses. The fee waivers and expense reimbursements may be terminated at any time by the Board of Trustees or the Trust on behalf of the Fund on 60 days' written notice.
- Matthews has also agreed to waive fees and reimburse additional expenses for the Institutional Class of the Fund on a voluntary basis if its expense ratio exceeds 1.00%. Furthermore, any amounts voluntarily waived by Matthews in respect of the Institutional Class, excluding any voluntary waiver of class-specific shareholder servicing fees, may also be waived for the Investor Class. These voluntary waivers and/or reimbursements may be terminated at any time in the sole and absolute discretion of Matthews, subject to prior notice to the Board of Trustees.
- The Advisor has contractually agreed to waive the Fund's fees and reimburse expenses until at least August 31, 2014 to the extent needed to limit total annual operating expenses to 1.50%. The amounts of the waivers and reimbursements are based on estimated Fund expenses. The fee waivers and expense reimbursements may be terminated at any time by the Board of Trustees or the Trust on behalf of the Fund on 60 days' written notice.
- Actual return, not annualized.
- Matthews has contractually agreed to waive fees and reimburse expenses until August 31, 2015 to the extent needed to limit Total Annual Fund Operating Expenses to 1.75% for the Institutional Class of the Asia Focus Fund and to 2.00% for the Institutional Class of the Emerging Asia Fund, and agreed to reduce the expense ratio by an equal amount for the corresponding Investor Class of each Fund. Because certain expenses of the Investor Class are higher than the Institutional Class, the Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement for the Investor Class may exceed 1.75% or 2.00%, respectively. The amounts of the waivers and reimbursements are based on estimated Fund expenses. The fee waivers and expense reimbursements may be terminated at any time by the Board of Trustees or the Trust on behalf of the Fund on 60 days' written notice.
- Matthews has also agreed to waive fees and reimburse additional expenses for the Institutional Class of each Fund on a voluntary basis if its expense ratio exceeds 1.50% for the Asia Focus Fund and 1.75% for the Emerging Asia Fund. Furthermore, any amounts voluntarily waived by Matthews in respect of an Institutional Class, excluding any voluntary waiver of class-specific shareholder servicing fees, may also be waived for its corresponding Investor Class. These voluntary waivers and/or reimbursements may be terminated at any time in the sole and absolute discretion of Matthews, subject to prior notice to the Board of Trustees.
- Institutional Class Shares were first offered on April 30, 2013. For performance since that date, please see each Fund's performance table in the report. Performance for the Institutional Class Shares prior to its inception is based on the performance of the Investor Class. Performance differences between the Institutional Class and Investor Class may arise due to differences in fees charged to each class.
- The Advisor has contractually agreed to waive the Fund's fees and reimburse expenses until at least August 31, 2014 to the extent needed to limit total annual operating expenses to 2.00%. The amounts of the waivers and reimbursements are based on estimated Fund expenses. The fee waivers and expense reimbursements may be terminated at any time by the Board of Trustees or the Trust on behalf of the Fund on 60 days' written notice.

**Past Performance: All performance quoted in this report is past performance and is no guarantee of future results. Investment return and principal value will fluctuate with changing market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the returns quoted. If certain of the Funds' fees and expenses had not been waived, returns would have been lower. For the Funds' most recent month-end performance, please call 800.789.ASIA (2742) or visit matthewsasias.com.**

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Cover photo: Jinnamgwan Pavilion, the largest single-story pavilion in Korea

*This report has been prepared for Matthews Asia Funds shareholders. It is not authorized for distribution to prospective investors unless accompanied or preceded by a current Matthews Asia Funds prospectus, which contains more complete information about the Funds' investment objectives, risks and expenses. Additional copies of the prospectus or summary prospectus may be obtained at [matthewsasia.com](http://matthewsasia.com). Please read the prospectus carefully before you invest or send money.*

*The views and opinions in this report were current as of December 31, 2013. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and the managers reserve the right to change their views about individual stocks, sectors and the markets at any time. As a result, the views expressed should not be relied upon as a forecast of a Fund's future investment intent. Current and future portfolio holdings are subject to risk.*

*Statements of fact are from sources considered reliable, but neither the Funds nor the Investment Advisor makes any representation or guarantee as to their completeness or accuracy.*

**Investment Risk:** Mutual fund shares are not deposits or obligations of, or guaranteed by, any depository institution. Shares are not insured by the FDIC, Federal Reserve Board or any government agency and are subject to investment risks, including possible loss of principal amount invested. Investing in international and emerging markets may involve additional risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. Fixed income investments are subject to additional risks, including, but not limited to, interest rate, credit and inflation risks. In addition, single-country and sector funds may be subject to a higher degree of market risk than diversified funds because of concentration in a specific industry, sector or geographic location. Investing in small and mid-size companies is more risky than investing in large companies as they may be more volatile and less liquid than larger companies. Please see the Funds' prospectus and Statement of Additional Information for more risk disclosure.



## Message to Shareholders from the President of the Matthews Asia Funds

Dear Fellow Shareholders,

As President of the Matthews Asia Funds and CEO of Matthews International Capital Management, LLC (advisor to the Matthews Asia Funds), I am delighted to offer an annual review of the Funds for the year ended 2013. In what was a challenging time for global markets in which sentiment toward Asia was muted, I am pleased with the results that have been achieved for our shareholders. Some of our Funds continued to experience significant interest from shareholders with long-term investment horizons who understand that short-term volatility with respect to investing in Asia is to be expected. Fortunately, many of our investors also appear to equally anticipate long-term prospects for growth and sustainable wealth creation in the region.

### **Not All Emerging Markets are the Same**

In 2013, we saw a change in investor sentiment toward emerging markets as the potential effect of higher U.S. interest rates combined with slower growth in China began to negatively impact financial markets. Given this more challenging environment, it was a year in which the phrase “not all emerging markets are the same” became increasingly commonplace. While Asia is not immune to the challenges now facing emerging markets, I believe there is some comfort in knowing that the region has reached a point in its development whereby the majority of countries in Asia are fundamentally much stronger on a relative basis compared to other emerging market regions. At Matthews Asia, we aim to filter out the market “noise” and avoid predicting the unpredictable. Instead, we focus on what we can influence—identifying quality companies that we believe can add value for investors over the long term. The ability to be selective, whether at a country or company level, is one that we can bring to a portfolio as active investors, and this approach is one that I believe will be even more important over the coming years.

### **Performance**

I am pleased to report that against this background, the vast majority our Funds continued to deliver strong absolute and relative performance in 2013. While we saw largely negative newsflow on Asia during the year, some markets performed well. It was particularly gratifying to see our three China-focused Funds all deliver positive returns. While we do not measure success over the short term, the results highlight the importance of rising above near-term challenges faced by some countries, and focusing instead on events at a company level.

### **Continued Interest from Investors**

We continued to witness strong inflows into our Funds throughout 2013. Serving a growing number of shareholders who recognize the potential benefits of investing in Asia and entrust their assets to us is particularly pleasing. However, strong inflows into our Funds can also be challenging. We made the decision to soft-close two Funds—Matthews Asia Dividend and Matthews Pacific Tiger—to new investors during the year in order to slow the pace of inflows. Throughout our history, we have endeavored to keep the interests of shareholders at the forefront of our actions. We believe that restricting access to the Funds is a prudent step toward maintaining the integrity of our investment

process and is consistent with our approach to deal with these issues in a timely fashion that benefits existing shareholders over the long term. We will continue to closely monitor the capacity of all our Funds and act accordingly to preserve the interests of our shareholders.

### **New Fund Launches**

As we see Asia continuing to develop, albeit at a slightly slower pace, new opportunities present themselves to investors. It is against this backdrop that we launched two new Funds during the course of the year: the Matthews Emerging Asia Fund, which is focused on the fast-growing markets in frontier and emerging Asia and the Matthews Asia Focus Fund, which takes advantage of the many strong companies with healthy balance sheets and good management teams that now exist in the region. In some respects, the launch of these two Funds highlights the remarkable pace at which the region has developed. As we look to celebrate the 20th anniversary this year of our two Funds—Matthews Asian Growth and Income and Matthews Pacific Tiger—that laid the foundations for the Matthews Asia Fund family, we are reminded that while the journey isn't always smooth, we believe the long-term outlook for the region is bright and we remain optimistic.

Finally, thank you for your continued confidence in Matthews Asia Funds and as always, we welcome your comments.

A handwritten signature in black ink, reading "William J. Hackett". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

William Hackett  
President of the Matthews Asia Funds  
Chief Executive Officer, Matthews International Capital Management, LLC



## Message to Shareholders from the Chief Investment Officer

Dear Fellow Shareholders,

Last year began with concerns over China, which quickly spread to worries over the entire emerging market universe. By mid-year, investors started to fret over the deleterious effects of tighter U.S. monetary policy on Asian and Latin American economies. Asia, excluding Japan, muddled through and ended with price-to-earnings ratios somewhat lower than they were at the end of 2012, and dividend yields slightly raised.

The discourse over China has been lively and sometimes illuminating. But a lot of it has been somewhat crude—with people dismissing China’s economy as “fake,” describing its property market as being in a bubble and predicting the imminent collapse of its banking system. Often, I think, this is a symptom of seeing the problems of others through one’s own lens. Indeed, it has not been uncommon to hear of China’s “subprime” issue when in fact the country really doesn’t have a subprime mortgage market at all. What the discussion has lacked, I believe, is nuance. For sure, there are issues in China’s economy. Take, for example, its property market, where there is too little low-income housing. Or credit growth, where concerns are more about an overly rapid pace of growth than the actual level of debt, which does not seem unusual for a country with such a high savings rate. Or let us consider China’s banking system, which is inefficient and in need of reform and perhaps capital injections, but nevertheless does not seem to threaten economic collapse because it is, to a certain extent, a closed system.

But if anything brought the lack of nuance in the “China debate” into sharp relief, it was the Communist Party’s own reflections on its policy meeting at year end. The new administration, obviously confident in its own power, published a comprehensive piece of reform rhetoric. Asian markets rebounded sharply, and this showed a lack of nuance too. Was it worth the sharp rebound? It was only rhetoric after all! The hard slog of legislation and implementation is yet to come. However, these developments did return to people’s consciousness the thought that China’s growth story, if it is anything, is a dynamic one. It also demonstrated that the growth story is transitioning and evolving from one economic system to another and embracing new reforms in a thoughtful, pragmatic way. By the end of the year, optimism had crept in to sweeten up the sour mood—but was it realistic optimism?

U.S. Federal Reserve tapering of quantitative easing policies was a big topic as well. And again, I think the implications for Asia were perhaps misconstrued: the correlation between Asian stock market performance and U.S. Federal interest rates is not at all clear in the short course of a year. The correlation between Asia’s stock market performance and growth is much stronger. Indeed, in the past, you would probably have had a better chance of forecasting the future direction of U.S. interest rates by using Asia’s stock market performance as a leading indicator than you would the other way around. It is nominal GDP growth (growth plus inflation) that seems to matter for Asia’s stock market performance. This point appeared to have been reinforced recently, when the Federal Reserve’s actual tapering announcement was couched in language that revealed it expected future growth to improve and was prepared to keep monetary policy loose if it did not. Instead of falling, markets rallied on the news. So, if tapering is to happen—particularly since rates are currently close to zero and developed economies are depressed—I suspect it merely signals faster

future growth rates, which would actually be benign for Asian markets. In the meantime, Japan's monetary experiment continued and by year-end there was evidence that employment, growth rates and even some wages were all rising.

Finally, we had the usual lumping together of Asia and other "emerging" markets and some people writing off emerging markets altogether as they trailed the performance of the U.S. As if they didn't matter! Asia, for example, accounts for roughly 60% of the world's population. If we have a framework of analysis that allows us to cavalierly dismiss over half the world's productive labor in a single stroke, we probably need a new framework. Or, at the very least, we should be careful how we use the existing one. Asia is at least one part of the world that continues to close the income gap between rich nations and poor ones and improve the lives of its citizens. So, I would rather divide the world up into countries that have put in place the right kind of incentives and institutions to grow; and those that have not. In addition, if one looks at the longer term, the difference in equity performance between countries within Asia tends to narrow. On the one hand, this encourages people to focus on the year-to-year occurrences because the differences there are greatest and getting those right consistently would surely add value. On the other hand, we take a different view, feeling that short-term fluctuations in a country's fortunes are hard to forecast. Over the long term, we believe that the best businesses, however, will steadily increase their advantage over competitors. So, we seek to examine a different question. What are the elements that determine the success of businesses over the long term? Here, we have a clear set of principles to follow. Over the long term, it is the growth in cash flows and book values of businesses that determine returns. These arise from a business' competitive advantage and the competitive landscape in which it operates. These can be enhanced and nurtured by a quality management team—that is, one that allocates capital sensibly. Minority shareholders will share in this growth to the extent to which management teams are incentivized and willing to allow them. These returns tend to be earned by companies that have strong balance sheets and stable and reasonable rates of growth. The key then is to invest in such companies at a reasonable valuation.

I suspect it is this last component that will require particular attention in the year ahead. Many of the qualities that we admire in businesses tend to attract a premium. But in many instances this premium has widened over the last few years. So even when Asia's aggregate valuations are below average—i.e., a dividend yield of about 2.5% and price-to-forward earnings ratio of about 11x (for the Asia Pacific universe as defined by FactSet)—it is still crucial to judge where companies are adequately appreciated for their future growth and where they may not be. The most compelling future returns may come from identifying those businesses with long-term prospects that have been overwhelmed by shorter-term macroeconomic concerns. That remains the job for our investment team in 2014.



Robert Horrocks, PhD  
Chief Investment Officer  
Matthews International Capital Management, LLC

\* Forward earnings are calculated by dividing market price per share by expected earnings per share.

ASIA FIXED INCOME  
STRATEGY



PORTFOLIO MANAGERS

**Teresa Kong, CFA**  
Lead Manager

**Gerald M. Hwang, CFA**  
Co-Manager

FUND FACTS

	Investor Class	Institutional Class
Ticker	MAINX	MINCX
CUSIP	577125503	577125602
Inception	11/30/11	11/30/11
NAV	\$10.42	\$10.42
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	1.28%	1.09%
After fee waiver and Reimbursement <sup>2</sup>	n.a.	n.a.
After Voluntary Fee Waiver and Expense Reimbursement <sup>3</sup>	1.20%	1.00%
<b>Portfolio Statistics</b>		
Total # of Positions		50
Net Assets		\$45.7 million
Modified Duration		3.7 <sup>4</sup>
Portfolio Turnover		48.71% <sup>5</sup>

Benchmarks

HSBC Asian Local Bond Index  
J.P. Morgan Asia Credit Index

Redemption Fee

2% within first 90 calendar days of purchase

OBJECTIVE

Total return over the long term with an emphasis on income.

STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total assets, which include borrowings for investment purposes, in income-producing securities including, but not limited to, debt and debt-related instruments issued by governments, quasi-governmental entities, supra-national institutions, and companies in Asia. Asia consists of all countries and markets in Asia and includes developed, emerging, and frontier countries and markets in the Asian region. Investments may be denominated in any currency, and may represent any part of a company's capital structure from debt to equity or with features of both.

1 Actual 2013 expense ratios.

2 Matthews has contractually agreed to waive fees and reimburse expenses until August 31, 2014 to the extent needed to limit Total Annual Fund Operating Expenses to 1.25% for the Institutional Class and agreed to reduce the expense ratio by an equal amount for the Investor Class. Because certain expenses of the Investor Class are higher than the Institutional Class, the Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement for the Investor Class may exceed 1.25%. The amounts of the waivers and reimbursements are based on estimated Fund expenses. The fee waivers and expense reimbursements may be terminated at any time by the Board of Trustees or the Trust on behalf of the Fund on 60 days' written notice.

3 Matthews has also agreed to waive fees and reimburse additional expenses for the Institutional Class of the Fund on a voluntary basis if its expense ratio exceeds 1.00%. Furthermore, any amounts voluntarily waived by Matthews in respect of the Institutional Class, excluding any voluntary waiver of class-specific shareholder servicing fees, may also be waived for the Investor Class. These voluntary waivers and/or reimbursements may be terminated at any time in the sole and absolute discretion of Matthews, subject to prior notice to the Board of Trustees.

4 Modified duration measures the percent change in value of the fixed income portion of the portfolio in response to a 1% change in interest rates. In a multi-currency denominated portfolio with sensitivities to different interest rate regimes, modified duration will not accurately reflect the change in value of the overall portfolio from a change in any one interest rate regime.

5 The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

# Matthews Asia Strategic Income Fund

## Portfolio Manager Commentary

For the year ending December 31, 2013, the Mathews Asia Strategic Income Fund returned -0.50% (Investor Class) and -0.20% (Institutional Class) while its primary benchmark, the HSBC Asian Local Bond Index, and its secondary benchmark, the J.P. Morgan Asia Credit Index, returned -5.72% and -1.37%, respectively. For the fourth quarter of 2013, the Mathews Asia Strategic Income Fund returned 2.15% (Investor Class) and 2.22% (Institutional Class), while its primary and secondary indices returned -0.26% and 1.57%, respectively.

The year was among some of the toughest for fixed income markets globally. The market began to price in an increasing likelihood of a U.S. Federal Reserve tapering in May, which led to a substantial rise in both the level and volatility of interest rates in the U.S. through the summer. The implications of a repricing of interest rates in the U.S. reverberated across global markets, driving up yields and volatility. As U.S. rates and volatility rose, most global currencies, including the majority of Asia's currencies, depreciated versus the U.S. dollar. With headwinds on both the rates and currencies front, most fixed income asset classes saw negative returns. For example, the Barclays Capital U.S. Aggregate Bond Index returned -2.02%, Barclays Capital Global Aggregate Bond Index returned -2.60% and the J.P. Morgan Emerging Market Bond Index returned -6.58%.

Within this context, the Fund proved relatively resilient. The Fund outperformed its benchmarks through: increasing its allocation to U.S. dollar-denominated debt versus local-denominated debt; increasing its allocation to lower rated, but improving corporate credits that were less sensitive to interest rate volatility; and increasing its U.S. interest rate hedge.

The Fund's top contributor to performance for the year was Home Inns & Hotels convertible bonds. The Home Inns Bonds best exemplify the type of convertibles that we actively seek out for this portfolio—the “busted” convertible with a deep “out of the money” call option on the equity. When we started the position in the bond in 2012, the market was focused on the downside risks. We, on the other hand, saw the positive asymmetries working for us in this bond—even if all the negatives were to play out, we did not see much more downside as the bonds were trading very close to the bond floor, which in this case, was not theoretical, but one backed by strong fixed charge coverage and low leverage. However, in our view, if any one of the negative trends were to reverse, we anticipated substantial upside from the rising sensitivity of the bond to the price of the stock. As it turned out, company fundamentals improved while the macroeconomic and regulatory backdrop became more benign than the market had initially anticipated.

Rounding out the top three contributors to return were our holdings in Korea Treasury bonds and Sri Lankan government bonds. The South Korean won was one of the few Asian currencies that appreciated versus the U.S. dollar through the year. Despite a depreciating currency from an export rival (the Japanese yen), Korea's strong current account and fiscal surpluses provided ample support for the currency. Sri Lankan bonds also produced high total returns as the high yield on the bonds offset the small depreciation in the currency. The limited foreign participation in the local bond market also helped to shelter it from the sell-off experienced by other countries with negative current and fiscal accounts.

(continued)

## PERFORMANCE AS OF DECEMBER 31, 2013

	3 Months	1 Year	Average Annual	Inception Date
			Total Returns	
Investor Class (MAINX)	2.15%	-0.50%	Since Inception 5.80%	11/30/11
Institutional Class (MINCX)	2.22%	-0.20%	6.01%	11/30/11
HSBC Asian Local Bond Index <sup>6</sup>	-0.26%	-5.72%	1.65%	
J.P. Morgan Asia Credit Index <sup>6</sup>	1.57%	-1.37%	6.36%	
Lipper Emerging Markets Hard Currency Debt Category Average <sup>7</sup>	0.77%	-5.83%	5.81%	

Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance visit [matthewsasias.com](http://matthewsasias.com).

## INCOME DISTRIBUTION HISTORY

	2013					2012				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Investor (MAINX)	\$0.11	\$0.10	\$0.03	\$0.11	\$0.35	\$0.09	\$0.07	\$0.11	\$0.15	\$0.42
Institutional (MINCX)	\$0.12	\$0.11	\$0.03	\$0.12	\$0.38	\$0.10	\$0.07	\$0.12	\$0.15	\$0.44

Note: This table does not include capital gains distributions. Totals may differ by \$0.01 due to rounding. For income distribution history, visit [matthewsasias.com](http://matthewsasias.com).

### 30-DAY YIELD:

Investor Class: 3.95% (3.46% excluding expense waiver)  
Inst'l Class: 4.18% (3.74% excluding expense waiver)

The 30-Day Yield represents net investment income earned by the Fund over the 30-day period ended 12/31/13, expressed as an annual percentage rate based on the Fund's share price at the end of the 30-day period. The 30-Day Yield should be regarded as an estimate of the Fund's rate of investment income, and it may not equal the Fund's actual income distribution rate.

Source: BNY Mellon Investment Servicing (US) Inc.

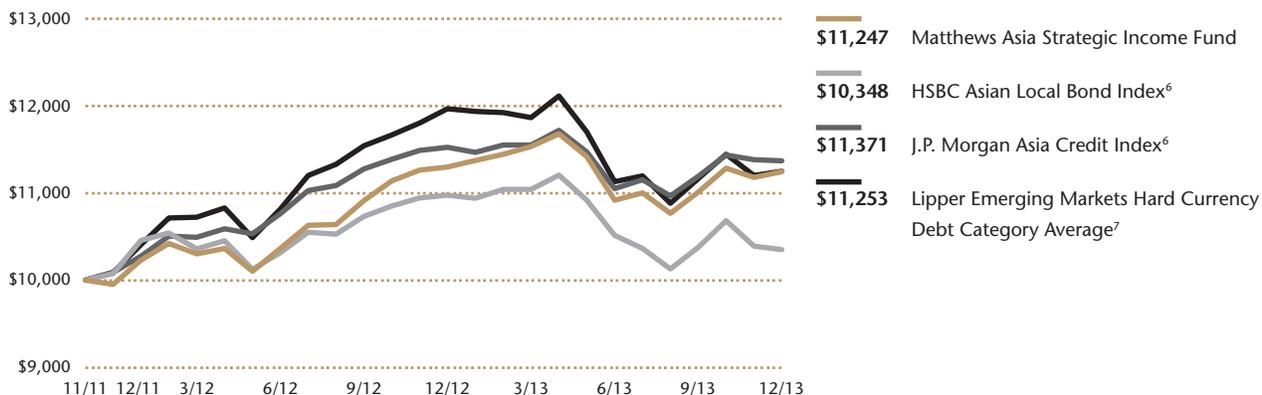
### YIELD TO WORST:

5.84%

Yield to worst is the lowest yield that can be received on a bond assuming that the issuer does not default. It is calculated by utilizing the worst case assumptions for a bond with respect to certain income-reducing factors, including prepayment, call or sinking fund provisions. It does not represent the yield that an investor should expect to receive. Past yields are no guarantee of future yields.

Source: FactSet Research Systems

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



Plotted monthly. The performance data and graph do not reflect the deduction of taxes that a shareholder would pay on dividends, capital gains distributions or redemption of Fund shares. Values are in US\$.

<sup>6</sup> It is not possible to invest directly in an index. Source: Index data from HSBC, J.P. Morgan and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definitions.

<sup>7</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN POSITIONS<sup>8</sup>

	Sector	Currency	% of Net Assets
Home Inns & Hotels Management, Inc., Cnv., 2.000%, 12/15/2015	Consumer Discretionary	U.S. Dollar	6.4%
Global Logistic Properties, Ltd., 3.375%, 5/11/2016	Financials	Chinese Renminbi	4.5%
KWG Property Holding, Ltd., 12.500%, 8/18/2017	Financials	U.S. Dollar	4.3%
MCE Finance, Ltd., 5.000%, 2/15/2021	Consumer Discretionary	U.S. Dollar	4.3%
Shimao Property Holdings, Ltd., 6.625%, 1/14/2020	Financials	U.S. Dollar	4.2%
United Overseas Bank, Ltd., 3.150%, 7/11/2022	Financials	Singapore Dollar	3.5%
Korea Treasury Bond, 2.750%, 9/10/2017	Foreign Government Bonds	Korean Won	3.3%
Malaysian Government Bond, 3.492%, 3/31/2020	Foreign Government Bonds	Malaysian Ringgit	3.2%
Sri Lanka Government Bond, 8.500%, 6/1/2018	Foreign Government Bonds	Sri Lankan Rupee	3.2%
ICICI Bank, Ltd., 6.375%, 4/30/2022	Financials	U.S. Dollar	3.1%
<b>% OF ASSETS IN TOP TEN</b>			<b>40.0%</b>

<sup>8</sup> Holdings may combine more than one security from same issuer and related depository receipts.

**CURRENCY ALLOCATION (%)<sup>9,10</sup>**

U.S. Dollar (USD)	52.2
Singapore Dollar (SGD)	9.4
Korean Won (KRW)	7.7
Sri Lanka Rupee (LKR)	6.3
Chinese Renminbi (CNY)	5.6
Malaysian Ringgit (MYR)	5.5
Thai Baht (THB)	4.2
Australian Dollar (AUD)	2.9
Philippine Peso (PHP)	2.1
Indonesian Rupiah (IDR)	1.6
Hong Kong Dollar (HKD)	1.0
Cash and Other Assets, Less Liabilities	1.5

**COUNTRY ALLOCATION (%)<sup>10,11</sup>**

China/Hong Kong	28.6
Singapore	11.2
Indonesia	8.8
Australia	7.8
South Korea	7.7
Malaysia	7.7
India	6.4
Sri Lanka	6.3
Thailand	5.5
Philippines	4.5
United Kingdom	2.4
Japan	1.6
Cash and Other Assets, Less Liabilities	1.5

**SECTOR ALLOCATION (%)<sup>10</sup>**

Financials	46.7
Government Bonds	25.3
Consumer Discretionary	15.9
Telecommunication Services	5.2
Utilities	2.5
Industrials	2.4
Energy	0.5
Cash and Other Assets, Less Liabilities	1.5

**ASSET TYPE BREAKDOWN (%)<sup>9,10</sup>**

Non-Convertible Corporate Bonds	61.5
Government Bonds	25.3
Common Equities and ADRs	6.4
Convertible Corporate Bonds	5.3
Cash and Other Assets, Less Liabilities	1.5

<sup>9</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

<sup>10</sup> Cash and other assets may include forward currency exchange contracts and certain derivative instruments that have been marked-to-market.

<sup>11</sup> Not all countries where the Fund may invest are included in the benchmark index.

## Matthews Asia Strategic Income Fund

### *Portfolio Manager Commentary (continued)*

The top detractor to Fund performance was our basket of currency forwards. In the first half of the year, we held a small basket of forwards whereby we were long on currencies that we believed were undervalued and short on ones that were overvalued. This basket underperformed as the market volatility spiked and technical factors such as liquidity and market positioning overwhelmed fundamentals. Since the higher volatility persisted through the summer instead of subsiding, we unwound the basket and closed out the position. The other detractors to performance included our positions in local currency Indonesia government bonds and Malaysia government bonds. Even though we maintained a less than 2% position in Indonesian government bonds, the almost 20% depreciation of the currency hurt this position. The sell-off in Malaysian government bonds was in line with other local government bonds, but because of our relatively high allocation, our exposure to Malaysia also detracted from performance. The small magnitude of these losses is testimony to the tight controls and strong risk management we exercise in portfolio management.

Looking forward, a stronger global backdrop, backed by recovery in the U.S. and stabilization in Europe should provide an additional boost to Asia's export growth. Asia has proved its resilience since the global financial crisis by relying primarily on local consumption, government investment, and intra-regional trade. Recovery in demand from the U.S. and Europe will provide an additional source of growth to Asian economies and companies. While rising U.S. interest rates might pose a headwind to Asian rates, we see much of that already priced into the current level of interest rates. This is evidenced by almost no change in interest rates since the Fed announced tapering in December. Asian currencies on the other hand, will see a tale of two cities. While currencies like the Singaporean dollar and Chinese renminbi with strong fiscal and current accounts will likely continue to appreciate, others with negative current and fiscal accounts will likely continue to depreciate relative to the dollar. Finally, we still see attractive return potential from credit overall. This is due to the overall benign credit cycle and high recoveries we are still experiencing across global markets. However, we still need to be very judicious in security selection as some countries are over-extended in their credit and we do expect defaults to go up. Overall, we expect Asian bonds, especially U.S. dollar-denominated, higher yielding bonds, to outperform most other fixed income asset classes. This includes government, investment grade credit and emerging market bonds from Latin America, Eastern Europe, the Middle East and Africa.

*Fixed income investments are subject to additional risks, including, but not limited to, interest rate, credit and inflation risks. Investing in emerging markets involves different and greater risks, as these countries are substantially smaller, less liquid and more volatile than securities markets in more developed markets.*

Schedule of Investments<sup>a</sup>

NON-CONVERTIBLE CORPORATE BONDS: 61.5%

	Face Amount*	Value		Face Amount*	Value
<b>CHINA/HONG KONG: 21.2%</b>			<b>PHILIPPINES: 2.4%</b>		
KWG Property Holding, Ltd. 12.500%, 08/18/17	1,800,000	\$1,980,000	Alliance Global Group, Inc. 6.500%, 08/18/17	1,050,000	\$1,107,750
MCE Finance, Ltd. 5.000%, 02/15/21	2,000,000	1,950,000	<b>Total Philippines</b>		<b>1,107,750</b>
Shimao Property Holdings, Ltd. 6.625%, 01/14/20	2,000,000	1,942,500	<b>UNITED KINGDOM: 2.4%</b>		
FPT Finance, Ltd. 6.375%, 09/28/20	1,050,000	1,081,500	Jaguar Land Rover Automotive PLC 7.750%, 05/15/18 <sup>b</sup>	500,000	538,125
Longfor Properties Co., Ltd. 9.500%, 04/07/16	1,000,000	1,061,250	Jaguar Land Rover PLC, Reg S 7.750%, 05/15/18	500,000	538,125
Golden Eagle Retail Group, Ltd. 4.625%, 05/21/23 <sup>b</sup>	1,000,000	852,960	<b>Total United Kingdom</b>		<b>1,076,250</b>
Wheelock Finance, Ltd. 4.500%, 09/02/21	SGD 750,000	596,066	<b>MALAYSIA: 2.2%</b>		
Beijing Enterprises Water Group, Ltd. 3.750%, 06/30/14	CNY 1,500,000	247,723	Malayan Banking BHD 3.250% <sup>c</sup> , 09/20/22	1,000,000	986,500
<b>Total China/Hong Kong</b>		<b>9,711,999</b>	<b>Total Malaysia</b>		<b>986,500</b>
<b>SINGAPORE: 8.9%</b>			<b>JAPAN: 1.6%</b>		
Global Logistic Properties, Ltd. 3.375%, 05/11/16	CNY 12,500,000	2,060,013	Softbank Corp. 4.500%, 04/15/20 <sup>b</sup>	500,000	487,500
United Overseas Bank, Ltd. 3.150% <sup>c</sup> , 07/11/22	SGD 2,000,000	1,609,527	ORIX Corp. 4.000%, 11/29/14	CNY 1,500,000	249,329
Oversea-Chinese Banking Corp., Ltd. 3.750% <sup>c</sup> , 11/15/22	400,000	411,541	<b>Total Japan</b>		<b>736,829</b>
<b>Total Singapore</b>		<b>4,081,081</b>	<b>THAILAND: 1.4%</b>		
<b>AUSTRALIA: 7.8%</b>			Bangkok Bank Public Co., Ltd. 9.025%, 03/15/29	500,000	616,349
Macquarie Bank, Ltd. 6.625%, 04/07/21	1,100,000	1,215,081	<b>Total Thailand</b>		<b>616,349</b>
Lend Lease Financial International, Ltd. 4.625%, 07/24/17	SGD 1,250,000	1,033,991	<b>TOTAL NON-CONVERTIBLE CORPORATE BONDS</b>		
SPI Electricity & Gas Australia Holdings Pty, Ltd. 5.750%, 06/28/22	AUD 1,000,000	872,785			<b>28,102,982</b>
Crown Group Finance, Ltd. 5.750%, 07/18/17	AUD 500,000	459,580	(Cost \$28,987,072)		
<b>Total Australia</b>		<b>3,581,437</b>	<b>FOREIGN GOVERNMENT OBLIGATIONS: 25.3%</b>		
<b>INDONESIA: 7.2%</b>			<b>SOUTH KOREA: 7.7%</b>		
Alam Synergy Pte, Ltd. 6.950%, 03/27/20 <sup>b</sup>	1,500,000	1,327,500	Korea Treasury Bond 2.750%, 09/10/17	KRW 1,600,000,000	1,507,400
Theta Capital Pte, Ltd. 7.000%, 05/16/19	1,000,000	996,833	Korea Treasury Bond 3.500%, 09/10/16	KRW 1,000,000,000	967,425
TBG Global Pte, Ltd. 4.625%, 04/03/18 <sup>b</sup>	1,000,000	967,500	Korea Treasury Bond 3.250%, 12/10/14	KRW 500,000,000	478,825
<b>Total Indonesia</b>		<b>3,291,833</b>	Korea Treasury Bond 4.000%, 09/10/15	KRW 300,000,000	291,416
<b>INDIA: 6.4%</b>			Korea Treasury Bond 3.250%, 06/10/15	KRW 300,000,000	287,788
ICICI Bank, Ltd. 6.375% <sup>c</sup> , 04/30/22	1,500,000	1,436,250	<b>Total South Korea</b>		<b>3,532,854</b>
Axis Bank, Ltd. 7.250% <sup>c</sup> , 08/12/21	1,000,000	995,260	<b>SRI LANKA: 6.3%</b>		
Bank of Baroda 6.625% <sup>c</sup> , 05/25/22	500,000	481,444	Sri Lanka Government Bond 8.500%, 06/01/18	LKR 200,000,000	1,459,510
<b>Total India</b>		<b>2,912,954</b>	Sri Lanka Government Bond 8.500%, 07/15/18	LKR 100,000,000	725,608
			Sri Lanka Government Bond 8.000%, 11/15/18	LKR 100,000,000	710,716
			<b>Total Sri Lanka</b>		<b>2,895,834</b>

# Matthews Asia Strategic Income Fund

December 31, 2013

## Schedule of Investments<sup>a</sup> (continued)

### FOREIGN GOVERNMENT OBLIGATIONS: (continued)

	Face Amount*	Value
<b>MALAYSIA: 4.6%</b>		
Malaysian Government Bond 3.492%, 03/31/20	MYR 5,000,000	\$1,483,398
Malaysian Government Bond 3.580%, 09/28/18	MYR 1,000,000	302,614
Malaysia Investment Issue 3.309%, 08/30/17	MYR 1,000,000	301,163
<b>Total Malaysia</b>		<b>2,087,175</b>
<b>THAILAND: 3.0%</b>		
Thailand Government Bond 3.125%, 12/11/15	THB 45,000,000	1,381,792
<b>Total Thailand</b>		<b>1,381,792</b>
<b>PHILIPPINES: 2.1%</b>		
Republic of Philippines 6.250%, 01/14/36	PHP 40,000,000	955,331
<b>Total Philippines</b>		<b>955,331</b>
<b>INDONESIA: 1.6%</b>		
Indonesia Government Bond 8.250%, 07/15/21	IDR 9,000,000,000	730,486
<b>Total Indonesia</b>		<b>730,486</b>
<b>TOTAL FOREIGN GOVERNMENT OBLIGATIONS</b>		<b>11,583,472</b>
(Cost \$12,178,306)		

### CONVERTIBLE CORPORATE BONDS: 6.4%

<b>CHINA/HONG KONG: 6.4%</b>		
Home Inns & Hotels Management, Inc., Cnv. 2.000%, 12/15/15	2,800,000	2,922,500
<b>Total China/Hong Kong</b>		<b>2,922,500</b>
<b>TOTAL CONVERTIBLE CORPORATE BONDS</b>		<b>2,922,500</b>
(Cost \$2,550,569)		

### COMMON EQUITIES: 5.3%

	Shares	Value
<b>SINGAPORE: 2.3%</b>		
StarHub, Ltd.	140,000	475,930
Ascendas REIT	170,000	296,367
Mapletree Logistics Trust, REIT	320,000	267,522
<b>Total Singapore</b>		<b>1,039,819</b>
<b>THAILAND: 1.1%</b>		
Kasikornbank Public Co., Ltd.	60,000	286,802
PTT Exploration & Production Public Co., Ltd.	45,000	228,573
<b>Total Thailand</b>		<b>515,375</b>
<b>CHINA/HONG KONG: 1.0%</b>		
HSBC Holdings PLC	40,000	436,053
<b>Total China/Hong Kong</b>		<b>436,053</b>

	Shares	Value
<b>MALAYSIA: 0.9%</b>		
Axiata Group BHD	200,000	\$421,310
<b>Total Malaysia</b>		<b>421,310</b>
<b>TOTAL COMMON EQUITIES</b>		<b>2,412,557</b>
(Cost \$2,209,936)		
<b>TOTAL INVESTMENTS: 98.5%</b>		<b>45,021,511</b>
(Cost \$45,925,883 <sup>d</sup> )		
<b>CASH AND OTHER ASSETS, LESS LIABILITIES: 1.5%</b>		<b>691,373</b>
<b>NET ASSETS: 100.0%</b>		<b>\$45,712,884</b>

a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).

b Security exempt from registration under Rule 144A of the Securities Act of 1933, as amended. The security may be resold in transactions exempt from registration normally to qualified institutional buyers. The security has been determined to be liquid in accordance with procedures adopted by the Fund's Board of Directors.

c Variable rate security. The rate represents the rate in effect at December 31, 2013.

d Cost for federal income tax purposes is \$45,944,227 and net unrealized depreciation consists of:

Gross unrealized appreciation	\$1,144,791
Gross unrealized depreciation	(2,067,507)
Net unrealized depreciation	(\$922,716)

\* All values are in USD unless otherwise noted.

AUD	Australian Dollar
BHD	Berhad
Cnv.	Convertible
CNY	Chinese Renminbi (Yuan)
IDR	Indonesian Rupiah
JPY	Japanese Yen
KRW	Korean Won
LKR	Sri Lanka Rupee
MYR	Malaysian Ringgit
PHP	Philippine Peso
REIT	Real Estate Investment Trust
SGD	Singapore Dollar
THB	Thai Baht
USD	U.S. Dollar

*Schedule of Investments<sup>a</sup> (continued)*

**FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS:**

	Currency Purchased	Currency Sold	Counterparty	Settlement Date	Unrealized Appreciation
SHORT	USD 500,000	JPY 48,694,000	Brown Brothers Harriman	01/08/14	<u>\$37,595</u>

**FINANCIAL FUTURES CONTRACTS SOLD SHORT AS OF DECEMBER 31, 2013 WERE AS FOLLOWS:**

Contracts	Issue	Exchange	Expiration	Notional Value	Unrealized Appreciation
30	U.S. Treasury Notes (10 Year)	Chicago Board of Trade	March, 2014	\$3,691,406	<u>\$64,922</u>

See accompanying notes to financial statements.



## PORTFOLIO MANAGERS

**Robert J. Horrocks, PhD**  
Lead Manager

**Kenneth Lowe, CFA**  
Co-Manager

## FUND FACTS

	Investor Class	Institutional Class
Ticker	MACSX	MICSX
CUSIP	577130206	577130842
Inception	9/12/94	10/29/10
NAV	\$18.91	\$18.90
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	1.08%	0.93%

## Portfolio Statistics

Total # of Positions	59
Net Assets	\$4.4 billion
Weighted Average Market Cap	\$30.3 billion
Portfolio Turnover	15.27% <sup>2</sup>

## Benchmark

MSCI AC Asia ex Japan Index

## Redemption Fee

2% within first 90 calendar days of purchase

## OBJECTIVE

Long-term capital appreciation. The Fund also seeks to provide some current income.

## STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total net assets, which include borrowings for investment purposes, in dividend-paying common stock, preferred stock and other equity securities, and convertible securities as well as fixed-income securities, of any duration or quality, of companies located in Asia, which consists of all countries and markets in Asia, including developed, emerging and frontier countries and markets in the Asian region.

<sup>1</sup> Actual 2013 expense ratios.

<sup>2</sup> The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

# Matthews Asian Growth and Income Fund

## Portfolio Manager Commentary

For the year ending December 31, 2013, the Matthews Asian Growth and Income Fund gained 4.83% (Investor Class) and 5.04% (Institutional Class) whilst its benchmark, the MSCI All Country Asia ex Japan Index gained 3.34%. For the fourth quarter of the year, the Fund returned 1.10% (Investor Class) and 1.17% (Institutional Class) versus 3.42% for the Index.

The year 2013 was yet again driven by macroeconomic events, with varying monetary policy changes and politics taking center stage over the bottom-up fundamentals of companies. This included the decision to begin a “tapering” of quantitative easing by the Federal Reserve in the U.S., where we saw an initial reduction in the monthly purchases of assets by the Treasury. That, in turn, caused long-term bond yields to back up and helped to spark panic over the future cost of capital in many emerging markets. We also witnessed the start to “Abenomics,” the economic policies advocated by Prime Minister Shinzo Abe in Japan—one of the most aggressively targeted quantitative easing experiments in history. Additionally, November saw the much-vaunted Third Plenary meeting of the Communist Party occur in Beijing with the new Chinese government laying out its plans to resume their path toward reforms. All of these issues, in one way or another, helped drive North Asian markets higher as their cheaper valuations and larger exposure to a Western recovery proved more alluring relative to the more volatile and smaller Southeast Asian economies that broadly struggled as currencies were sold off.

As bottom-up stock pickers, we try to avoid the “noise” of backdrops like this and focus on fundamental analysis. We are, however, always aware of how these issues may affect our holdings. In that sense, 2013 can be viewed as a reasonable year for the Fund as stock selection was the primary driver of both our positive absolute and relative returns. The largest contributor to performance came through our holdings within South Korea, via both preferred stock and equities. These preferred shares range from automaker Hyundai Motor to Samsung Fire and Marine, a domestic non-life insurer. The primary driver of their performance were valuations, with many of these preferred shares trading at hefty discounts to the underlying equities whilst also offering a very attractive yield enhancement and throughout the year some of this valuation discount began to narrow. Additionally, our holding in GS Home Shopping performed well as management of this retailing platform continues to deliver operationally. The company has benefited from rational competition, keeping the costs of system operators’ commissions contained in conjunction with gaining traction in increasing their sales through mobile devices and improving their product mix to enhance margins.

The Fund also benefited from our exposure to Japanese equities as the domestic stock market rallied over 30% during the year. Whilst we did not invest in our Japanese holdings with a view to the changing political and monetary backdrop, Fund performance benefited from this market rally. Domestically oriented companies like Japan Real Estate Investment Trust and Lawson, a major convenience store chain, both showed meaningful increases. The belief that quantitative easing can help to end Japanese deflation and boost asset prices and wages has helped drive these stocks higher.

(continued)

## PERFORMANCE AS OF DECEMBER 31, 2013

	Average Annual Total Returns						Inception Date
	3 Months	1 Year	3 Years	5 Years	10 Years	Since Inception	
Investor Class (MACSX)	1.10%	4.83%	5.94%	14.92%	11.12%	10.74%	9/12/94
Institutional Class (MICSX)	1.17%	5.04%	6.09%	n.a.	n.a.	6.58%	10/29/10
MSCI AC Asia ex Japan Index <sup>3</sup>	3.42%	3.34%	1.69%	16.82%	10.97%	4.10% <sup>4</sup>	
Lipper Pacific Region Funds Category Average <sup>5</sup>	0.68%	9.24%	4.28%	13.36%	7.76%	4.32% <sup>4</sup>	

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance, visit [matthewsasiasia.com](http://matthewsasiasia.com).*

## INCOME DISTRIBUTION HISTORY

	2013			2012		
	June	December	Total	June	December	Total
Investor (MACSX)	\$0.24	\$0.22	\$0.46	\$0.20	\$0.27	\$0.47
Institutional (MICSX)	\$0.26	\$0.24	\$0.50	\$0.21	\$0.28	\$0.49

Note: This table does not include capital gains distributions. Totals may differ by \$0.01 due to rounding. For income distribution history, visit [matthewsasiasia.com](http://matthewsasiasia.com).

### 30-DAY YIELD:

0.31% (Investor Class) 0.47% (Institutional Class)

The 30-Day Yield represents net investment income earned by the Fund over the 30-day period ended 12/31/13, expressed as an annual percentage rate based on the Fund's share price at the end of the 30-day period. The 30-Day Yield should be regarded as an estimate of the Fund's rate of investment income, and it may not equal the Fund's actual income distribution rate.

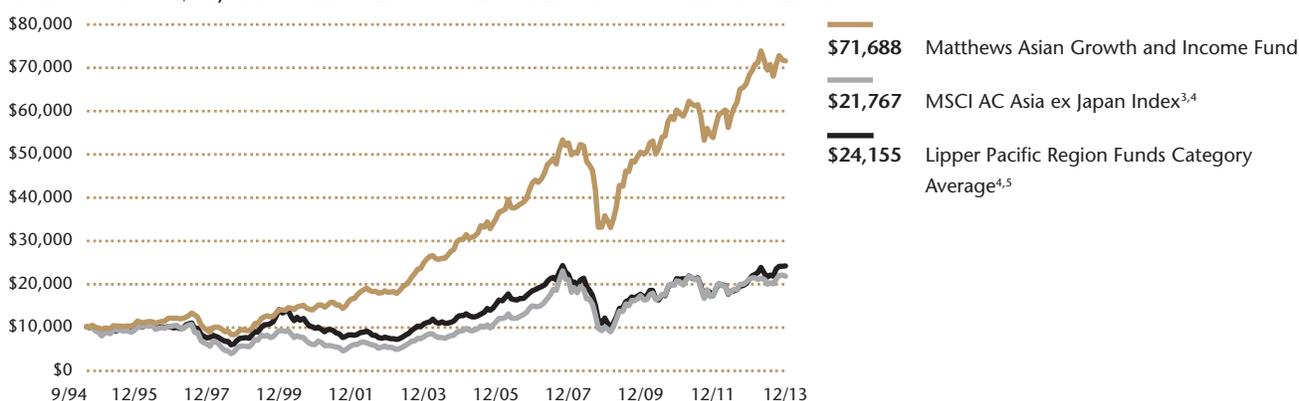
Source: BNY Mellon Investment Servicing (US) Inc.

### DIVIDEND YIELD: 3.31%

The dividend yield (trailing) for the portfolio is the weighted average sum of the dividend paid per share during the last 12 months divided by the current price. The annualized dividend yield for the Fund is for the equity-only portion of the portfolio. Please note that this is based on gross equity portfolio holdings and does not reflect the actual yield an investor in the Fund would receive. Past yields are no guarantee of future yields.

Source: FactSet Research Systems, Bloomberg, MICM

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



Plotted monthly. The performance data and graph do not reflect the deduction of taxes that a shareholder would pay on dividends, capital gains distributions or redemption of Fund shares. Values are in US\$.

<sup>3</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definition.

<sup>4</sup> Calculated from 8/31/94.

<sup>5</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>6</sup>

	Sector	Country	% of Net Assets
Singapore Technologies Engineering, Ltd.	Industrials	Singapore	3.4%
AIA Group, Ltd.	Financials	China/Hong Kong	3.4%
Taiwan Semiconductor Manufacturing Co., Ltd.	Information Technology	Taiwan	3.1%
Jardine Matheson Holdings, Ltd.	Industrials	China/Hong Kong	2.9%
AMMB Holdings BHD	Financials	Malaysia	2.8%
Keppel Corp., Ltd.	Industrials	Singapore	2.6%
United Overseas Bank, Ltd.	Financials	Singapore	2.5%
Japan Tobacco, Inc.	Consumer Staples	Japan	2.4%
China Petroleum & Chemical Corp. (Sinopec), Cnv., 0.000%, 4/24/2014	Energy	China/Hong Kong	2.4%
Hong Kong Exchanges and Clearing, Ltd., Cnv., 0.500%, 10/23/2017	Financials	China/Hong Kong	2.3%
<b>% OF ASSETS IN TOP TEN</b>			<b>27.8%</b>

<sup>6</sup> Holdings may combine more than one security from same issuer and related depository receipts.

**COUNTRY ALLOCATION (%)<sup>7</sup>**

China/Hong Kong	29.5
Singapore	16.2
South Korea	10.8
Japan	7.8
Malaysia	7.3
Australia	6.9
Taiwan	4.0
Thailand	3.9
Indonesia	2.6
India	2.3
United Kingdom	1.8
Philippines	1.7
New Zealand	1.5
Vietnam	1.3
Cash and Other Assets, Less Liabilities	2.4

**SECTOR ALLOCATION (%)**

Financials	23.2
Industrials	15.4
Consumer Staples	14.4
Consumer Discretionary	13.3
Telecommunication Services	9.3
Utilities	5.9
Information Technology	4.8
Energy	4.1
Materials	4.0
Health Care	3.2
Cash and Other Assets, Less Liabilities	2.4

**MARKET CAP EXPOSURE (%)<sup>8</sup>**

Large Cap (over \$5B)	71.7
Mid Cap (\$1B–\$5B)	25.9
Small Cap (under \$1B)	0.0
Cash and Other Assets, Less Liabilities	2.4

**ASSET TYPE BREAKDOWN (%)<sup>9</sup>**

Common Equities and ADRs	80.3
Convertible Corporate Bonds	11.5
Preferred Equities	5.8
Cash and Other Assets, Less Liabilities	2.4

<sup>7</sup> Not all countries where the Fund may invest are included in the benchmark index.

<sup>8</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

<sup>9</sup> Bonds are not included in the MSCI All Country Asia ex Japan Index.

## Matthews Asian Growth and Income Fund

### *Portfolio Manager Commentary (continued)*

The main detractors to performance through the year arose from Australia and Thailand, with both suffering currency drops and some stock-specific weakness. In Australia, the worst performer was bottler Coca-Cola Amatil, which struggled as the carbonated soft drink market in the country has started to decline following a more health conscious trend amongst consumers keen on reducing their sugar intake. Further, the company has begun to endure increasing pricing pressure from its largest peer, Pepsi-Schweppes, despite what should be an attractive market duopoly. These factors have caused multiple reductions in guidance from a well-respected management team. In the case of Thailand, television operator BEC World and oil and gas major PTT Public stuttered. Whilst much of this weakness can be attributed to the political turmoil that is underway with a military coup looking ever more likely, stock-specific factors were also to blame. BEC World has suffered from the threat of increasing competition as the free-to-air operator will have to contend with digital television peers from 2015. For PTT, there has been increasing regulatory uncertainty over previously mooted price reforms that would have helped to reduce subsidy burdens for the company.

During the fourth quarter, we made some small changes to the portfolio, adding New Zealand pay T.V. operator SKY Network Television. The company is essentially a monopoly business that generates very healthy returns and cash flow. Further, we believe that there is still attractive growth available for the company through new subscriber growth and also via existing subscribers as they trade up to high-definition channels and their MYSKY digital video recording offerings. Despite this, we were able to purchase the stock at an appealing 4.5% dividend yield. This purchase was funded by the sale of Chinese composite insurer China Pacific Insurance Company and Thai property developer Land & Houses.

Looking toward 2014, many obstacles can be seen on the horizon as the macroeconomic issues of 2013 persist. As time progresses we will no doubt better understand the commitment of both Abe and the BOJ to such a large and arguably risky monetary experiment, with the upcoming year being key to understanding whether wage inflation will actually come to fruition from such policies. Further, during the year of the horse on the Chinese lunar calendar—China will need to make some headway down its path of reform. The Communist Party has aspirations to encourage markets to play a more active role in resource allocation, increase private investment into state-owned entities, and liberalize the capital account and interest rates, amongst other things, by 2020. Progress in these aims whilst also managing an ever-expanding debt pile and still producing economic growth, will be critical for the region at large. Such an environment will no doubt prove volatile, but some comfort should be taken from valuations that look fairly attractive at about 13x forward earnings\* and 1.7x book value (for the Asia Pacific ex Japan universe as defined by FactSet). In addition, these are even more interesting when viewed in relation to U.S. market valuations or cyclically adjusted price-to-earnings ratios. During these more volatile times, the Fund will keep trying to strike a balance between risk and return, long-term growth and current income, maintaining a keen eye on capital preservation.

\* Forward earnings are calculated by dividing market price per share by expected earnings per share.

*Schedule of Investments<sup>a</sup>*
**COMMON EQUITIES: 80.3%**

	Shares	Value		Shares	Value
<b>CHINA/HONG KONG: 22.2%</b>			<b>TAIWAN: 4.0%</b>		
AIA Group, Ltd.	29,573,600	\$148,858,357	Taiwan Semiconductor Manufacturing Co., Ltd.	20,673,187	\$73,180,037
Jardine Matheson Holdings, Ltd.	2,402,000	125,648,620	Taiwan Semiconductor Manufacturing Co., Ltd. ADR	3,558,724	62,064,147
CLP Holdings, Ltd.	11,771,700	93,106,549	Chunghwa Telecom Co., Ltd. ADR	1,277,525	39,552,174
HSBC Holdings PLC ADR	1,679,433	92,587,141	<b>Total Taiwan</b>		<b>174,796,358</b>
China Mobile, Ltd. ADR	1,555,700	81,347,553			
Vitasoy International Holdings, Ltd.†	51,771,000	79,825,797	<b>THAILAND: 3.9%</b>		
Hang Lung Properties, Ltd.	24,970,920	79,155,040	PTT Public Co., Ltd.	8,719,200	76,049,537
VTech Holdings, Ltd.	5,860,700	76,128,415	BEC World Public Co., Ltd.	30,807,800	47,491,896
Television Broadcasts, Ltd.	10,328,300	69,182,993	Glow Energy Public Co., Ltd.	21,887,400	47,092,736
CITIC Telecom International Holdings, Ltd.†	191,298,250	61,589,634	<b>Total Thailand</b>		<b>170,634,169</b>
Cafe' de Coral Holdings, Ltd.	18,352,000	59,228,216			
China Pacific Insurance Group Co., Ltd. H Shares	1,983,600	7,803,207	<b>INDONESIA: 2.6%</b>		
<b>Total China/Hong Kong</b>		<b>974,461,522</b>	PT Perusahaan Gas Negara Persero	159,343,000	58,735,871
			PT Telekomunikasi Indonesia Persero ADR	1,544,000	55,352,400
<b>SINGAPORE: 14.3%</b>			<b>Total Indonesia</b>		<b>114,088,271</b>
Singapore Technologies Engineering, Ltd.	48,017,125	150,677,772			
Keppel Corp., Ltd.	12,825,900	113,730,196	<b>UNITED KINGDOM: 1.8%</b>		
United Overseas Bank, Ltd.	6,487,000	109,183,312	BHP Billiton PLC	2,588,378	80,109,924
Ascendas REIT	53,925,000	94,009,271	<b>Total United Kingdom</b>		<b>80,109,924</b>
SIA Engineering Co., Ltd.	18,588,000	74,531,701			
ARA Asset Management, Ltd.	31,219,210	46,014,288	<b>PHILIPPINES: 1.7%</b>		
Singapore Post, Ltd.	38,209,000	40,118,012	Globe Telecom, Inc.	2,065,510	76,467,848
<b>Total Singapore</b>		<b>628,264,552</b>	<b>Total Philippines</b>		<b>76,467,848</b>
<b>JAPAN: 7.8%</b>			<b>NEW ZEALAND: 1.5%</b>		
Japan Tobacco, Inc.	3,264,600	106,226,032	Sky Network Television, Ltd.	13,327,439	64,009,393
Lawson, Inc.	1,333,600	99,801,213	<b>Total New Zealand</b>		<b>64,009,393</b>
Hisamitsu Pharmaceutical Co., Inc.	1,515,200	76,354,429			
Japan Real Estate Investment Corp., REIT	11,180	59,813,740	<b>VIETNAM: 1.3%</b>		
<b>Total Japan</b>		<b>342,195,414</b>	Vietnam Dairy Products JSC	9,093,802	58,196,884
			<b>Total Vietnam</b>		<b>58,196,884</b>
<b>MALAYSIA: 7.3%</b>			<b>TOTAL COMMON EQUITIES</b>		
AMMB Holdings BHD	56,073,200	123,941,373			<b>3,531,938,828</b>
Genting Malaysia BHD	75,188,700	100,542,362	(Cost \$2,844,124,815)		
Axiata Group BHD	29,634,423	62,426,353	<b>PREFERRED EQUITIES: 5.8%</b>		
Telekom Malaysia BHD	20,245,551	34,304,017	<b>SOUTH KOREA: 5.8%</b>		
British American Tobacco Malaysia BHD	85,300	1,669,802	Hyundai Motor Co., Ltd., Pfd.	673,649	80,329,555
<b>Total Malaysia</b>		<b>322,883,907</b>	Hyundai Motor Co., Ltd., 2nd Pfd.	612,366	76,239,504
			Samsung Fire & Marine Insurance Co., Ltd., Pfd.	515,311	70,005,766
<b>AUSTRALIA: 6.9%</b>			LG Household & Health Care, Ltd., Pfd.	121,855	26,464,984
Orica, Ltd.	4,431,561	94,412,291	<b>Total South Korea</b>		<b>253,039,809</b>
Coca-Cola Amatil, Ltd.	6,909,102	74,214,471			
Woolworths, Ltd.	2,378,518	71,889,668	<b>TOTAL PREFERRED EQUITIES</b>		
CSL, Ltd.	1,044,381	64,306,901			<b>253,039,809</b>
<b>Total Australia</b>		<b>304,823,331</b>	(Cost \$79,401,075)		
			<b>SOUTH KOREA: 5.0%</b>		
<b>SOUTH KOREA: 5.0%</b>			GS Home Shopping, Inc.	298,935	87,545,794
GS Home Shopping, Inc.	298,935	87,545,794	KT&G Corp.	1,104,197	78,399,175
KT&G Corp.	1,104,197	78,399,175	S1 Corp.	771,922	55,062,286
S1 Corp.	771,922	55,062,286	<b>Total South Korea</b>		<b>221,007,255</b>
<b>Total South Korea</b>		<b>221,007,255</b>			

*Schedule of Investments<sup>a</sup> (continued)*

**CONVERTIBLE CORPORATE BONDS: 11.5%**

	Face Amount*	Value
<b>CHINA/HONG KONG: 7.3%</b>		
China Petroleum & Chemical Corp. (Sinopec), Cnv. 0.000%, 04/24/14	HKD 676,210,000	\$104,950,638
Hong Kong Exchanges and Clearing, Ltd., Cnv. 0.500%, 10/23/17	96,000,000	102,000,000
Power Regal Group, Ltd., Cnv. 2.250%, 06/02/14	HKD 234,020,000	53,221,344
Hengan International Group Co., Ltd., Cnv. 0.000%, 06/27/18	HKD 265,000,000	36,225,062
PB Issuer No. 2, Ltd., Cnv. 1.750%, 04/12/16	21,820,000	23,227,390
<b>Total China/Hong Kong</b>		<b>319,624,434</b>
<b>INDIA: 2.3%</b>		
Tata Power Co., Ltd., Cnv. 1.750%, 11/21/14	56,200,000	60,162,100
Larsen & Toubro, Ltd., Cnv. 3.500%, 10/22/14	41,200,000	41,282,400
<b>Total India</b>		<b>101,444,500</b>
<b>SINGAPORE: 1.9%</b>		
CapitalLand, Ltd., Cnv. 1.950%, 10/17/23	SGD 110,250,000	86,054,321
<b>Total Singapore</b>		<b>86,054,321</b>
<b>TOTAL CONVERTIBLE CORPORATE BONDS</b>		<b>507,123,255</b>
(Cost \$496,489,436)		
<b>TOTAL INVESTMENTS: 97.6%</b>		<b>4,292,101,892</b>
(Cost \$3,420,015,326 <sup>b</sup> )		
<b>CASH AND OTHER ASSETS,</b>		
<b>LESS LIABILITIES: 2.4%</b>		<b>106,701,918</b>
<b>NET ASSETS: 100.0%</b>		<b>\$4,398,803,810</b>

a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).

b Cost for federal income tax purposes is \$3,446,146,834 and net unrealized appreciation consists of:

Gross unrealized appreciation . . . . .	\$944,534,220
Gross unrealized depreciation . . . . .	(98,579,162)
Net unrealized appreciation . . . . .	<u>\$845,955,058</u>

† Affiliated Issuer, as defined under the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of this issuer)

\* All values are in USD unless otherwise noted.

ADR American Depositary Receipt  
 BHD Berhad  
 Cnv. Convertible  
 HKD Hong Kong Dollar  
 JSC Joint Stock Co.  
 Pfd. Preferred  
 REIT Real Estate Investment Trust  
 SGD Singapore Dollar  
 USD U.S. Dollar

See accompanying notes to financial statements.



## PORTFOLIO MANAGERS

**Yu Zhang, CFA**  
Lead Manager

**Robert Horrocks, PhD**  
Lead Manager

## FUND FACTS

	Investor Class	Institutional Class
Ticker	MAPIX	MIPIX
CUSIP	577125107	577130750
Inception	10/31/06	10/29/10
NAV	\$15.60	\$15.59
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	1.06%	0.93%

### Portfolio Statistics

Total # of Positions	61
Net Assets	\$5.8 billion
Weighted Average Market Cap	\$27.7 billion
Portfolio Turnover	14.06% <sup>2</sup>

### Benchmark

MSCI AC Asia Pacific Index

### Redemption Fee

2% within first 90 calendar days of purchase

## OBJECTIVE

Total return with an emphasis on providing current income.

## STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total net assets, which include borrowings for investment purposes, in dividend-paying equity securities of companies located in Asia. Asia consists of all countries and markets in Asia, and includes developed, emerging and frontier countries and markets in the Asian region. The Fund may also invest in convertible debt and equity securities.

<sup>1</sup> Actual 2013 expense ratios.

<sup>2</sup> The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

# Matthews Asia Dividend Fund\*

## Portfolio Manager Commentary

For the year ending December 31, 2013, the Matthews Asia Dividend Fund rose 11.27% (Investor Class) and 11.43% (Institutional Class) while its benchmark, the MSCI All Country Asia Pacific Index, rose 12.19%. For the fourth quarter of the year, the Fund returned 0.18% (Investor Class) and 0.22% (Institutional Class) versus 2.31% for the Index.

The Fund began 2013 with a share price of US\$14.58, and shareholders who were invested throughout the year would have received income distributions totaling approximately 60.39 cents per share (Investor Class), or 4.14%.

Two main narratives drove the Asia Pacific equity markets in 2013: the resurgence of Japan and decisions by the U.S. Federal Reserve over tapering its quantitative easing policies. In May, initial comments by the Federal Reserve rattled global equity markets. For Asia, such concerns over tapering were intensified by the fact that many emerging Asian economies were already experiencing an economic slowdown and China was seeing its GDP growth rate moderate further. Other emerging economies in the region—especially those with weak current accounts and those reliant on external funding, such as India and Indonesia—saw an aggressive sell-off of their currencies. Investors viewed those markets as vulnerable to foreign capital withdrawal. As a result, the Indonesian rupiah ended the year down 20% while the Indian rupee showed a 11% decline. As the tapering debate continued for much of the year, equity markets in emerging Asia demonstrated rather subdued performance in U.S. dollar terms—even as markets held up in local currency terms.

Japan's equity market, on the other hand, staged an impressive bull-market rally in 2013—up about 54% in local currency terms and trouncing all other Asian markets. The bold economic policies promoted by the Prime Minister Shinzo Abe, dubbed "Abenomics," have been credited for pulling Japan out of its two decades of deflation and appears to be reviving its economy. The Bank of Japan, under the lead of a new governor installed by the Abe government, launched a US\$1.4 trillion quantitative easing program, devaluing Japan's yen. Whether "Abenomics" can lead to a sustainable improvement of Japan's GDP trend growth rate is still unclear. However, an asset reflation theme backed by ultra-easy monetary policy led to a rally in risk assets, such as equities.

During the year, the Fund continued to take a cautious view on some of the traditionally stable, high dividend yielders. We felt that the compressed yield on offer from names which had been bid up aggressively by yield-seeking investors would not offer a sufficient margin of safety. As a result, the Fund reduced its weighting in utilities. We took profits on Cheung Kong Infrastructure and also trimmed our exposure to real estate investment trusts.

Since 2012, the Fund has invested in companies that may have a relatively modest current dividend payout, but have a much better dividend growth outlook. While the debate over U.S. Federal Reserve tapering disrupted Asian markets in 2013, investors should not overlook another important implication of tapering: a sustainable U.S. economic recovery would benefit Asian exporters. In such a scenario, cyclical companies could enjoy certain tailwinds in their business operations. During the fourth quarter, the Fund

\* Closed to most new investors as of June 14, 2013.

(continued)

## PERFORMANCE AS OF DECEMBER 31, 2013

	Average Annual Total Returns					Inception Date
	3 Months	1 Year	3 Years	5 Years	Since Inception	
Investor Class (MAPIX)	0.18%	11.27%	6.79%	17.16%	10.77%	10/31/06
Institutional Class (MIPIX)	0.22%	11.43%	6.90%	n.a.	7.49%	10/29/10
MSCI AC Asia Pacific Index <sup>3</sup>	2.31%	12.19%	3.77%	12.55%	3.58% <sup>4</sup>	
Lipper Pacific Region Funds Category Average <sup>5</sup>	0.68%	9.24%	4.28%	13.36%	4.23% <sup>4</sup>	

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance, visit [matthewsasias.com](http://matthewsasias.com).*

## INCOME DISTRIBUTION HISTORY

	2013					2012				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Investor (MAPIX)	\$0.14	\$0.13	\$0.12	\$0.22	\$0.61	\$0.06	\$0.14	\$0.13	\$0.23	\$0.56
Institutional (MIPIX)	\$0.14	\$0.14	\$0.12	\$0.22	\$0.62	\$0.06	\$0.14	\$0.13	\$0.23	\$0.56

Note: This table does not include capital gains distributions. Totals may differ by \$0.01 due to rounding. For income distribution history, visit [matthewsasias.com](http://matthewsasias.com).

## 30-DAY YIELD:

1.71% (Investor Class) 1.86% (Institutional Class)

The 30-Day Yield represents net investment income earned by the Fund over the 30-day period ended 12/31/13, expressed as an annual percentage rate based on the Fund's share price at the end of the 30-day period. The 30-Day Yield should be regarded as an estimate of the Fund's rate of investment income, and it may not equal the Fund's actual income distribution rate.

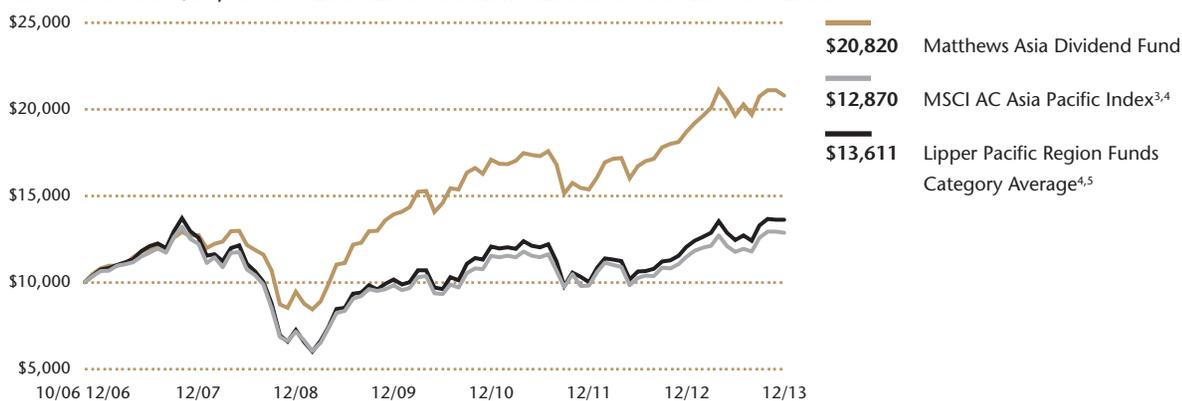
Source: BNY Mellon Investment Servicing (US) Inc.

## DIVIDEND YIELD: 3.02%

The dividend yield (trailing) for the portfolio is the weighted average sum of the dividend paid per share during the last 12 months divided by the current price. The annualized dividend yield for the Fund is for the equity-only portion of the portfolio. Please note that this is based on gross equity portfolio holdings and does not reflect the actual yield an investor in the Fund would receive. Past yields are no guarantee of future yields.

Source: FactSet Research Systems, Bloomberg, MICM.

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



Plotted monthly. The performance data and graph do not reflect the deduction of taxes that a shareholder would pay on dividends, capital gains distributions or redemption of Fund shares. Values are in US\$.

<sup>3</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definition.

<sup>4</sup> Calculated from 10/31/06.

<sup>5</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>6</sup>

	Sector	Country	% of Net Assets
ORIX Corp.	Financials	Japan	5.0%
ITOCHU Corp.	Industrials	Japan	4.0%
Japan Tobacco, Inc.	Consumer Staples	Japan	3.5%
China Mobile, Ltd.	Telecommunication Services	China/Hong Kong	3.4%
HSBC Holdings PLC	Financials	China/Hong Kong	3.3%
Ansell, Ltd.	Health Care	Australia	3.1%
Dongfeng Motor Group Co., Ltd.	Consumer Discretionary	China/Hong Kong	2.8%
Pigeon Corp.	Consumer Staples	Japan	2.5%
Shenzhou International Group Holdings, Ltd.	Consumer Discretionary	China/Hong Kong	2.4%
Primary Health Care, Ltd.	Health Care	Australia	2.4%
<b>% OF ASSETS IN TOP TEN</b>			<b>32.4%</b>

<sup>6</sup> Holdings may combine more than one security from same issuer and related depository receipts.

## Matthews Asia Dividend Fund

### Portfolio Manager Commentary (continued)

initiated positions in a few Chinese small- and mid-cap names, including department store operator Springland International and financial leasing firm Far East Horizon. Despite the modest dividend payout for some of these firms, we believe their underlying businesses are well-positioned to deliver better dividend growth.

Not surprisingly, the Fund's Japanese holdings were the top performance contributors in 2013. Holdings, such as ORIX and Pigeon, saw significant appreciation in their share prices, as they continued to deliver solid operational results. In the past, Japan has helped to limit draw-downs when Asia's markets have fallen hard. Japan also is an increasingly interesting economy in which to scout for good dividend growers due to improving shareholder return policies among Japanese firms. If inflation becomes persistent, excess cash on balance sheets may be seen as less attractive. Instead, companies could be incentivized to either reinvest in their business, or pay out more dividends to shareholders.

As Japan's macroeconomic outlook turns more positive, the Fund's investment process in Japan remains very much driven by a bottom-up approach. We used the market rally early in the year as an opportunity to exit some Japanese holdings whose strong stock price had, in our view, run ahead of the potential for improvement in business fundamentals. During the course of the year, we also initiated positions in several Japanese companies that have strong business fundamentals, improving shareholder return policies and attractive valuations. During the fourth quarter, we added Japanese information technology firm Hoya. The firm is currently transitioning its focus from IT components to life sciences and medical device products. This shift may position Hoya for better earnings stability and potential growth. Hoya has a net-cash balance sheet and also generates very strong free cash flow. It therefore has a potential to pay higher dividends and/or buy back shares.

During the year, the top detractors to Fund performance were China Shenhua Energy and United Tractors, mainly due to a depressed coal price. However, both of these companies have a dominant market share and have more diversified businesses than their competitors, making their earnings more resilient. With valuation becoming cheaper, we believe the risk-reward proposition remains attractive. During the fourth quarter, the Fund exited QBE Group, the Australian general insurance company, after the company issued another earnings downgrade and disclosed a sizeable goodwill write-off in its North America operations. While QBE's business should benefit from rising interest rates and a weakening Australian dollar, our initial assessment on QBE's global operations, complicated by its past acquisition-led growth strategy, proved to be wrong. As the company is focusing on repairing its balance sheet, it no longer meets our dividend growth requirement.

Looking ahead into 2014, many uncertainties remain in Asia. In addition, a U.S. monetary regime change poses another challenge to dividend investors globally. However, as bottom-up, patient and long-term investors, we remain optimistic on Asia's dividend growth outlook. The Fund's total-return approach has offered us flexibility to better position the portfolio for a potentially rising interest rate environment. The sell-off in emerging Asia has also opened up opportunities to own quality businesses at attractive valuations. We believe that Asia continues to represent some of the most exciting opportunities for investors looking for both attractive dividend yield and a robust dividend growth.

#### COUNTRY ALLOCATION (%)<sup>7</sup>

China/Hong Kong	33.0
Japan	25.0
Australia	8.8
Singapore	7.6
Taiwan	5.7
Indonesia	5.5
South Korea	4.5
Malaysia	2.2
India	1.8
Thailand	1.5
Philippines	1.0
Vietnam	0.8
Cash and Other Assets, Less Liabilities	2.6

#### SECTOR ALLOCATION (%)

Consumer Staples	20.3
Financials	18.4
Consumer Discretionary	18.4
Industrials	11.3
Telecommunication Services	8.8
Health Care	8.2
Information Technology	3.8
Materials	3.5
Utilities	2.5
Energy	2.2
Cash and Other Assets, Less Liabilities	2.6

#### MARKET CAP EXPOSURE (%)<sup>8</sup>

Large Cap (over \$5B)	63.8
Mid Cap (\$1B-\$5B)	27.3
Small Cap (under \$1B)	6.3
Cash and Other Assets, Less Liabilities	2.6

<sup>7</sup> Not all countries where the Fund may invest are included in the benchmark index.

<sup>8</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

Schedule of Investments<sup>a</sup>

COMMON EQUITIES: 95.0%

	Shares	Value		Shares	Value
<b>CHINA/HONG KONG: 33.0%</b>			<b>TAIWAN: 5.7%</b>		
China Mobile, Ltd. ADR	3,713,600	\$194,184,144	Chunghwa Telecom Co., Ltd. ADR	4,164,401	\$128,929,855
HSBC Holdings PLC ADR	3,451,391	190,275,186	Taiwan Semiconductor Manufacturing Co., Ltd. ADR	4,005,040	69,847,898
Dongfeng Motor Group Co., Ltd. H Shares	101,940,000	160,094,507	St. Shine Optical Co., Ltd.	1,911,000	54,566,108
Shenzhen International Group Holdings, Ltd.	37,691,000	141,735,717	Johnson Health Tech Co., Ltd.†	17,014,539	44,415,291
China Shenhua Energy Co., Ltd. H Shares	40,491,500	128,146,013	TXC Corp.	14,239,524	17,247,867
Television Broadcasts, Ltd.	18,932,500	126,817,289	Taiwan Semiconductor Manufacturing Co., Ltd.	4,646,469	16,447,816
Minth Group, Ltd.†	59,807,000	124,452,171	<b>Total Taiwan</b>		<b>331,454,835</b>
Yum! Brands, Inc.	1,594,000	120,522,340	<b>INDONESIA: 5.5%</b>		
Jiangsu Expressway Co., Ltd. H Shares†	75,782,000	93,135,739	PT Indofood Sukses Makmur	203,052,000	110,347,094
Guangdong Investment, Ltd.	92,676,000	90,664,779	PT United Tractors	59,840,000	93,666,352
Haitian International Holdings, Ltd.	37,823,000	85,456,967	PT Perusahaan Gas Negara Persero	142,302,000	52,454,340
Greatview Aseptic Packaging Co., Ltd.†	107,945,000	63,810,998	PT Telekomunikasi Indonesia Persero ADR	795,834	28,530,649
Xingda International Holdings, Ltd. H Shares†	104,704,000	62,653,697	PT Telekomunikasi Indonesia Persero	159,556,000	28,239,641
Springland International Holdings, Ltd.	115,950,000	59,662,445	PT Bank Rakyat Indonesia Persero	6,846,500	4,092,294
Cheung Kong Holdings, Ltd.	3,678,000	58,188,816	<b>Total Indonesia</b>		<b>317,330,370</b>
Yuexiu Transport Infrastructure, Ltd.†	110,490,000	57,917,162	<b>MALAYSIA: 2.2%</b>		
Cafe' de Coral Holdings, Ltd.	16,750,000	54,058,011	AMMB Holdings BHD	57,950,000	128,089,757
The Link REIT	10,597,000	51,396,072	<b>Total Malaysia</b>		<b>128,089,757</b>
Far East Horizon, Ltd.	54,138,000	46,362,746	<b>SOUTH KOREA: 2.1%</b>		
<b>Total China/Hong Kong</b>		<b>1,909,534,799</b>	KT&G Corp.	1,707,000	121,198,837
<b>JAPAN: 25.0%</b>			<b>Total South Korea</b>		<b>121,198,837</b>
ORIX Corp.	16,347,200	287,250,869	<b>INDIA: 1.8%</b>		
ITOCHU Corp.	18,693,000	231,094,785	Tata Motors, Ltd. DVR A Shares	33,695,515	104,891,624
Japan Tobacco, Inc.	6,270,700	204,040,795	Titan Co., Ltd.	627,643	2,328,738
Pigeon Corp.†	3,003,600	145,673,254	<b>Total India</b>		<b>107,220,362</b>
Suntory Beverage & Food, Ltd.	4,148,300	132,339,546	<b>THAILAND: 1.5%</b>		
Hoya Corp.	4,116,600	114,490,441	Thai Beverage Public Co., Ltd.	207,530,000	88,803,994
Toyo Suisan Kaisha, Ltd.	3,370,000	101,237,427	<b>Total Thailand</b>		<b>88,803,994</b>
NTT DoCoMo, Inc.	4,425,000	72,863,313	<b>PHILIPPINES: 1.0%</b>		
Miraca Holdings, Inc.	1,326,500	62,579,359	Globe Telecom, Inc.	1,503,820	55,673,358
Lawson, Inc.	815,100	60,998,777	<b>Total Philippines</b>		<b>55,673,358</b>
EPS Corp.†	29,184	38,281,342	<b>VIETNAM: 0.8%</b>		
<b>Total Japan</b>		<b>1,450,849,908</b>	Vietnam Dairy Products JSC	7,423,510	47,507,649
<b>AUSTRALIA: 8.8%</b>			<b>Total Vietnam</b>		<b>47,507,649</b>
Ansell, Ltd.†	9,815,000	181,147,416	<b>TOTAL COMMON EQUITIES</b>		
Primary Health Care, Ltd.†	31,495,465	139,204,921	<b>5,503,964,295</b>		
Coca-Cola Amatil, Ltd.	11,229,895	120,626,489	(Cost \$4,616,964,392)		
Breville Group, Ltd.†	8,427,453	67,196,888			
<b>Total Australia</b>		<b>508,175,714</b>			
<b>SINGAPORE: 7.6%</b>					
Singapore Technologies Engineering, Ltd.	30,906,000	96,983,050			
United Overseas Bank, Ltd.	5,669,000	95,415,476			
Ascendas REIT	43,912,000	76,553,271			
CapitaRetail China Trust, REIT†	50,392,400	53,109,784			
ARA Asset Management, Ltd.	29,964,660	44,165,195			
Super Group, Ltd.	14,023,000	42,226,237			
Ascendas India Trust†	55,065,000	29,671,699			
<b>Total Singapore</b>		<b>438,124,712</b>			

*Schedule of Investments<sup>a</sup> (continued)*

**PREFERRED EQUITIES: 2.4%**

	Shares	Value
<b>SOUTH KOREA: 2.4%</b>		
LG Chem, Ltd., Pfd.	949,641	\$138,156,493
<b>Total South Korea</b>		<b>138,156,493</b>
<b>TOTAL PREFERRED EQUITIES</b>		
		<b>138,156,493</b>
(Cost \$83,412,440)		
<b>TOTAL INVESTMENTS: 97.4%</b>		
		<b>5,642,120,788</b>
(Cost \$4,700,376,832 <sup>b</sup> )		

**CASH AND OTHER ASSETS,  
LESS LIABILITIES: 2.6%**

**151,783,145**

**NET ASSETS: 100.0%**

**\$5,793,903,933**

a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).

b Cost for federal income tax purposes is \$4,869,616,106 and net unrealized appreciation consists of:

Gross unrealized appreciation	\$958,585,482
Gross unrealized depreciation	(186,080,800)
Net unrealized appreciation	<u>\$772,504,682</u>

† Affiliated Issuer, as defined under the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of this issuer)

ADR American Depositary Receipt  
 BHD Berhad  
 DVR Differential Voting Right  
 JSC Joint Stock Co.  
 Pfd. Preferred  
 REIT Real Estate Investment Trust

See accompanying notes to financial statements.



## PORTFOLIO MANAGER

**Yu Zhang, CFA**  
Lead Manager

## FUND FACTS

	Investor Class	Institutional Class
Ticker	MCDFX	MICDX
CUSIP	577125305	577130735
Inception	11/30/09	10/29/10
NAV	\$13.74	\$13.74
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	1.24%	1.08%
After Fee Waiver, Reimbursement and Recapture <sup>2</sup>	1.34%	n.a.

## Portfolio Statistics

Total # of Positions	38
Net Assets	\$150.8 million
Weighted Average Market Cap	\$19.2 billion
Portfolio Turnover	20.52% <sup>3</sup>

## Benchmark

MSCI China Index

## Redemption Fee

2% within first 90 calendar days of purchase

## OBJECTIVE

Total return with an emphasis on providing current income.

## STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total net assets, which include borrowings for investment purposes, in dividend-paying equity securities of companies located in China. China includes its administrative and other districts, such as Hong Kong. The Fund may also invest in convertible debt and equity securities.

<sup>1</sup> Actual 2013 expense ratios.

<sup>2</sup> The Advisor has contractually agreed to waive the Fund's fees and reimburse expenses until at least August 31, 2014 to the extent needed to limit total annual operating expenses to 1.50%. The amounts of the waivers and reimbursements are based on estimated Fund expenses. The fee waivers and expense reimbursements may be terminated at any time by the Board of Trustees or the Trust on behalf of the Fund on 60 days' written notice.

<sup>3</sup> The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

# Matthews China Dividend Fund

## Portfolio Manager Commentary

For the year ending December 31, 2013, the Matthews China Dividend Fund gained 13.35% (Investor Class) and 13.72% (Institutional Class), outperforming its benchmark, the MSCI China Index, which returned 3.96%. For the fourth quarter of the year, the Fund rose 5.69% (Investor Class) and 5.70% (Institutional Class) versus 3.81% for the Index.

In 2013, China's equity markets remained challenging and equity performance was poorer compared to other regional markets in Asia, amid much market volatility. The market experienced sharp downside volatility in both June and in December, triggered by a liquidity crunch. While China's markets recovered swiftly on both occasions once its central bank provided funding relief, these two incidents highlighted a key question regarding the Chinese equity market: do Beijing's policymakers have sufficient willingness and ability to rein in the excessive credit expansion seen since 2009 while at the same time managing a soft landing of its economy? In addition, can China's financial system withstand such deleveraging efforts without suffering systemic problems? As the Chinese equity market as a whole continued to be de-rated much pessimism was built into the market.

The Fund's small- and mid-capitalization holdings delivered the biggest contributions to Fund performance during the year. Among the top five individual contributors, four were mid- to small-cap names with market capitalizations of less than US\$5 billion. These included Haitian International, a manufacturer of plastic injection molding machines; Minth Group, an auto parts firm; St. Shine Optical, a contact lens manufacturer; and Sporton International of Taiwan, an electronic product testing service provider. While these companies work in very different industries that face disparate business dynamics, they exhibit some common attributes: leading market positions within their respective industries; strong balance sheets; cash flow-generative business models; and relatively concentrated shareholding structures with original founders still retaining a large stake in the listed company. The first three attributes help support what we categorize as a company's ability to pay dividends. The fourth crucial attribute is that they provide the incentives for paying dividends, or what we often describe as a company's willingness to pay dividends. The rationale being that the main shareholder, or founder, is self-motivated to exact cash flow from the listed company in the form of dividends. Despite the growth nature of their underlying businesses, these four companies either already had a significant dividend payout in place, or had been steadily growing the proportion of earnings paid out in dividends.

At the sector level, the Fund's holdings in industrials and consumer discretionary, both cyclical sectors, were top performance contributors. The Fund's low exposure to mainland Chinese banks and residential real estate developers also contributed positively to the Fund's relative performance. In November, the Communist Party held its Third Plenum meeting, which outlined a blueprint for many highly anticipated reforms, such as financial sector reform. Some planned initiatives include the establishment of a deposit insurance program, liberalizing bank deposit rates, curbing irregularities in trust products and wealth management products, and allowing private players to enter China's banking industry. If implemented successfully, these changes could meaningfully improve China's financial system. We continue to be cautious over the long-term

*(continued)*

## PERFORMANCE AS OF DECEMBER 31, 2013

	3 Months	1 Year	Average Annual Total Returns		Inception Date
			3 Years	Since Inception	
Investor Class (MCDFX)	5.69%	13.35%	7.42%	11.26%	11/30/09
Institutional Class (MICDX)	5.70%	13.72%	7.65%	8.53%	10/29/10
MSCI China Index <sup>3</sup>	3.81%	3.96%	1.52%	2.40% <sup>4</sup>	
Lipper China Region Funds Category Average <sup>5</sup>	6.52%	11.73%	1.35%	5.14% <sup>4</sup>	

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance, visit [matthewsasias.com](http://matthewsasias.com).*

## INCOME DISTRIBUTION HISTORY

	2013			2012		
	June	December	Total	June	December	Total
Investor (MCDFX)	\$0.18	\$0.05	\$0.23	\$0.22	0.23	\$0.45
Institutional (MICDX)	\$0.20	\$0.06	\$0.26	\$0.23	0.25	\$0.48

Note: This table does not include capital gains distributions. Totals may differ by \$0.01 due to rounding. For income distribution history, visit [matthewsasias.com](http://matthewsasias.com).

### 30-DAY YIELD:

1.79% (Investor Class) 1.84% (Institutional Class)

The 30-Day Yield represents net investment income earned by the Fund over the 30-day period ended 12/31/13, expressed as an annual percentage rate based on the Fund's share price at the end of the 30-day period. The 30-Day Yield should be regarded as an estimate of the Fund's rate of investment income, and it may not equal the Fund's actual income distribution rate.

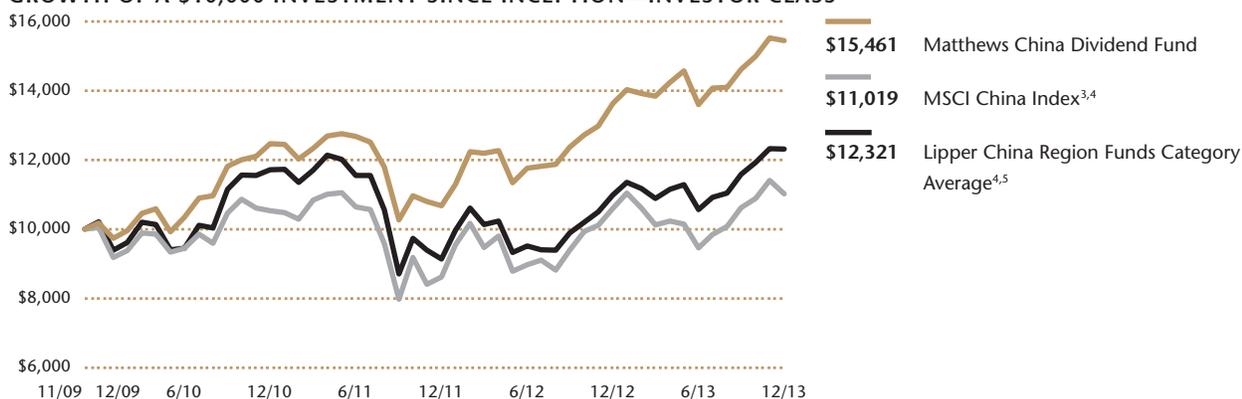
Source: BNY Mellon Investment Servicing (US) Inc.

### DIVIDEND YIELD: 3.24%

The dividend yield (trailing) for the portfolio is the weighted average sum of the dividend paid per share during the last 12 months divided by the current price. The annualized dividend yield for the Fund is for the equity-only portion of the portfolio. Please note that this is based on gross equity portfolio holdings and does not reflect the actual yield an investor in the Fund would receive. Past yields are no guarantee of future yields.

Source: FactSet Research Systems, Bloomberg, MICM.

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



Plotted monthly. The performance data does not reflect the deduction of taxes that a shareholder would pay on dividends, capital gains distributions or redemption of Fund shares. Values are in US\$.

<sup>3</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definition.

<sup>4</sup> Calculated from 11/30/09.

<sup>5</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>6</sup>

	Sector	% of Net Assets
Minth Group, Ltd.	Consumer Discretionary	3.9%
Dongfeng Motor Group Co., Ltd.	Consumer Discretionary	3.7%
Shenzhou International Group Holdings, Ltd.	Consumer Discretionary	3.6%
Guangdong Investment, Ltd.	Utilities	3.5%
Haitian International Holdings, Ltd.	Industrials	3.5%
HSBC Holdings PLC	Financials	3.4%
Shanghai Jinjiang International Hotels Development Co., Ltd.	Consumer Discretionary	3.3%
China Shenhua Energy Co., Ltd.	Energy	3.2%
Springland International Holdings, Ltd.	Consumer Discretionary	3.2%
Sporton International, Inc.	Industrials	3.1%
<b>% OF ASSETS IN TOP TEN</b>		<b>34.4%</b>

<sup>6</sup> Holdings may combine more than one security from same issuer and related depositary receipts.

**COUNTRY ALLOCATION (%)<sup>7</sup>**

China/Hong Kong	76.4
Taiwan	15.8
Singapore	2.4
Cash and Other Assets, Less Liabilities	5.4

**SECTOR ALLOCATION (%)**

Consumer Discretionary	32.1
Industrials	17.7
Financials	13.2
Health Care	7.5
Consumer Staples	5.3
Telecommunication Services	4.9
Information Technology	4.3
Utilities	3.5
Energy	3.2
Materials	2.9
Cash and Other Assets, Less Liabilities	5.4

**MARKET CAP EXPOSURE (%)<sup>8</sup>**

Large Cap (over \$5B)	30.9
Mid Cap (\$1B–\$5B)	35.9
Small Cap (under \$1B)	27.8
Cash and Other Assets, Less Liabilities	5.4

<sup>7</sup> Not all countries where the Fund may invest are included in the benchmark index.

<sup>8</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

## Matthews China Dividend Fund

### *Portfolio Manager Commentary (continued)*

growth prospects for Chinese banks as their profit margins are likely to be squeezed further amid industry deregulation. However, potential investment opportunities could emerge within both banking and non-banking financial industries.

During the year, the Fund further increased its overweight position in the consumer discretionary sector by adding several companies that we believe may enjoy the long-term benefits of China's shift toward an economic growth model, which places more emphasis on consumption-led growth. We also trimmed our exposure in energy-related companies. During the fourth quarter, we added Airmate International, a Taiwanese home appliance maker of products such as electric fans, heaters and air purifiers, which has its entire operations based in mainland China. Traditionally an original equipment manufacturer supplier with an overseas export focus, Airmate has rapidly increased its own-branded business and now sells directly within mainland China. We were impressed by Airmate's product quality and management caliber during visits to its production base. We believe the company may have just begun to scratch the surface of its potential market size in China as it continues to expand its product portfolio. The management team and insiders own a significant stake in the company and we believe dividends should also track its business growth.

During the year, Yantai Changyu Pioneer Wine and China Shenhua Energy were the largest performance detractors. Depressed coal prices continued to hurt Shenhua Energy's coal mining business, as it is the largest coal company in China. Yantai Changyu Pioneer Wine—a firm that distills, produces and distributes products including wine, brandy and sparkling wine—saw its grape wine sales slump amid a government campaign in China to curb official spending on excesses and battle corruption, which tempered demand for wine consumption. While both firms face strong headwinds in their underlying businesses, each company still represents a quality franchise. As valuations have come off aggressively, we believe the current risk-reward opportunities remain attractive.

Looking ahead, 2014 may be a pivotal year for China's economic reform. How much Beijing's new leadership can successfully implement its bold reform agenda will be closely watched by all investors. We believe Chinese equities are attractively priced at the moment. From a total-return perspective we remain convinced that despite its headline risk, China is a fertile ground for dividend investors looking for both attractive dividend yields and robust dividend growth.

*Schedule of Investments<sup>a</sup>*

**COMMON EQUITIES: 94.6%**

	Shares	Value		Shares	Value
<b>CONSUMER DISCRETIONARY: 32.1%</b>			<b>FINANCIALS: 13.2%</b>		
<b>Hotels, Restaurants &amp; Leisure: 8.4%</b>			<b>Real Estate Investment Trusts: 4.6%</b>		
Shanghai Jinjiang International Hotels Development Co., Ltd. B Shares	3,121,990	\$4,962,565	CapitaRetail China Trust, REIT	3,370,800	\$3,552,569
Yum! Brands, Inc.	58,800	4,445,868	Yuexiu, REIT	4,117,000	2,008,647
Cafe' de Coral Holdings, Ltd.	1,006,000	3,246,708	The Link REIT	273,000	1,324,066
		<u>12,655,141</u>			<u>6,885,282</u>
<b>Auto Components: 6.0%</b>			<b>Commercial Banks: 3.4%</b>		
Minth Group, Ltd.	2,858,000	5,947,202	HSBC Holdings PLC ADR	91,600	5,049,908
Xingda International Holdings, Ltd. H Shares	5,108,000	3,056,570			
		<u>9,003,772</u>	<b>Diversified Financial Services: 2.8%</b>		
<b>Automobiles: 3.7%</b>			Far East Horizon, Ltd.	4,972,000	4,257,926
Dongfeng Motor Group Co., Ltd. H Shares	3,580,000	5,622,310	<b>Real Estate Management &amp; Development: 2.4%</b>		
			Cheung Kong Holdings, Ltd.	229,000	3,622,958
<b>Textiles, Apparel &amp; Luxury Goods: 3.6%</b>			<b>Total Financials</b>		<u>19,816,074</u>
Shenzhou International Group Holdings, Ltd.	1,431,000	5,381,226	<b>HEALTH CARE: 7.5%</b>		
<b>Multiline Retail: 3.2%</b>			<b>Health Care Equipment &amp; Supplies: 5.0%</b>		
Springland International Holdings, Ltd.	9,322,000	4,796,665	Pacific Hospital Supply Co., Ltd.	1,313,000	4,370,279
			St. Shine Optical Co., Ltd.	108,811	3,106,956
<b>Media: 2.9%</b>					<u>7,477,235</u>
Television Broadcasts, Ltd.	646,600	4,331,180	<b>Pharmaceuticals: 2.5%</b>		
<b>Household Durables: 2.6%</b>			Tianjin ZhongXin Pharmaceutical Group Corp., Ltd. S Shares	3,571,000	3,856,680
Airmate Cayman International Co., Ltd.	1,418,000	3,968,030	<b>Total Health Care</b>		<u>11,333,915</u>
<b>Leisure Equipment &amp; Products: 1.7%</b>			<b>CONSUMER STAPLES: 5.3%</b>		
Johnson Health Tech Co., Ltd.	1,018,953	2,659,907	<b>Food Products: 2.8%</b>		
<b>Total Consumer Discretionary</b>		<u>48,418,231</u>	Vitasoy International Holdings, Ltd.	2,744,000	4,230,978
<b>INDUSTRIALS: 17.7%</b>			<b>Beverages: 2.5%</b>		
<b>Machinery: 3.5%</b>			Yantai Changyu Pioneer Wine Co., Ltd. B Shares	1,131,747	3,765,533
Haitian International Holdings, Ltd.	2,339,000	5,284,717	<b>Total Consumer Staples</b>		<u>7,996,511</u>
<b>Transportation Infrastructure: 3.1%</b>			<b>TELECOMMUNICATION SERVICES: 4.9%</b>		
Yuexiu Transport Infrastructure, Ltd.	4,874,000	2,554,876	<b>Wireless Telecommunication Services: 2.5%</b>		
Jiangsu Expressway Co., Ltd. H Shares	1,752,000	2,153,200	China Mobile, Ltd. ADR	71,130	3,719,388
		<u>4,708,076</u>	<b>Diversified Telecommunication Services: 2.4%</b>		
<b>Professional Services: 3.1%</b>			Chunghwa Telecom Co., Ltd. ADR	119,404	3,696,748
Sporton International, Inc.	1,013,030	4,673,667	<b>Total Telecommunication Services</b>		<u>7,416,136</u>
<b>Road &amp; Rail: 2.9%</b>			<b>INFORMATION TECHNOLOGY: 4.3%</b>		
Guangshen Railway Co., Ltd. H Shares	7,710,000	3,579,014	<b>Internet Software &amp; Services: 2.6%</b>		
Guangshen Railway Co., Ltd. ADR	32,900	759,990	Pacific Online, Ltd.	8,139,000	3,908,848
		<u>4,339,004</u>	<b>Semiconductors &amp; Semiconductor Equipment: 1.0%</b>		
<b>Electrical Equipment: 2.6%</b>			Taiwan Semiconductor Manufacturing Co., Ltd.	424,000	1,500,897
Boer Power Holdings, Ltd.	4,225,000	3,888,797	<b>Software: 0.7%</b>		
<b>Air Freight &amp; Logistics: 2.5%</b>			Boyaa Interactive International, Ltd. <sup>b</sup>	1,088,000	1,116,862
Shenzhen Chiwan Petroleum B Shares	1,861,968	3,829,505	<b>Total Information Technology</b>		<u>6,526,607</u>
<b>Total Industrials</b>		<u>26,723,766</u>			

*Schedule of Investments<sup>a</sup> (continued)*

**COMMON EQUITIES (continued)**

	Shares	Value
<b>UTILITIES: 3.5%</b>		
<b>Water Utilities: 3.5%</b>		
Guangdong Investment, Ltd.	5,402,000	<u>\$5,284,768</u>
<b>Total Utilities</b>		<u>5,284,768</u>
<b>ENERGY: 3.2%</b>		
<b>Oil, Gas &amp; Consumable Fuels: 3.2%</b>		
China Shenhua Energy Co., Ltd. H Shares	1,524,000	<u>4,823,099</u>
<b>Total Energy</b>		<u>4,823,099</u>
<b>MATERIALS: 2.9%</b>		
<b>Containers &amp; Packaging: 2.9%</b>		
Greatview Aseptic Packaging Co., Ltd.	7,278,000	<u>4,302,343</u>
<b>Total Materials</b>		<u>4,302,343</u>
<b>TOTAL INVESTMENTS: 94.6%</b>		<b>142,641,450</b>
(Cost \$125,883,735 <sup>c</sup> )		
<b>CASH AND OTHER ASSETS,</b>		
<b>LESS LIABILITIES: 5.4%</b>		<u>8,112,975</u>
<b>NET ASSETS: 100.0%</b>		<u><b>\$150,754,425</b></u>

a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).

b Non-income producing security.

c Cost for federal income tax purposes is \$126,321,354 and net unrealized appreciation consists of:

Gross unrealized appreciation . . . . .	\$21,347,977
Gross unrealized depreciation . . . . .	(5,027,881)
Net unrealized appreciation . . . . .	<u>\$16,320,096</u>

ADR American Depositary Receipt

REIT Real Estate Investment Trust

See accompanying notes to financial statements.



## PORTFOLIO MANAGERS

**Kenneth Lowe, CFA**  
Lead Manager

**J. Michael Oh, CFA**  
Co-Manager

**Sharat Shroff, CFA**  
Co-Manager

## FUND FACTS

	Investor	Institutional
Ticker	MAFSX	MIFSX
CUSIP	577125701	577125800
Inception	4/30/13	4/30/13
NAV	\$9.66	\$9.66
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	3.50%	3.32%
After Fee Waiver and Reimbursement <sup>2</sup>	1.92%	1.75%
After Voluntary Fee Waiver and Expense Reimbursement <sup>3</sup>	1.71%	1.50%

## Portfolio Statistics

Total # of Positions	31
Net Assets	\$8.4 million
Weighted Average Market Cap	\$45.5 billion
Portfolio Turnover	16.23% <sup>4</sup>

## Benchmark

MSCI AC Asia ex Japan Index

## Redemption Fee

2% within first 90 calendar days of purchase

## OBJECTIVE

Long term capital appreciation.

## STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total assets, which include borrowings for investment purposes, in the common and preferred stocks of companies located in Asia excluding Japan, but including all other developed, emerging and frontier countries and markets in the Asian region.

1 Actual 2013 expense ratios.

2 Matthews has contractually agreed to waive fees and reimburse expenses until August 31, 2015 to the extent needed to limit Total Annual Fund Operating Expenses to 1.75% for the Institutional Class and agreed to reduce the expense ratio by an equal amount for the Investor Class. Because certain expenses of the Investor Class are higher than the Institutional Class, the Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement for the Investor Class may exceed 1.75%. The amounts of the waivers and reimbursements are based on estimated Fund expenses. The fee waivers and expense reimbursements may be terminated at any time by the Board of Trustees or the Trust on behalf of the Fund on 60 days' written notice.

3 Matthews has also agreed to waive fees and reimburse additional expenses for the Institutional Class of the Fund on a voluntary basis if its expense ratio exceeds 1.50%. Furthermore, any amounts voluntarily waived by Matthews in respect of the Institutional Class, excluding any voluntary waiver of class-specific shareholder servicing fees, may also be waived for the Investor Class. These voluntary waivers and/or reimbursements may be terminated at any time in the sole and absolute discretion of Matthews, subject to prior notice to the Board of Trustees.

4 The Fund commenced operations on April 30, 2013. The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

# Matthews Asia Focus Fund

## Portfolio Manager Commentary

The Matthews Asia Focus Fund was launched on April 30, 2013. For the period ending December 31, 2013, the Fund declined -2.63% (Investor class) and -2.48% (Institutional Class) whilst its benchmark, the MSCI All Country Asia ex Japan Index gained 1.97% over that time period. For the fourth quarter of the year, the Fund returned 1.96% (Investor Class) and 2.11% (Institutional class) versus 3.42% for the Index.

Despite the Fund's relatively short existence, it has already witnessed multiple policy and political changes and fears that have driven markets globally. Broadly speaking, 2013 can be viewed as a year of thematics, including the start of tapering by the Federal Reserve in the U.S.; "Abenomics" in Japan; the renewed promise of reform in China; and political wrangling in countries such as India and Thailand. During the year, all of these factors have meaningfully impacted global equity markets in one way or another, making short-term performance somewhat challenging for bottom-up stock pickers such as ourselves. The "taper tantrum" in particular helped spark outperformance of more export-oriented and superficially cheaper North Asian markets, such as South Korea and China, against the more volatile and externally funded economies of South Asia, whose markets have lagged badly. This is particularly true in U.S. dollar terms as certain currencies such as the Indonesian rupiah, Thai baht and the Indian rupee dropped double-digit percentage points against the dollar.

Amid the backdrop of volatility, it is no wonder that the largest detractor to performance for the Fund during the course of the year was through movements in exchange rates. In particular, the 25% drop in the Indonesian rupiah and 14% drop in Australian dollar were challenging for the Fund. In the former's case, the tighter liquidity conditions from U.S. tapering and the ensuing increase in cost of capital caused some investors to panic and withdraw their funds from the market. This caused a troubling fallout as Indonesia remains a country that requires external capital to function due to its current account and fiscal deficits. Our holding in Bank Rakyat Indonesia, the country's largest micro-financier, was particularly impacted by this as rate-sensitive stocks sold off with Bank Indonesia raising interest rates in an attempt to counter these outflows and protect the currency. Despite a large drop in the company's share price, we remain comfortable holders of this stock as we believe that whilst Indonesia's macroeconomic landscape may have its challenges, the company will remain strong and deliver resilient loan growth, net interest margins and asset quality. Furthermore, it is in the enviable position of having best-in-class capital and liquidity metrics. Australia, on the other hand, had seen a very large appreciation in its currency during the last decade due to its mining boom and a healthy domestic economy. More recently, however, it has seen some of this reverse as these two factors have slowed.

During the year, one of the largest detractors to performance came from our position in Jardine Matheson, the Hong Kong-based conglomerate. The year was tough for the group, which forecast flat net profits as a number of its operating entities suffered short-term issues. For example, its Indonesian auto subsidiary, Astra International, is seeing increasing competition and labor cost issues, whilst margins of its retail behemoth, Dairy Farm, have been under pressure from increasing marketing costs. Although a difficult environment, we believe that the firm's seasoned management team has a great long-term track record of adding value for

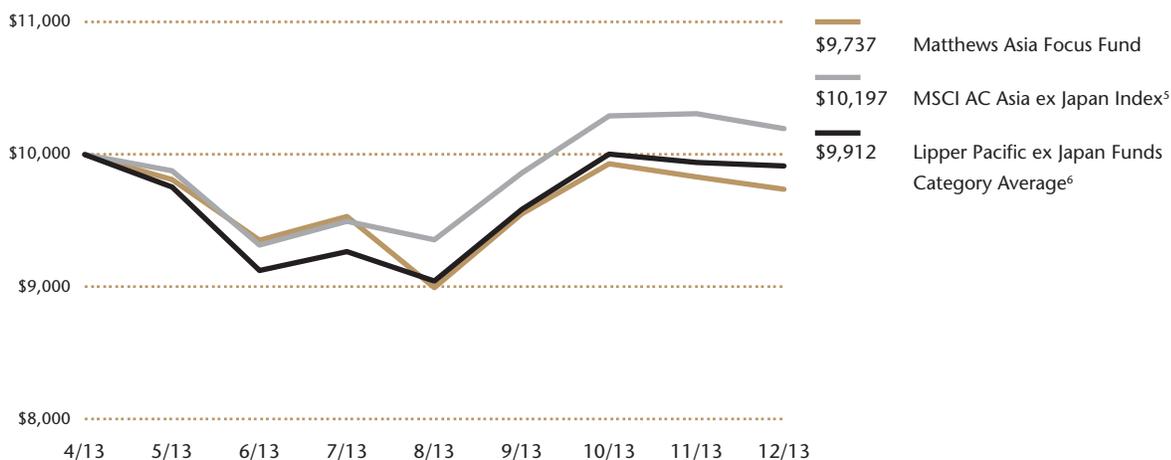
(continued)

## PERFORMANCE AS OF DECEMBER 31, 2013

	Actual Returns, Not Annualized		
	3 Months	Since Inception	Inception Date
Investor Class (MAFSX)	1.96%	-2.63%	4/30/13
Institutional Class (MIFSX)	2.11%	-2.48%	4/30/13
MSCI AC Asia ex Japan Index <sup>5</sup>	3.42%	1.97%	
Lipper Pacific ex Japan Funds Category Average <sup>6</sup>	3.35%	-0.88%	

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance visit [matthewsasia.com](http://matthewsasia.com).*

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



The performance data does not reflect the deduction of taxes that a shareholder would pay on dividends, capital gain distributions or redemption of Fund shares. Values are in US\$.

<sup>5</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definition.

<sup>6</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>7</sup>

	Sector	Country	% of Net Assets
AIA Group, Ltd.	Financials	China/Hong Kong	7.0%
Jardine Matheson Holdings, Ltd.	Industrials	China/Hong Kong	6.1%
Samsung Electronics Co., Ltd.	Information Technology	South Korea	5.3%
Yum! Brands, Inc.	Consumer Discretionary	China/Hong Kong	4.8%
Samsonite International SA	Consumer Discretionary	China/Hong Kong	4.3%
Cie Financiere Richemont SA	Consumer Discretionary	Switzerland	4.1%
Singapore Telecommunications, Ltd.	Telecommunication Services	Singapore	3.9%
Mead Johnson Nutrition Co.	Consumer Staples	USA	3.9%
Taiwan Semiconductor Manufacturing Co., Ltd.	Information Technology	Taiwan	3.8%
Baidu, Inc.	Information Technology	China/Hong Kong	3.7%
<b>% OF ASSETS IN TOP TEN</b>			<b>46.9%</b>

<sup>7</sup> Holdings may combine more than one security from same issuer and related depository receipts.

## Matthews Asia Focus Fund

### Portfolio Manager Commentary (continued)

minority shareholders and generating attractive returns. This is exemplified by its year-over-year dividend increase of 6% in the first half of 2013 despite its challenges, as well as an increase in its stakes of certain subsidiaries to utilize its very strong balance sheet.

A couple of our consumer staples holdings also stuttered due to stock-specific reasons. Malaysian brewer Guinness Anchor in particular was weak, having delivered poor earnings in the first quarter of its fiscal calendar. This was predominantly due to weaker distributor stocking given previous stockpiling along with expected subsidy cuts and the proposed introduction of a general sales tax, both of which hampered consumer sentiment generally. These are issues that should not be dismissed; however, we believe that the firm has a strong management team and that the current duopoly market structure and track record of product innovation still provide ample opportunity for Guinness to deliver over the long term.

Although the Fund's first eight months coincided with a difficult period for Asian markets, we take some solace that our stock selection added value. Baidu, the Chinese Internet search engine, was the standout performer as mobile monetization has begun to ramp up faster than previously expected. The smartphone commoditization rollout that is taking place in China should provide Baidu with opportunities across not only search, but games, videos and location services, all of which may prove to be important profit centers in the future. Beyond this, we saw strong performance from holdings such as AIA Group, a pan-Asian life insurer; Compagnie Financière Richemont, the luxury watch and jewelry manufacturer; and Samsonite, the largest branded luggage manufacturer globally. The real commonality among these companies, as leaders in their respective industries, reflects what the Fund sets out to achieve—find leading firms that are trading at price points we believe are cheaper than their intrinsic value.

The upcoming year, much like 2013, may still hold a number of challenges. The most important of these will be the progress that China makes down its path of reform from now through 2020. The ultimate aim of this plan seems very ambitious with areas of focus including reducing corruption, encouraging markets to play a more decisive role in allocating resources, further integrating rural and urban development and liberalizing the capital account and interest rates. The timing of, sequencing of and commitment to these reforms will be pivotally important for the region, particularly in light of the debt pile that has been building over the last 5 to 10 years. Dealing with this balance of debt reduction and reform whilst also maintaining growth will no doubt prove challenging and be a real test for the new regime. Further, whilst some of the tapering talk and subsequent action from the U.S. Federal Reserve have been priced into markets, we still need to be cognizant of the implications that any increase in the speed of the removal of quantitative easing from the U.S. has on the cost of capital in the region. These issues present an environment in which the outlook for earnings is mixed, with some companies far better-placed than others to deliver over the long term.

The Matthews Asia Focus Fund was established with the aim of delivering attractive absolute risk-adjusted returns over the long-term through a high conviction portfolio of only 25 to 35 holdings in companies that we deem to have healthy balance sheets, good management teams, a strong and sustainable return profile and attractive growth profiles and valuations. Whilst a challenging environment, we believe that our select list of companies are still well-positioned to deliver on this objective through economic cycles.

#### COUNTRY ALLOCATION (%)<sup>8</sup>

China/Hong Kong	31.7
Australia	11.3
Malaysia	11.2
Singapore	9.5
Indonesia	7.5
Thailand	6.1
South Korea	5.3
Switzerland	4.1
United States	3.9
Taiwan	3.7
India	3.1
United Kingdom	2.6
Liabilities in Excess of Cash and Other Assets	0.0

#### SECTOR ALLOCATION (%)

Financials	26.7
Consumer Discretionary	19.2
Consumer Staples	14.8
Information Technology	12.7
Industrials	8.7
Telecommunication Services	6.7
Health Care	5.9
Materials	5.3
Liabilities in Excess of Cash and Other Assets	0.0

#### MARKET CAP EXPOSURE (%)<sup>9</sup>

Large Cap (over \$5B)	81.3
Mid Cap (\$1B–\$5B)	18.7
Small Cap (under \$1B)	0.0
Liabilities in Excess of Cash and Other Assets	0.0

<sup>8</sup> Not all countries where the Fund may invest are included in the benchmark index.

<sup>9</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

Schedule of Investments<sup>a</sup>

COMMON EQUITIES: 100.0%

	Shares	Value		Shares	Value
<b>CHINA/HONG KONG: 31.7%</b>			<b>TAIWAN: 3.7%</b>		
AIA Group, Ltd.	116,400	\$585,898	Taiwan Semiconductor Manufacturing Co., Ltd.	89,000	\$315,047
Jardine Matheson Holdings, Ltd.	8,800	460,328	<b>Total Taiwan</b>		<b>315,047</b>
Yum! Brands, Inc.	5,350	404,513	<b>INDIA: 3.1%</b>		
Samsonite International SA	117,900	359,597	Tata Motors, Ltd.	42,828	260,617
Baidu, Inc. ADR <sup>b</sup>	1,737	308,978	<b>Total India</b>		<b>260,617</b>
HSBC Holdings PLC	24,400	265,992	<b>UNITED KINGDOM: 2.6%</b>		
Hang Lung Group, Ltd.	43,000	217,525	BHP Billiton PLC	6,971	215,751
Jardine Matheson Holdings, Ltd. ADR	1,000	52,810	<b>Total United Kingdom</b>		<b>215,751</b>
<b>Total China/Hong Kong</b>		<b>2,655,641</b>	<b>TOTAL INVESTMENTS: 100.0%</b>		
<b>AUSTRALIA: 11.3%</b>					<b>8,379,541</b>
Ansell, Ltd.	16,156	298,178	(Cost \$8,423,106 <sup>c</sup> )		
Orica, Ltd.	10,909	232,411	<b>LIABILITIES IN EXCESS OF</b>		
Insurance Australia Group, Ltd.	40,538	210,662	<b>CASH AND OTHER ASSETS: (0.0%)</b>		
Coca-Cola Amatil, Ltd.	19,036	204,476			<b>(3,760)</b>
<b>Total Australia</b>		<b>945,727</b>	<b>NET ASSETS: 100.0%</b>		
<b>MALAYSIA: 11.2%</b>					<b>\$8,375,781</b>
Guinness Anchor BHD	48,400	236,422	a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).		
Genting Malaysia BHD	175,800	235,080	b Non-income producing security.		
Axiata Group BHD	111,500	234,880	c Cost for federal income tax purposes is \$8,487,007 and net unrealized depreciation consists of:		
AMMB Holdings BHD	105,300	232,750	Gross unrealized appreciation . . . . . \$512,356		
<b>Total Malaysia</b>		<b>939,132</b>	Gross unrealized depreciation . . . . . (619,822)		
<b>SINGAPORE: 9.5%</b>			Net unrealized depreciation . . . . . (\$107,466)		
Singapore Telecommunications, Ltd.	113,000	327,731	ADR American Depositary Receipt		
United Overseas Bank, Ltd.	15,000	252,466	BHD Berhad		
Singapore Technologies Engineering, Ltd.	68,000	213,384	See accompanying notes to financial statements.		
United Overseas Bank, Ltd. ADR	200	6,724			
<b>Total Singapore</b>		<b>800,305</b>			
<b>INDONESIA: 7.5%</b>					
PT Bank Rakyat Indonesia Persero	381,000	227,732			
PT Indofood Sukses Makmur	372,000	202,161			
PT Kalbe Farma	1,921,000	197,866			
<b>Total Indonesia</b>		<b>627,759</b>			
<b>THAILAND: 6.1%</b>					
Thai Union Frozen Products Public Co., Ltd.	124,400	272,472			
Kasikornbank Public Co., Ltd.	49,500	236,612			
<b>Total Thailand</b>		<b>509,084</b>			
<b>SOUTH KOREA: 5.3%</b>					
Samsung Electronics Co., Ltd.	337	441,448			
<b>Total South Korea</b>		<b>441,448</b>			
<b>SWITZERLAND: 4.1%</b>					
Cie Financiere Richemont SA	3,454	345,046			
<b>Total Switzerland</b>		<b>345,046</b>			
<b>UNITED STATES: 3.9%</b>					
Mead Johnson Nutrition Co.	3,868	323,984			
<b>Total United States</b>		<b>323,984</b>			



## PORTFOLIO MANAGERS

### Taizo Ishida

Lead Manager

### Sharat Shroff, CFA

Co-Manager

## FUND FACTS

	Investor Class	Institutional Class
Ticker	MPACX	MIAPX
CUSIP	577130867	577130776
Inception	10/31/03	10/29/10
NAV	\$21.17	\$21.26
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	1.12%	0.93%

### Portfolio Statistics

Total # of Positions	69
Net Assets	\$786.3 million
Weighted Average Market Cap	\$32.0 billion
Portfolio Turnover	10.77% <sup>2</sup>

### Benchmark

MSCI AC Asia Pacific Index

### Redemption Fee

2% within first 90 calendar days of purchase

## OBJECTIVE

Long-term capital appreciation.

## STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total net assets, which include borrowings for investment purposes, in the common and preferred stocks of companies located in Asia. Asia consists of all countries and markets in Asia, and includes developed, emerging and frontier countries and markets in the Asian region. The Fund may also invest in the convertible securities, of any duration or quality, of Asian companies.

<sup>1</sup> Actual 2013 expense ratios.

<sup>2</sup> The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

# Matthews Asia Growth Fund

## Portfolio Manager Commentary

For the year ending December 31, 2013, the Matthews Asia Growth Fund rose 19.35% (Investor Class) and 19.63% (Institutional Class) while its benchmark, the MSCI All Country Asia Pacific Index, rose 12.19%. For the fourth quarter of the year, the Fund returned 1.79% (Investor Class) and 1.88% (Institutional Class) versus 2.31% for the Index.

Asia's equity markets saw sharp contrasts in 2013. Japan's market rallied strongly while many parts of emerging Asia were weak throughout much of the year. The volatility during the year was due to macroeconomic events that included investor reaction to U.S. Federal Reserve "tapering" of quantitative easing measures and weakness among currencies and investment flows for countries such as Thailand, Indonesia and India. Unfortunately, the trend continued throughout the year and most Asian currencies weakened significantly compared to 2012. Many governments of emerging Asian countries did not help to negate this trend by maintaining loose fiscal policies and allowing current account deficits to accumulate. The weaker global economy was partly to blame. In addition, there has been lingering weak demand for commodities among export-driven countries like Australia and Indonesia. On the other hand, we continue to see evidence of a rising middle class among emerging Asian economies, and believe this may lead to increased demand for imported goods as more affluence leads people to seek a better quality of life.

Despite the volatility in Asia's markets, the Fund performed well during the year, primarily due to our exposure to Japan and our stock selection in China. Several of our top contributors were China-related, consumer discretionary sector holdings that represent various business types, including casino gaming in Macau. We believe this illustrates how critical bottom-up stock selection is.

Sands China, a leading developer, owner and operator of resorts and casinos in Macau, was one of the largest contributors to Fund performance in 2013. The stock did well on the basis of growing casino revenues in Macau. While mainland China's economic growth appears to have slowed, improved infrastructure in Macau, which now has more hotels and better transportation access, has attracted more visitors. In 2013, Macau's casino revenue grew 19% to US\$45 billion, outpacing Las Vegas revenues by seven-fold. In fact, Macau is the world's largest gaming market, measured by casino gaming revenue. China Lodging Group, a budget hotel chain in mainland China, also performed well because it has maintained high occupancy rates and steady average room prices.

During the year, India, Thailand, Indonesia and the Philippines were among the biggest detractors to Fund performance. In Thailand, SNC Former Public, a long-term portfolio holding, suffered after investors sold off the stock following acquisition delays. The firm, which makes components for major global air-conditioner companies, has been undergoing a transition and has sought to add more profitable auto-parts business to its lineup. Despite some execution delays, we continue to feel optimistic that SNC Former Public should be able to carry out its plans over the next few years. We believe SNC Former Public is among the top original equipment manufacturers in the business.

The Multi Commodity Exchange of India (MCX) was another firm that posed a drag on Fund performance during the year. The company holds

*(continued)*

## PERFORMANCE AS OF DECEMBER 31, 2013

	Average Annual Total Returns						Inception Date
	3 Months	1 Year	3 Years	5 Years	10 Years	Since Inception	
Investor Class (MPACX)	1.79%	19.35%	6.97%	17.59%	10.39%	10.55%	10/31/03
Institutional Class (MIAPX)	1.88%	19.63%	7.15%	n.a.	n.a.	7.67%	10/29/10
MSCI AC Asia Pacific Index <sup>3</sup>	2.31%	12.19%	3.77%	12.55%	7.56%	7.91% <sup>4</sup>	
Lipper Pacific Region Funds Category Average <sup>5</sup>	0.68%	9.24%	4.28%	13.36%	7.76%	8.16% <sup>4</sup>	

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance, visit [matthewsasiasia.com](http://matthewsasiasia.com).*

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



Plotted monthly. The performance data and graph do not reflect the deduction of taxes that a shareholder would pay on dividends, capital gains distributions or redemption of Fund shares. Values are in US\$.

<sup>3</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definition.

<sup>4</sup> Calculated from 10/31/03.

<sup>5</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>6</sup>

	Sector	Country	% of Net Assets
ORIX Corp.	Financials	Japan	5.2%
Toyota Motor Corp.	Consumer Discretionary	Japan	4.7%
SoftBank Corp.	Telecommunication Services	Japan	3.8%
Honda Motor Co., Ltd.	Consumer Discretionary	Japan	3.6%
Mitsubishi UFJ Financial Group, Inc.	Financials	Japan	2.9%
Sands China, Ltd.	Consumer Discretionary	China/Hong Kong	2.6%
St. Shine Optical Co., Ltd.	Health Care	Taiwan	2.6%
Sumitomo Mitsui Financial Group, Inc.	Financials	Japan	2.5%
John Keells Holdings PLC	Industrials	Sri Lanka	2.4%
Haitian International Holdings, Ltd.	Industrials	China/Hong Kong	2.4%
<b>% OF ASSETS IN TOP TEN</b>			<b>32.7%</b>

<sup>6</sup> Holdings may combine more than one security from same issuer and related depositary receipts.

## Matthews Asia Growth Fund

### *Portfolio Manager Commentary (continued)*

more than 90% market share in commodities futures trading in India. However, it lost more than 70% of its value since July when its sister company, the National Spot Exchange, suspended trading following an investigation into dubious trading practices. Once investors gained clarity over the situation, the stock prices recovered somewhat toward the end of the year. We continue to hold our position in the company as we remain optimistic about the future of the exchange following our discussions with management in December.

During the year, Indonesia was among Asia's worst performing markets. The Indonesian Stock Exchange saw a net outflow of nearly US\$2 billion—the highest level of outflows since 2005. While our overweight in Indonesia hurt Fund performance; good stock selection offset some of the negative market impact.

The most notable change to the portfolio during the year was our addition of three Japanese mega banks: Mitsubishi UFJ Financial Group, Sumitomo Mitsui Financial Group and Mizuho Financial Group. We were attracted to these companies as we found fundamentals to be improving and valuations compelling. Loan growth among these banks appears strong not only across Asia but also domestically within Japan. While the portfolio remains underweight in financials versus the benchmark, adding these positions marked a notable increase in our weighting in this sector.

Looking forward to 2014, Japan may not play as dominant a role in the mind of investors as it did last year, partly because of the already significant gains it made in 2013 and also because the economy appears to be headed in the right direction. Rather, investors may continue to track the trajectory of China's economy and expected reform efforts. In addition, there has been some political turmoil in India and Thailand, with Thai elections looking uncertain to take place in the near term due to the political divide that may force incumbent Prime Minister Yingluck Shinawatra to step down from her post. However, it is important to keep in mind that turbulent times can create attractive opportunities for patient, long-term investors.

#### COUNTRY ALLOCATION (%)<sup>7</sup>

Japan	49.8
China/Hong Kong	13.0
Indonesia	6.5
India	5.0
Sri Lanka	4.6
Taiwan	4.1
Thailand	3.4
Australia	2.5
Malaysia	2.5
Philippines	2.4
Vietnam	2.2
Singapore	1.3
Cash and Other Assets, Less Liabilities	2.7

#### SECTOR ALLOCATION (%)

Financials	21.8
Consumer Discretionary	21.2
Consumer Staples	15.2
Industrials	13.9
Information Technology	8.4
Health Care	7.7
Telecommunication Services	3.8
Energy	2.8
Materials	2.5
Cash and Other Assets, Less Liabilities	2.7

#### MARKET CAP EXPOSURE (%)<sup>8</sup>

Large Cap (over \$5B)	60.9
Mid Cap (\$1B–\$5B)	25.3
Small Cap (under \$1B)	11.1
Cash and Other Assets, Less Liabilities	2.7

<sup>7</sup> Not all countries where the Fund may invest are included in the benchmark index.

<sup>8</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

# Matthews Asia Growth Fund

December 31, 2013

## Schedule of Investments<sup>a</sup>

### COMMON EQUITIES: 97.2%

	Shares	Value		Shares	Value
<b>JAPAN: 49.8%</b>			<b>INDIA: 5.0%</b>		
ORIX Corp.	2,305,600	\$40,513,703	Emami, Ltd.	1,551,001	\$11,886,703
Toyota Motor Corp.	603,400	36,792,368	HDFC Bank, Ltd.	1,007,795	10,848,602
SoftBank Corp.	336,500	29,528,132	Sun Pharmaceutical Industries, Ltd.	793,374	7,278,313
Honda Motor Co., Ltd.	684,300	28,245,939	Castrol India, Ltd.	1,075,755	5,457,472
Mitsubishi UFJ Financial Group, Inc.	3,464,100	22,999,534	Multi Commodity Exchange of India, Ltd.	516,163	3,997,541
Sumitomo Mitsui Financial Group, Inc.	373,000	19,397,262	<b>Total India</b>		<b>39,468,631</b>
Kakaku.com, Inc.	1,058,400	18,592,296	<b>SRI LANKA: 4.5%</b>		
Sysmex Corp.	284,300	16,792,232	John Keells Holdings PLC	11,026,735	19,161,903
Mizuho Financial Group, Inc.	7,247,400	15,734,334	Sampath Bank PLC	7,050,493	9,265,900
FANUC Corp.	81,400	14,915,790	Lanka Orix Leasing Co. PLC <sup>b</sup>	12,121,473	6,727,974
Yokogawa Electric Corp.	950,000	14,606,066	<b>Total Sri Lanka</b>		<b>35,155,777</b>
Seven & I Holdings Co., Ltd.	344,600	13,720,741	<b>TAIWAN: 4.1%</b>		
Suntory Beverage & Food, Ltd.	418,200	13,341,465	St. Shine Optical Co., Ltd.	711,000	20,301,676
Glory, Ltd.	480,100	12,459,550	Gourmet Master Co., Ltd.	1,057,800	7,151,734
Nidec Corp.	109,400	10,777,503	Synnex Technology International Corp.	3,133,000	4,972,265
Komatsu, Ltd.	501,400	10,294,389	<b>Total Taiwan</b>		<b>32,425,675</b>
Nitto Denko Corp.	231,200	9,776,205	<b>THAILAND: 3.4%</b>		
Rinnai Corp.	121,900	9,497,010	SVI Public Co., Ltd. <sup>b</sup>	72,678,514	9,185,465
Unicharm Corp.	152,600	8,707,129	Major Cineplex Group Public Co., Ltd.	11,921,000	6,370,307
Bit-isle, Inc.	977,300	7,759,007	The Siam Commercial Bank Public Co., Ltd.	1,264,400	5,557,468
Tokio Marine Holdings, Inc.	216,400	7,242,840	SNC Former Public Co., Ltd.	11,599,900	5,552,769
Pigeon Corp.	145,400	7,051,835	<b>Total Thailand</b>		<b>26,666,009</b>
Mitsui & Co., Ltd.	500,000	6,970,570	<b>AUSTRALIA: 2.5%</b>		
Calbee, Inc.	263,500	6,399,165	Oil Search, Ltd.	1,414,665	10,244,148
Fuji Heavy Industries, Ltd.	194,000	5,575,358	CSL, Ltd.	152,216	9,372,575
Benefit One, Inc.	462,600	4,181,970	<b>Total Australia</b>		<b>19,616,723</b>
<b>Total Japan</b>		<b>391,872,393</b>	<b>MALAYSIA: 2.5%</b>		
<b>CHINA/HONG KONG: 13.0%</b>			<b>PHILIPPINES: 2.4%</b>		
Sands China, Ltd.	2,486,000	20,373,602	Vista Land & Lifescapes, Inc.	100,543,200	11,798,388
Haitian International Holdings, Ltd.	8,247,000	18,633,202	Universal Robina Corp.	2,873,600	7,340,637
China Lodging Group, Ltd. ADS <sup>b</sup>	526,600	16,040,236	<b>Total Philippines</b>		<b>19,139,025</b>
Shenzhou International Group Holdings, Ltd.	3,408,000	12,815,667	<b>VIETNAM: 2.2%</b>		
Baidu, Inc. ADR <sup>b</sup>	61,300	10,904,044	Vietnam Dairy Products JSC	2,682,647	17,167,923
Sinopharm Group Co., Ltd. H Shares	2,487,200	7,155,605	<b>Total Vietnam</b>		<b>17,167,923</b>
Dairy Farm International Holdings, Ltd.	727,554	6,911,763	<b>SINGAPORE: 1.3%</b>		
Tingyi (Cayman Islands) Holding Corp.	1,888,000	5,463,781	Keppel Land, Ltd.	2,204,000	5,833,321
Hang Lung Group, Ltd.	742,000	3,753,580	Goodpack, Ltd.	2,919,000	4,510,519
Qunar Cayman Islands, Ltd. ADR <sup>b</sup>	2,245	59,560	<b>Total Singapore</b>		<b>10,343,840</b>
Autohome, Inc. ADR <sup>b</sup>	1,200	43,908	<b>TOTAL COMMON EQUITIES</b>		
<b>Total China/Hong Kong</b>		<b>102,154,948</b>			<b>764,426,111</b>
<b>INDONESIA: 6.5%</b>			(Cost \$589,037,820)		
PT Indofood CBP Sukses Makmur	18,435,000	15,479,927			
PT Astra International	22,448,500	12,572,369			
PT Ace Hardware Indonesia	194,172,500	9,426,635			
PT Bank Rakyat Indonesia Persero	13,407,000	8,013,640			
PT Arwana Citramulia	79,852,000	5,380,332			
<b>Total Indonesia</b>		<b>50,872,903</b>			

*Schedule of Investments<sup>a</sup> (continued)*

**WARRANTS: 0.1%**

	Shares	Value
<b>SRI LANKA: 0.1%</b>		
John Keells Holdings PLC, expires 11/11/16	490,094	\$354,082
John Keells Holdings PLC, expires 11/12/15	490,094	299,752
<b>Total Sri Lanka</b>		<b>653,834</b>
<b>TOTAL WARRANTS</b>		<b>653,834</b>
(Cost \$0)		
<b>TOTAL INVESTMENTS: 97.3%</b>		<b>765,079,945</b>
(Cost \$589,037,820 <sup>c</sup> )		

**CASH AND OTHER ASSETS,**

**LESS LIABILITIES: 2.7%** 21,179,181

**NET ASSETS: 100.0%** \$786,259,126

- a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).
- b Non-income producing security.
- c Cost for federal income tax purposes is \$609,169,487 and net unrealized appreciation consists of:
 

Gross unrealized appreciation	\$182,070,138
Gross unrealized depreciation	(26,159,680)
Net unrealized appreciation	<u>\$155,910,458</u>

- ADR American Depositary Receipt
- ADS American Depositary Share
- BHD Berhad
- JSC Joint Stock Co.

See accompanying notes to financial statements.



## PORTFOLIO MANAGERS

**Richard H. Gao**

Lead Manager

**Sharat Shroff, CFA**

Lead Manager

## FUND FACTS

	Investor Class	Institutional Class
Ticker	MAPTX	MIPTX
CUSIP	577130107	577130834
Inception	9/12/94	10/29/10
NAV	\$24.99	\$24.97
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	1.09%	0.92%

### Portfolio Statistics

Total # of Positions	67
Net Assets	\$7.6 billion
Weighted Average Market Cap	\$23.5 billion
Portfolio Turnover	7.73% <sup>2</sup>

### Benchmark

MSCI AC Asia ex Japan Index

### Redemption Fee

2% within first 90 calendar days of purchase

## OBJECTIVE

Long-term capital appreciation.

## STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total net assets, which include borrowings for investment purposes, in the common and preferred stocks of companies located in Asia ex Japan, which consists of all countries and markets in Asia excluding Japan, but including all other developed, emerging and frontier countries and markets in the Asian region.

<sup>1</sup> Actual 2013 expense ratios.

<sup>2</sup> The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

# Matthews Pacific Tiger Fund\*

## Portfolio Manager Commentary

For the year ending December 31, 2013, the Matthews Pacific Tiger Fund returned 3.63% (Investor Class) and 3.78% (Institutional Class) while its benchmark, the MSCI All Country Asia ex Japan Index, returned 3.34%. For the fourth quarter of the year, the Fund returned 3.04% (Investor Class) and 3.06% (Institutional Class) versus 3.42% for the Index.

The nearly flat performance of the Index masks the underlying volatility, and a sharp divergence between the equity performance in export-oriented economies like South Korea and Taiwan against economies driven more by consumption, such as India and Indonesia.

A core element of our investment philosophy is emphasizing domestic demand-led growth since we believe that to be sustainable. Starting in 2007, a combination of solid growth, which was domestically driven, and attractive valuations led us to increase our allocation to parts of the Association of Southeast Asian Nations (ASEAN) region, including Indonesia. However, the overweight hurt portfolio performance in 2013 in terms of a negative country allocation effect.

In considering India and Indonesia, both carry deficits on their fiscal and current accounts. As investors start pricing in a gradual return to improving economic conditions in the U.S., there is concern that capital flows that have helped finance the deficit may start to reverse. In spite of periodic outflows from the ASEAN region during periods of stress, the region has attracted significant inflows that continue to be of a long-term nature, such as foreign direct investments. Overseas businesses and longer-term capital continue to be attracted to the prospects of better growth in Asia, but these should be distinguished from portfolio flows that are seeking to arbitrage the differential between rates and returns. In our view, the concerns over these shorter-term sources of flow may be exaggerated, but they are already acting as a wake-up call for policymakers in some of the affected countries. The recent sharp depreciation in some currencies—such as the Indian rupee and the Indonesian rupiah—is forcing some difficult decisions like the reduction of wasteful energy subsidies. This is a start, but there is more that needs to be done, particularly in India and Indonesia, to accomplish sustained growth for the next several years.

For nearly two years, we have selectively trimmed our exposure to parts of ASEAN, believing that valuations may have been too high and that growth may moderate. While that still remains our bias, we are alert to the possibility of further broad-based sell-offs leading to attractive valuations, particularly in Thailand and the Philippines. Thailand is in the middle of a stalemate with its political parties holding public demonstrations instead of working out their differences within the Parliamentary process. The end game with the political process is unclear, but it is clear to us that Thailand's attraction, both for tourists and strategic investors, is unlikely to be dented in the long run.

While macroeconomic factors continued to hold significant influence on stock prices during the year, there was some noticeable divergence between stocks prices, particularly in China. The domestic Shanghai and Shenzhen A-share indices revealed widely different outcomes for 2013. The Shanghai A-share Index is dominated by financials and state-owned

\* Closed to most new investors as of October 25, 2013.

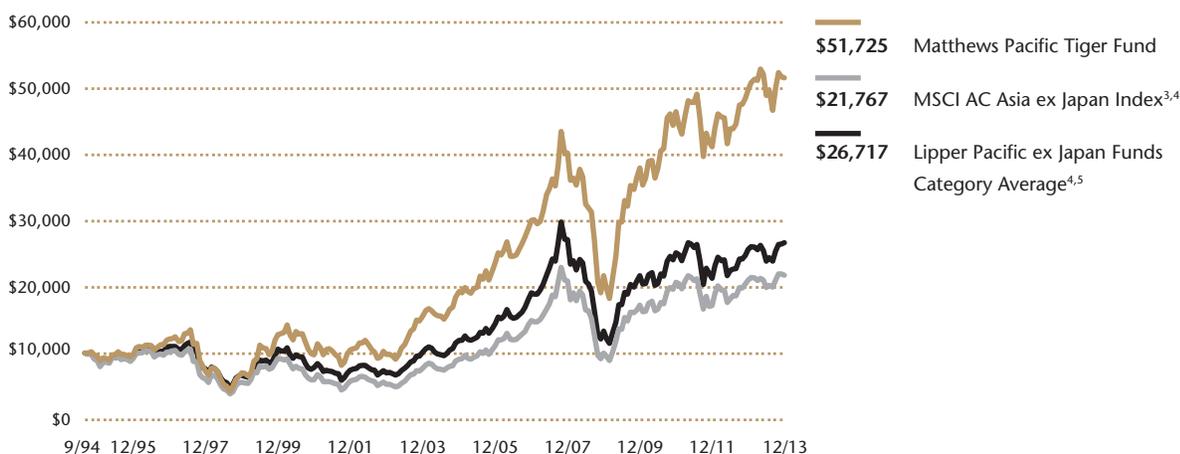
(continued)

## PERFORMANCE AS OF DECEMBER 31, 2013

	Average Annual Total Returns						Inception Date
	3 Months	1 Year	3 Years	5 Years	10 Years	Since Inception	
Investor Class (MAPTX)	3.04%	3.63%	3.57%	18.96%	12.68%	8.89%	9/12/94
Institutional Class (MIPTX)	3.06%	3.78%	3.73%	n.a.	n.a.	3.74%	10/29/10
MSCI AC Asia ex Japan Index <sup>3</sup>	3.42%	3.34%	1.69%	16.82%	10.97%	4.10% <sup>4</sup>	
Lipper Pacific ex Japan Funds Category Average <sup>5</sup>	3.35%	2.11%	1.04%	16.40%	10.55%	4.25% <sup>4</sup>	

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance, visit [matthewsasiasia.com](http://matthewsasiasia.com).*

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



Plotted monthly. The performance data and graph do not reflect the deduction of taxes that a shareholder would pay on dividends, capital gains distributions or redemption of Fund shares. Values are in US\$.

<sup>3</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definition.

<sup>4</sup> Calculated from 8/31/94.

<sup>5</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>6</sup>

	Sector	Country	% of Net Assets
Delta Electronics, Inc.	Information Technology	Taiwan	3.4%
Ping An Insurance Group Co. of China, Ltd.	Financials	China/Hong Kong	3.3%
Amorepacific Corp.	Consumer Staples	South Korea	2.9%
Naver Corp.	Information Technology	South Korea	2.8%
Dongbu Insurance Co., Ltd.	Financials	South Korea	2.8%
Tata Power Co., Ltd.	Utilities	India	2.4%
Samsung Electronics Co., Ltd.	Information Technology	South Korea	2.3%
President Chain Store Corp.	Consumer Staples	Taiwan	2.3%
Cheil Worldwide, Inc.	Consumer Discretionary	South Korea	2.3%
China Resources Enterprise, Ltd.	Consumer Staples	China/Hong Kong	2.2%
<b>% OF ASSETS IN TOP TEN</b>			<b>26.7%</b>

<sup>6</sup> Holdings may combine more than one security from same issuer and related depository receipts.

COUNTRY ALLOCATION (%) <sup>7</sup>	
China/Hong Kong	28.4
South Korea	17.4
India	15.7
Taiwan	9.5
Indonesia	7.3
Thailand	5.5
Malaysia	5.3
Philippines	2.0
Singapore	2.0
Switzerland	1.8
Vietnam	1.6
Cash and Other Assets, Less Liabilities	3.5

SECTOR ALLOCATION (%)	
Financials	26.5
Consumer Staples	18.1
Information Technology	17.5
Consumer Discretionary	10.9
Health Care	7.4
Utilities	6.7
Industrials	3.6
Telecommunication Services	2.7
Materials	1.6
Energy	1.5
Cash and Other Assets, Less Liabilities	3.5

MARKET CAP EXPOSURE (%) <sup>8</sup>	
Large Cap (over \$5B)	75.0
Mid Cap (\$1B–\$5B)	20.3
Small Cap (under \$1B)	1.2
Cash and Other Assets, Less Liabilities	3.5

<sup>7</sup> Not all countries where the Fund may invest are included in the benchmark index.

<sup>8</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

## Matthews Pacific Tiger Fund

### *Portfolio Manager Commentary (continued)*

enterprises. Meanwhile, the Shenzhen-A share index tends to be more diversified, including private sector, IT and consumer-oriented stocks. The divergence in stock prices is perhaps reflective of the government's efforts to strive for more balanced and profitable growth. Even as overall GDP growth in China has slowed, consumer spending and areas such as the Internet and tourism have held up relatively well. While the slowdown in growth in China is increasingly being accepted by the investment community, a possible improvement in the return on capital is not. As a result, scarcity of growth was an important factor driving stock prices which helped some of our Internet-related holdings like Baidu and Tencent.

One of the biggest contributors to the portfolio's performance during the year was a Korean Internet-related holding, Naver (previously NHN). The firm has been a long-term holding for the Fund, and is a rare example of a service-oriented business out of South Korea gaining traction with consumers outside of the country. Its recent traction in monetizing its mobile communication services is testament to the firm's investments in R&D, and a willingness to hire talent locally in places like Japan. We believe the expectations for their LINE platform are achievable, but the recent gains in valuations leave little room for mistakes.

During the year, we exited more holdings than we added, making the portfolio more concentrated. The exits were driven by the inability of newer positions to meet our milestones. The business environment in many parts of Asia has been difficult for the past few years, reflective of tougher lending conditions, and a moderation in growth. All this has translated into lower returns on equity (ROE) for many companies, and is one of the key reasons behind Asia's underperformance relative to many other parts of the world. Some of the decline in ROE is likely structural, as may be the case for the industrial sector in China. However, we also believe that with stabilizing sales growth and lower inputs costs, there is a possibility that margins may stabilize and start to recover over the next few years.

So as we look ahead, one of the key questions that we wrestle with is: does Asia deserve to trade at a significant discount to many other parts of the world? Without doubt overall growth has been disappointing these past few years leading to lower profitability. More importantly, growth is becoming more fragmented, and perhaps less visible in headline indices. As an example, we are more convinced about the favorable outlook for sectors like healthcare and consumer in China than about the pace of growth for the overall economy. Meanwhile, valuations particularly in China are at levels that are at historic lows relative to many parts of the world, and are not based on analyst expectations that look particularly ambitious. Liquidity and flow of capital may continue to test Asia's capital markets and political events in India and parts of ASEAN may pose as unquantifiable risks. However, the underlying virtuous cycle of savings led investment growth in Asia has not been altered. We would view any pickup in volatility as an opportunity to invest with businesses that continue to deliver secular growth.

# Matthews Pacific Tiger Fund

December 31, 2013

## Schedule of Investments<sup>a</sup>

### COMMON EQUITIES: 96.3%

	Shares	Value		Shares	Value
<b>CHINA/HONG KONG: 28.4%</b>			<b>TAIWAN: 9.5%</b>		
Ping An Insurance Group Co. of China, Ltd. H Shares	28,166,000	\$253,047,066	Delta Electronics, Inc.	46,121,000	\$263,075,478
China Resources Enterprise, Ltd.	51,384,000	170,942,268	President Chain Store Corp.	25,075,608	173,741,777
Hang Lung Group, Ltd.	32,014,000	161,950,265	Synnex Technology International Corp.†	84,022,354	133,348,679
Baidu, Inc. ADR <sup>b</sup>	847,500	150,753,300	Yuanta Financial Holding Co., Ltd.	133,911,782	79,978,181
Dairy Farm International Holdings, Ltd.	15,061,446	143,083,737	Taiwan Semiconductor Manufacturing Co., Ltd.	20,423,513	72,296,227
China Resources Land, Ltd.	54,976,000	136,777,733	<b>Total Taiwan</b>		<b>722,440,342</b>
Dongfeng Motor Group Co., Ltd. H Shares	82,940,000	130,255,429	<b>INDONESIA: 7.3%</b>		
Tencent Holdings, Ltd.	2,011,900	128,816,873	PT Perusahaan Gas Negara Persero	345,321,500	127,289,928
Hengan International Group Co., Ltd.	10,721,000	126,843,425	PT Astra International	227,099,300	127,187,841
Sinopharm Group Co., Ltd. H Shares	43,788,000	125,976,856	PT Indofood CBP Sukses Makmur	137,813,000	115,722,009
Lenovo Group, Ltd.	97,092,000	118,357,268	PT Bank Central Asia	115,688,500	91,516,248
China Mobile, Ltd. ADR	2,113,150	110,496,613	PT Telekomunikasi Indonesia Persero	487,302,500	86,247,134
Tingyi (Cayman Islands) Holding Corp.	36,846,000	106,630,551	PT Telekomunikasi Indonesia Persero ADR	375,700	13,468,845
China Vanke Co., Ltd. B Shares	48,875,258	76,311,647	<b>Total Indonesia</b>		<b>561,432,005</b>
Digital China Holdings, Ltd.†	61,422,000	72,537,177	<b>THAILAND: 5.5%</b>		
Swire Pacific, Ltd. A Shares	5,683,500	66,779,186	Central Pattana Public Co., Ltd.	134,957,600	169,409,560
Hong Kong Exchanges and Clearing, Ltd.	3,664,500	61,253,346	The Siam Cement Public Co., Ltd. NVDR	9,753,500	119,094,474
Shangri-La Asia, Ltd.	13,575,333	26,506,162	PTT Exploration & Production Public Co., Ltd.	23,423,867	118,979,195
<b>Total China/Hong Kong</b>		<b>2,167,318,902</b>	Kasikornbank Public Co., Ltd. NVDR	1,500,000	7,170,052
<b>SOUTH KOREA: 17.4%</b>			Kasikornbank Public Co., Ltd.	385,000	1,840,313
Amorepacific Corp.	228,241	217,529,044	<b>Total Thailand</b>		<b>416,493,594</b>
Naver Corp.	311,015	215,462,140	<b>MALAYSIA: 5.1%</b>		
Dongbu Insurance Co., Ltd.†	3,950,500	211,599,788	Genting BHD	49,665,500	155,569,541
Samsung Electronics Co., Ltd.	136,754	179,139,008	Public Bank BHD	24,011,386	142,213,674
Cheil Worldwide, Inc.‡	6,561,880	172,198,037	Top Glove Corp. BHD	25,175,960	43,272,983
Green Cross Corp.†	967,499	114,899,678	IHH Healthcare BHD <sup>b</sup>	30,846,700	36,351,171
Yuhan Corp.	542,138	96,746,040	IHH Healthcare BHD <sup>b</sup>	11,543,000	13,720,433
Hyundai Mobis	317,719	88,921,856	<b>Total Malaysia</b>		<b>391,127,802</b>
MegaStudy Co., Ltd.†	396,412	29,449,926	<b>PHILIPPINES: 2.0%</b>		
<b>Total South Korea</b>		<b>1,325,945,517</b>	SM Prime Holdings, Inc.	414,449,271	137,599,661
<b>INDIA: 15.7%</b>			GT Capital Holdings, Inc.	1,075,000	18,713,942
Tata Power Co., Ltd.†	126,160,510	186,319,014	<b>Total Philippines</b>		<b>156,313,603</b>
GAIL India, Ltd.	24,682,108	136,588,563	<b>SINGAPORE: 2.0%</b>		
Sun Pharmaceutical Industries, Ltd.	14,303,630	131,219,705	Keppel Land, Ltd.	34,212,000	90,548,817
ITC, Ltd.	24,735,000	128,703,577	Hyflux, Ltd.†	65,284,280	60,527,444
Kotak Mahindra Bank, Ltd.	10,218,688	120,309,749	<b>Total Singapore</b>		<b>151,076,261</b>
Housing Development Finance Corp.	7,485,685	96,168,452	<b>SWITZERLAND: 1.8%</b>		
HDFC Bank, Ltd.	8,635,920	92,963,016	DKSH Holding, Ltd.	1,758,541	136,810,514
Titan Co., Ltd.	24,132,503	89,538,589	<b>Total Switzerland</b>		<b>136,810,514</b>
Container Corp. of India, Ltd.	6,536,886	77,141,701	<b>VIETNAM: 1.6%</b>		
Dabur India, Ltd.	25,308,038	69,698,881	Vietnam Dairy Products JSC	19,622,807	125,578,523
Thermax, Ltd.	5,110,034	58,733,791	<b>Total Vietnam</b>		<b>125,578,523</b>
HDFC Bank, Ltd. ADR	319,500	11,003,580	<b>TOTAL COMMON EQUITIES</b>		
<b>Total India</b>		<b>1,198,388,618</b>	<b>7,352,925,681</b>		
			(Cost \$5,370,487,548)		

*Schedule of Investments<sup>a</sup> (continued)*

**WARRANTS: 0.2%**

	Shares	Value
<b>MALAYSIA: 0.2%</b>		
Genting BHD, expires 12/18/18	12,253,875	\$11,709,549
<b>Total Malaysia</b>		<b>11,709,549</b>
<b>TOTAL WARRANTS</b>		
		<b>11,709,549</b>
(Cost \$5,593,674)		
<b>TOTAL INVESTMENTS: 96.5%</b>		
		<b>7,364,635,230</b>
(Cost \$5,376,081,222 <sup>c</sup> )		

**CASH AND OTHER ASSETS,  
LESS LIABILITIES: 3.5%** **268,511,817**

**NET ASSETS: 100.0%** **\$7,633,147,047**

a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).

b Non-income producing security.

c Cost for federal income tax purposes is \$5,377,903,948 and net unrealized appreciation consists of:

Gross unrealized appreciation	\$2,215,589,985
Gross unrealized depreciation	(228,858,703)
Net unrealized appreciation	<u>\$1,986,731,282</u>

† Affiliated Issuer, as defined under the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of this issuer)

ADR American Depositary Receipt

BHD Berhad

JSC Joint Stock Co.

NVDR Non-voting Depositary Receipt

See accompanying notes to financial statements.



## PORTFOLIO MANAGERS

**Taizo Ishida**  
Lead Manager

**Robert Harvey, CFA**  
Co-Manager

## FUND FACTS

	Investor	Institutional
Ticker	MEASX	MIASX
CUSIP	577125883	577125875
Inception	4/30/13	4/30/13
NAV	\$9.93	\$9.92
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	2.39%	2.21%
After Fee Waiver and Reimbursement <sup>2</sup>	2.18%	2.00%
After Voluntary Fee Waiver and Expense Reimbursement <sup>3</sup>	1.98%	1.75%

## Portfolio Statistics

Total # of Positions	70
Net Assets	\$40.0 million
Weighted Average Market Cap	\$5.5 billion
Portfolio Turnover	1.66% <sup>4</sup>

## Benchmark

MSCI Emerging Markets Asia Index

## Redemption Fee

2% within first 90 calendar days of purchase

## OBJECTIVE

Long term capital appreciation.

## STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total assets, which include borrowings for investment purposes, in the common and preferred stocks of companies located in Asia excluding Japan, South Korea, Hong Kong and Singapore. The Fund may also invest in the convertible securities, of any duration or quality of companies located in Asia excluding Japan, South Korea, Hong Kong and Singapore. Once fully invested and under normal market conditions, the Fund is expected to invest a substantial portion of its net assets in the emerging countries and markets in the Asian region, including, but not limited to, Bangladesh, Cambodia, China (including Taiwan, but excluding Hong Kong), India, Indonesia, Laos, Malaysia, Mongolia, Myanmar, Pakistan, Papua New Guinea, Philippines, Sri Lanka, Thailand, and Vietnam.

<sup>1</sup> Actual 2013 expense ratios.

<sup>2</sup> Matthews has contractually agreed to waive fees and reimburse expenses until August 31, 2015 to the extent needed to limit Total Annual Fund Operating Expenses to 2.00% for the Institutional Class and agreed to reduce the expense ratio by an equal amount for the Investor Class. Because certain expenses of the Investor Class are higher than the Institutional Class, the Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement for the Investor Class may exceed 2.00%. The amounts of the waivers and reimbursements are based on estimated Fund expenses. The fee waivers and expense reimbursements may be terminated at any time by the Board of Trustees or the Trust on behalf of the Fund on 60 days' written notice.

<sup>3</sup> Matthews has also agreed to waive fees and reimburse additional expenses for the Institutional Class of the Fund on a voluntary basis if its expense ratio exceeds 1.75%. Furthermore, any amounts voluntarily waived by Matthews in respect of the Institutional Class, excluding any voluntary waiver of class-specific shareholder servicing fees, may also be waived for the Investor Class. These voluntary waivers and/or reimbursements may be terminated at any time in the sole and absolute discretion of Matthews, subject to prior notice to the Board of Trustees.

<sup>4</sup> The Fund commenced operations on April 30, 2013. The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

# Matthews Emerging Asia Fund

## Portfolio Manager Commentary

The Matthews Emerging Asia Fund was launched on April 30, 2013. For the period ending December 31, 2013, the Fund declined -0.61% (Investor Class) and -0.55% (Institutional Class) while its benchmark, the MSCI Emerging Markets Asia Index returned 2.13%. For the fourth quarter of the year, the Fund advanced 5.85% (Investor Class) and 5.91% (Institutional Class) versus 3.66% for the benchmark.

The timing of the Fund's launch earlier in the year coincided with the first wave of negative sentiment toward "emerging markets" caused by the U.S. Federal Reserve's discussions over tapering its quantitative easing policies. The notion of capital withdrawal from these markets spooked emerging market investors as foreign portfolio inflows over the last few years had pushed up valuations, especially in the Association of Southeast Asian Nation markets. Foreign selling continued throughout the summer, and emerging markets were hit particularly hard in August. By the end of 2013, foreign investors withdrew a net US\$6 billion from the Stock Exchange of Thailand—the largest annual withdrawal over the past decade. The Indonesian Stock Exchange saw a net outflow of nearly US\$2 billion—the highest level of outflows since 2005. Although both exchanges are big enough to absorb the outflows, the capital flight still negatively impacted prices.

Considering this general weakness among Asia's emerging markets during the fourth quarter, the Fund fared relatively well against its benchmark. While the benchmark benefited from its large exposure to the buoyant, more developed markets of South Korea and Taiwan, the Fund did well as a result of stock selection. The Fund had a combined exposure of 4% in these developed markets, compared with 43% for the benchmark.

Some frontier markets in Asia, including Bangladesh, Vietnam, Laos and Cambodia, were relatively stable during the year as little money had flowed into these markets in prior years. Foreign trade flows in Bangladesh, for example, have generally comprised less than 4% of the market, and its market experienced very little impact from foreign selling in 2013. In fact, Bangladesh and Vietnam were among the best-performing Asian equity markets for the year. Sri Lanka, on the other hand, experienced currency pressures similar to that of India and Pakistan.

Square Pharmaceuticals, a large-capitalization Bangladeshi firm with solid fundamentals, was among our top contributors to performance in 2013. It is a top portfolio holding and has demonstrated high profitability, almost no debt and good growth prospects in both its domestic and export markets. In addition, good stock selection in China and Hong Kong benefited Fund performance during the year. Several of our top contributors were China-related holdings, that hail from a variety of industries including casino gaming in Macau, Internet-related businesses, industrials and textile companies. This illustrates the fact that bottom-up stock selection is critical.

Melco Crown Entertainment, which was the portfolio's best performer, is a good example of a stock that did well amid an environment of generally flat equity returns in China during the year. The firm is a Macau-based casino company focused mainly on visiting mainland Chinese patrons. While mainland China's economic growth appears to have slowed, improved infrastructure in Macau, which now has more hotels and better transportation access, has attracted more visitors. In 2013, Macau's casino

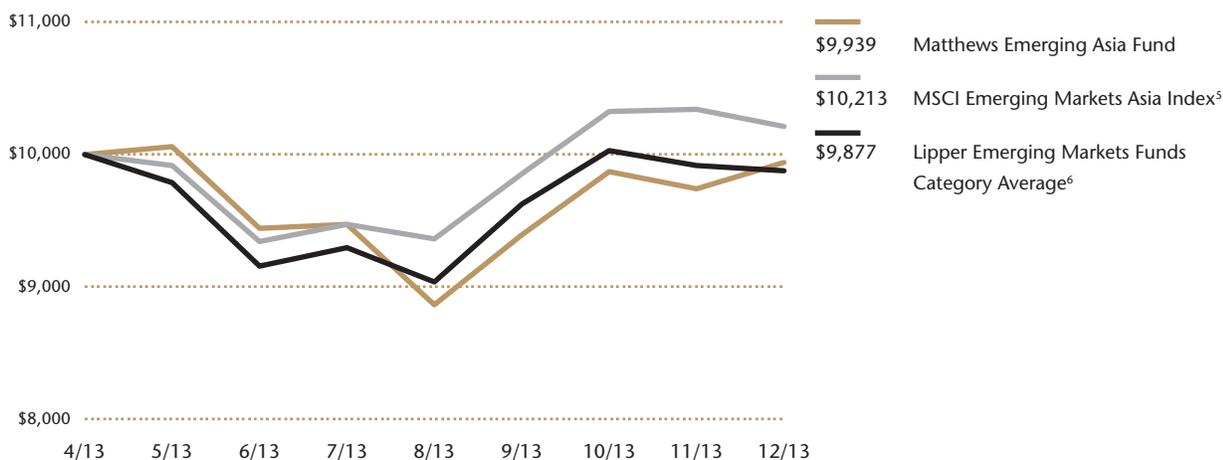
(continued)

## PERFORMANCE AS OF DECEMBER 31, 2013

	Actual Return, Not Annualized		
	3 Months	Since Inception	Inception Date
Investor Class (MEASX)	5.85%	-0.61%	4/30/13
Institutional Class (MIASX)	5.91%	-0.55%	4/30/13
MSCI Emerging Markets Asia Index <sup>5</sup>	3.66%	2.13%	
Lipper Emerging Markets Funds Category Average <sup>6</sup>	2.53%	-1.23%	

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance visit [matthewsasia.com](http://matthewsasia.com).*

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



The performance data does not reflect the deduction of taxes that a shareholder would pay on dividends, capital gain distributions or redemption of Fund shares. Values are in US\$.

<sup>5</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definition.

<sup>6</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>7</sup>

	Sector	Country	% of Net Assets
NagaCorp, Ltd.	Consumer Discretionary	Cambodia	3.6%
Square Pharmaceuticals, Ltd.	Health Care	Bangladesh	3.1%
Melco Crown Entertainment, Ltd.	Consumer Discretionary	China/Hong Kong	3.1%
CSPC Pharmaceutical Group, Ltd.	Health Care	China/Hong Kong	2.8%
British American Tobacco Bangladesh Co., Ltd.	Consumer Staples	Bangladesh	2.7%
Sampath Bank PLC	Financials	Sri Lanka	2.7%
Shenzhou International Group Holdings, Ltd.	Consumer Discretionary	China/Hong Kong	2.5%
Emami, Ltd.	Consumer Staples	India	2.4%
John Keells Holdings PLC	Industrials	Sri Lanka	2.4%
Gruh Finance, Ltd.	Financials	India	2.4%
<b>% OF ASSETS IN TOP TEN</b>			<b>27.7%</b>

<sup>7</sup> Holdings may combine more than one security from same issuer and related depository receipts.

## Matthews Emerging Asia Fund

### *Portfolio Manager Commentary (continued)*

revenue grew 19% to US\$45 billion, outpacing Las Vegas revenues by seven-fold. With further infrastructure improvements on the horizon for this premier entertainment destination, we remain optimistic of further growth ahead.

Our large exposure to both the Philippines was among the biggest detractors to Fund performance for the year. Valuations in the Philippines were relatively high early in 2013, with the market peaking in May. Following that, many stocks, including Vista Land & Lifescapes, a low-end condominium builder, declined. While its stock suffered during the year, we continue to hold our position in Vista Land as we believe company fundamentals are still intact.

For 2014, we expect the markets may continue to focus on U.S. macroeconomic data and the U.S. Federal Reserve's monetary policies. Moderate growth in exports from Asia and resilient domestic economies should help to offset the potential impact from further Fed tapering. On the political front, there is some turmoil in countries expected to hold important elections, particularly Indonesia, Thailand and India. However, turbulent times can create attractive opportunities for patient, long-term investors. Emerging Asia includes some of the fastest-growing economies in the world, and we are particularly optimistic about some major structural trends on the horizon. These include favorable demographics that have resulted in large populations of young, skilled workers and increasing government action to liberalize economies and build deeper capital markets in Emerging Asia. We also believe that our research-driven investment process and deep experience in these countries is well-suited to identifying opportunities in what are still relatively inefficient markets.

#### COUNTRY ALLOCATION (%)<sup>8</sup>

China/Hong Kong	17.5
India	16.1
Sri Lanka	14.8
Bangladesh	10.2
Philippines	8.1
Vietnam	7.2
Thailand	4.3
Indonesia	4.2
Malaysia	3.7
Cambodia	3.6
Taiwan	3.1
Singapore	3.0
Australia	1.4
Cash and Other Assets, Less Liabilities	2.8

#### SECTOR ALLOCATION (%)

Consumer Staples	21.2
Financials	20.4
Consumer Discretionary	17.9
Health Care	12.1
Industrials	11.1
Information Technology	6.5
Energy	4.1
Materials	2.8
Telecommunication Services	1.1
Cash and Other Assets, Less Liabilities	2.8

#### MARKET CAP EXPOSURE (%)<sup>9</sup>

Large Cap (over \$5B)	22.5
Mid Cap (\$1B-\$5B)	35.9
Small Cap (under \$1B)	38.8
Cash and Other Assets, Less Liabilities	2.8

<sup>8</sup> Not all countries where the Fund may invest are included in the benchmark index.

<sup>9</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

# Matthews Emerging Asia Fund

December 31, 2013

## Schedule of Investments<sup>a</sup>

### COMMON EQUITIES: 97.1%

	Shares	Value		Shares	Value
<b>CHINA/HONG KONG: 17.5%</b>			<b>PHILIPPINES: 8.1%</b>		
Melco Crown Entertainment, Ltd. <sup>b</sup>	93,900	\$1,231,572	RFM Corp.	6,968,400	\$873,765
CSPC Pharmaceutical Group, Ltd.	1,438,000	1,136,669	Vista Land & Lifescapes, Inc.	6,201,400	727,712
Shenzhou International Group Holdings, Ltd.	262,000	985,242	Puregold Price Club, Inc.	808,100	691,635
Sina Corp. <sup>b</sup>	10,900	918,325	GT Capital Holdings, Inc.	30,110	524,164
Haitian International Holdings, Ltd.	383,000	865,347	Universal Robina Corp.	170,590	435,774
Tencent Holdings, Ltd.	11,900	761,927	<b>Total Philippines</b>		<b>3,253,050</b>
CIMC Enric Holdings, Ltd.	400,000	646,585	<b>VIETNAM: 7.2%</b>		
Sun Art Retail Group, Ltd.	325,000	458,990	Vinh Hoan Corp. <sup>b</sup>	572,987	638,312
<b>Total China/Hong Kong</b>		<b>7,004,657</b>	Saigon Securities, Inc.	554,160	472,855
<b>INDIA: 16.1%</b>			Phu Nhuan Jewelry JSC	270,750	392,745
Emami, Ltd.	126,978	973,145	DHG Pharmaceutical JSC	67,240	363,373
Gruh Finance, Ltd.	232,143	958,709	Masan Group Corp. <sup>b</sup>	91,240	356,829
Info Edge India, Ltd.	124,174	927,365	Phuoc Hoa Rubber JSC	187,910	269,016
Lupin, Ltd.	52,465	770,287	Dinh Vu Port Investment & Development JSC	107,200	215,975
Housing Development Finance Corp.	44,499	571,678	National Seed JSC	51,750	188,895
Shriram City Union Finance, Ltd.	23,096	397,118	<b>Total Vietnam</b>		<b>2,898,000</b>
Cipla India, Ltd.	60,053	389,124	<b>THAILAND: 4.3%</b>		
Praj Industries, Ltd.	494,063	361,431	The Siam Cement Public Co., Ltd.	43,400	529,933
VST Industries, Ltd.	11,233	315,643	Major Cineplex Group Public Co., Ltd.	981,500	524,491
Castrol India, Ltd.	57,613	292,280	SNC Former Public Co., Ltd.	809,700	387,596
Multi Commodity Exchange of India, Ltd.	32,155	249,032	Beauty Community Public Co., Ltd.	456,000	281,445
Jubilant Foodworks, Ltd. <sup>b</sup>	11,592	238,390	<b>Total Thailand</b>		<b>1,723,465</b>
<b>Total India</b>		<b>6,444,202</b>	<b>INDONESIA: 4.2%</b>		
<b>SRI LANKA: 14.7%</b>			PT Modern Internasional	7,336,000	464,214
Sampath Bank PLC	816,155	1,072,607	PT Bank Mandiri Persero	701,000	453,695
John Keells Holdings PLC	556,003	966,204	PT Electronic City Indonesia <sup>b</sup>	1,757,000	401,557
National Development Bank PLC	776,969	953,391	PT Indofood CBP Sukses Makmur	405,500	340,500
Commercial Bank of Ceylon PLC	881,324	811,249	<b>Total Indonesia</b>		<b>1,659,966</b>
Aitken Spence Hotel Holdings PLC	1,184,124	632,800	<b>MALAYSIA: 3.7%</b>		
Cargills Ceylon PLC	354,828	398,775	SapuraKencana Petroleum BHD <sup>b</sup>	617,900	924,350
Ceylinco Insurance Co. PLC	34,935	357,897	Oldtown BHD	708,500	562,387
Lanka Orix Leasing Co. PLC <sup>b</sup>	573,466	318,300	<b>Total Malaysia</b>		<b>1,486,737</b>
Ceylon Tobacco Co. PLC	17,034	154,244	<b>CAMBODIA: 3.6%</b>		
Chevron Lubricants Lanka PLC	68,184	139,600	NagaCorp, Ltd.	1,352,000	1,428,145
Odel PLC	605,867	97,272	<b>Total Cambodia</b>		<b>1,428,145</b>
<b>Total Sri Lanka</b>		<b>5,902,339</b>	<b>TAIWAN: 3.1%</b>		
<b>BANGLADESH: 10.2%</b>			Ginko International Co., Ltd.	28,000	528,931
Square Pharmaceuticals, Ltd.	512,070	1,254,049	ScinoPharm Taiwan, Ltd.	140,400	412,671
British American Tobacco Bangladesh Co., Ltd.	52,900	1,090,130	King Slide Works Co., Ltd.	28,000	315,668
GrameenPhone, Ltd.	163,400	422,675	<b>Total Taiwan</b>		<b>1,257,270</b>
Apex Adelchi Footwear, Ltd.	74,800	396,898	<b>SINGAPORE: 3.0%</b>		
Islami Bank Bangladesh, Ltd.	731,500	325,192	Yoma Strategic Holdings, Ltd.	1,072,000	637,109
Bata Shoe Co. Bangladesh, Ltd.	34,500	306,509	Petra Foods, Ltd.	218,000	556,250
Berger Paints Bangladesh, Ltd.	25,150	283,964	<b>Total Singapore</b>		<b>1,193,359</b>
<b>Total Bangladesh</b>		<b>4,079,417</b>			

*Schedule of Investments<sup>a</sup> (continued)*

**COMMON EQUITIES** *(continued)*

	Shares	Value
<b>AUSTRALIA: 1.4%</b>		
Oil Search, Ltd.	79,306	\$574,286
<b>Total Australia</b>		<u>574,286</u>
<b>TOTAL COMMON EQUITIES</b>		
		<u>38,904,893</u>
(Cost \$38,374,415)		

**WARRANTS: 0.1%**

<b>SRI LANKA: 0.1%</b>		
John Keells Holdings PLC, expires 11/11/16	24,712	17,854
John Keells Holdings PLC, expires 11/12/15	24,712	15,114
<b>Total Sri Lanka</b>		<u>32,968</u>
<b>TOTAL WARRANTS</b>		
		<u>32,968</u>
(Cost \$0)		
<b>TOTAL INVESTMENTS: 97.2%</b>		
		<u>38,937,861</u>
(Cost \$38,374,415 <sup>c</sup> )		

**CASH AND OTHER ASSETS,  
LESS LIABILITIES: 2.8%**

1,101,150

**NET ASSETS: 100.0%**

\$40,039,011

a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).

b Non-income producing security.

c Cost for federal income tax purposes is \$38,374,415 and net unrealized appreciation consists of:

Gross unrealized appreciation	\$4,034,780
Gross unrealized depreciation	<u>(3,471,334)</u>
Net unrealized appreciation	<u>\$563,446</u>

BHD Berhad

JSC Joint Stock Co.

See accompanying notes to financial statements.



## PORTFOLIO MANAGERS

**Richard H. Gao**  
Lead Manager

**Henry Zhang, CFA**  
Co-Manager

## FUND FACTS

	Investor Class	Institutional Class
Ticker	MCHFX	MICFX
CUSIP	577130701	577130818
Inception	2/19/98	10/29/10
NAV	\$22.84	\$22.81
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	1.08%	0.91%

### Portfolio Statistics

Total # of Positions	58
Net Assets	\$1.4 billion
Weighted Average Market Cap	\$29.9 billion
Portfolio Turnover	6.29% <sup>2</sup>

### Benchmark

MSCI China Index

### Redemption Fee

2% within first 90 calendar days of purchase

## OBJECTIVE

Long-term capital appreciation.

## STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total net assets, which include borrowings for investment purposes, in the common and preferred stocks of companies located in China. China includes its administrative and other districts, such as Hong Kong.

<sup>1</sup> Actual 2013 expense ratios.

<sup>2</sup> The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

# Matthews China Fund

## Portfolio Manager Commentary

For the year ending December 31, 2013, the Matthews China Fund rose 6.84% (Investor Class) and 6.97% (Institutional Class), outperforming its benchmark MSCI China Index, which rose 3.96%. For the fourth quarter of the year, the Fund returned 5.44% (Investor Class) and 5.49% (Institutional Class) versus 3.81% for the Index.

The Chinese equity market experienced a volatile 2013. China's economy slowed over the first two quarters of the year mainly due to a weak global economy and less accommodative fiscal and monetary policies. China's policymakers made impressive efforts during the year to rebalance the country's economy and shift its emphasis from top-line growth toward more quality growth. Its equity market started to recover during the second half of the year amid signs that the economy had hit bottom, and the economic growth momentum had returned.

The most important economic event of the year stemmed from the central government's Third Plenum meeting in November. China outlined a blueprint for future growth that involved wide-ranging reform policies. Furthermore, China announced its intention to allow markets to play a more decisive role in allocating resources as well as offer strong government support to the growth of its private sector economy. The Plenum resulted in official plans for many highly anticipated reforms, such as financial sector reform, which could pave the way for further potential liberalization of China's banking sector. China also formally relaxed its long-held stance on its one-child policy. If executed well, we believe these reform measures should have significant, long-term positive impacts on the economy.

During the year, the Fund's IT holdings were the biggest contributors to performance. The sector is a key area of focus for the portfolio as we are attracted to firms that can deliver sustainable future growth. The IT industry experienced accelerated growth in 2013, led by Internet-related and e-commerce firms. During a promotional event in November, for example, Alibaba Group, China's largest e-commerce company, recorded a total of US\$5.8 billion in online transactions in a single day. Not only did the private firm break its own one-day sales record, it demonstrated the vast potential in the country's consumer purchasing power. E-commerce is gaining traction in China and is supported by the country's spectacular online usage rate. Among the Fund's top performers for the year were Tencent, a leading online social platform; Sina, an online media provider; and Netease, which provides online game services. We believe that these companies represent some of the best quality names in the Internet-related arena.

Over the past two years, China's overall consumer-related sectors have been under pressure as the country's economy has slowed. Increased competition and overcapacity were also seen in certain areas. While the operating environment for consumer companies only marginally improved in 2013, we have seen select companies do well. The Fund maintained overweight positions in consumer discretionary and consumer staples sectors, both of which generally performed well during the year, especially during the fourth quarter. Home Inn & Hotels Management, China's largest budget hotel operator with a network of over 2,000 hotels, was among the top contributors to Fund performance in the fourth quarter. With solid management and good quality services, the firm has

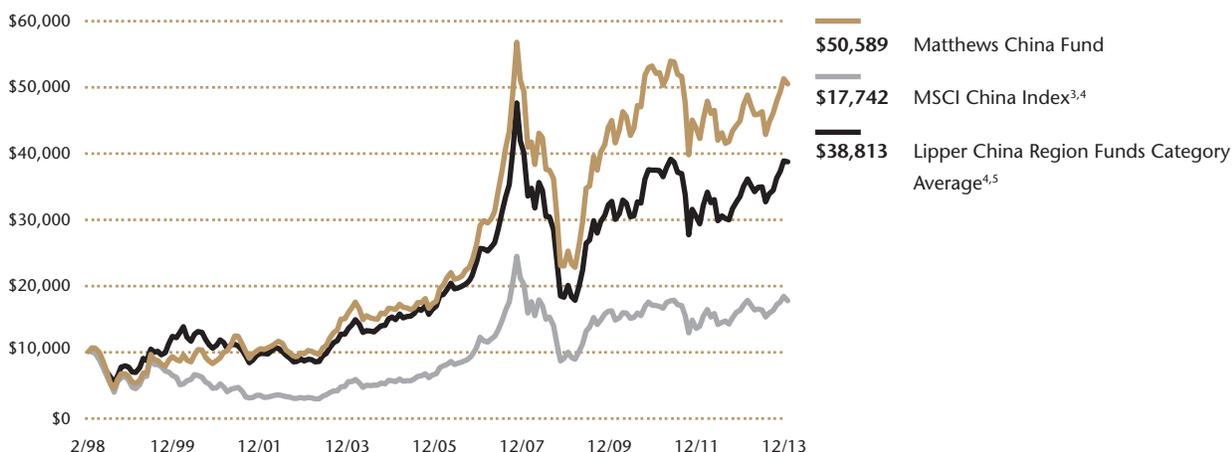
*(continued)*

## PERFORMANCE AS OF DECEMBER 31, 2013

	Average Annual Total Returns						Inception Date
	3 Months	1 Year	3 Years	5 Years	10 Years	Since Inception	
Investor Class (MCHF)	5.44%	6.84%	-1.02%	14.89%	12.27%	10.76%	2/19/98
Institutional Class (MICFX)	5.49%	6.97%	-0.85%	n.a.	n.a.	-1.31%	10/29/10
MSCI China Index <sup>3</sup>	3.81%	3.96%	1.52%	12.27%	12.52%	3.69% <sup>4</sup>	
Lipper China Region Funds Category Average <sup>5</sup>	6.52%	11.73%	1.35%	15.17%	10.50%	8.65% <sup>4</sup>	

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance, visit [matthewsasiasia.com](http://matthewsasiasia.com).*

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



Plotted monthly. The performance data and graph do not reflect the deduction of taxes that a shareholder would pay on dividends, capital gains distributions or redemption of Fund shares. Values are in US\$.

<sup>3</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definition.

<sup>4</sup> Calculated from 2/28/98.

<sup>5</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>6</sup>

	Sector	% of Net Assets
Tencent Holdings, Ltd.	Information Technology	3.1%
China Mobile, Ltd.	Telecommunication Services	2.7%
Kingdee International Software Group Co., Ltd.	Information Technology	2.7%
China Longyuan Power Group Corp.	Utilities	2.6%
Mindray Medical International, Ltd.	Health Care	2.6%
Sinopharm Group Co., Ltd.	Health Care	2.6%
Digital China Holdings, Ltd.	Information Technology	2.5%
China Merchants Bank Co., Ltd.	Financials	2.5%
Home Inns & Hotels Management, Inc.	Consumer Discretionary	2.5%
Sina Corp.	Information Technology	2.5%
<b>% OF ASSETS IN TOP TEN</b>		<b>26.3%</b>

<sup>6</sup> Holdings may combine more than one security from same issuer and related depositary receipts.

SECTOR ALLOCATION (%)	
Financials	20.8
Information Technology	17.9
Consumer Discretionary	16.6
Consumer Staples	11.5
Industrials	10.0
Health Care	6.3
Energy	6.2
Utilities	5.5
Telecommunication Services	5.0
Cash and Other Assets, Less Liabilities	0.2

MARKET CAP EXPOSURE (%) <sup>7</sup>	
Large Cap (over \$5B)	74.5
Mid Cap (\$1B–\$5B)	19.7
Small Cap (under \$1B)	5.6
Cash and Other Assets, Less Liabilities	0.2

<sup>7</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

## Matthews China Fund

### *Portfolio Manager Commentary (continued)*

been able to maintain high occupancy levels, offering attractive value to China's increasing number of tourists and business travelers nationwide.

There were, however, some consumer discretionary holdings that detracted from Fund performance during the year. These included Belle, a leading ladies shoe retailer and Golden Eagle, a domestic department store chain. Both companies suffered from weak consumer sentiment as well as rising competition from e-commerce retailers. Although these companies still face a number of challenges, we believe their leading positions and positive long-term growth potential remain unchanged.

During the year, we consolidated our holdings in the consumer discretionary sector. We exited some holdings that did not meet our expectations, including Li & Fung, a global sourcing and distribution company based in Hong Kong. The company's historical growth via acquisitions appears to have slowed and its outlook for growth has become tepid. We also sold Parkson Department Store as we believe the company is losing its competitive edge.

Meanwhile, we increased our holdings in the health care, education and industrial automation areas. During the fourth quarter, we added Airtac International Group, a pneumatics equipment and components manufacturer in Taiwan that derives most of its revenue from China. The company is benefiting from the growing demand for automation in China.

Economic indicators for 2014 in China are still mixed. However, since the middle of 2013, they have generally pointed toward a gradual recovery. We will be monitoring the news regarding the Chinese banks' liquidity. While we share investor concerns over China's bank liquidity issues and the condition of its banking sector overall, we also believe a collapse of the sector is unlikely. We will also monitor the execution and implementation of the ambitious reform measures announced during the Plenum meeting. We understand that achieving significant structural reforms may likely involve a difficult and bumpy path. However, we are encouraged by China's stated determination to carry out the reforms, and believe the measures should ultimately improve the overall quality of China's economy.

Schedule of Investments<sup>a</sup>

COMMON EQUITIES: CHINA/HONG KONG: 99.8%

	Shares	Value		Shares	Value
<b>FINANCIALS: 20.8%</b>			<b>CONSUMER DISCRETIONARY: 16.6%</b>		
<b>Real Estate Management &amp; Development: 7.2%</b>			<b>Hotels, Restaurants &amp; Leisure: 8.0%</b>		
China Resources Land, Ltd.	11,222,000	\$27,919,814	Home Inns & Hotels Management, Inc. ADR <sup>b</sup>	804,146	\$35,092,931
China Vanke Co., Ltd. B Shares	17,814,568	27,814,871	Sands China, Ltd.	4,196,400	34,390,903
Hang Lung Group, Ltd.	4,680,000	23,674,868	Cafe' de Coral Holdings, Ltd.	9,492,100	30,634,271
Swire Pacific, Ltd. A Shares	1,821,000	21,396,129	Shangri-La Asia, Ltd.	5,953,400	11,624,156
		<u>100,805,682</u>			<u>111,742,261</u>
<b>Commercial Banks: 7.1%</b>			<b>Automobiles: 1.7%</b>		
China Merchants Bank Co., Ltd. H Shares	16,462,643	35,206,303	Dongfeng Motor Group Co., Ltd. H Shares	15,004,000	23,563,449
BOC Hong Kong Holdings, Ltd.	6,831,000	21,938,852	<b>Media: 1.7%</b>		
China Construction Bank Corp. H Shares	28,813,660	21,815,162	Television Broadcasts, Ltd.	3,509,600	23,508,673
Agricultural Bank of China, Ltd. H Shares	42,763,000	21,094,728	<b>Textiles, Apparel &amp; Luxury Goods: 1.5%</b>		
		<u>100,055,045</u>	Li Ning Co., Ltd. <sup>b</sup>	26,922,000	21,305,026
<b>Insurance: 4.7%</b>			<b>Specialty Retail: 1.4%</b>		
Ping An Insurance Group Co. of China, Ltd. H Shares	3,814,500	34,269,972	Belle International Holdings, Ltd.	17,281,000	20,076,416
China Life Insurance Co., Ltd. H Shares	7,711,000	24,303,494	<b>Multiline Retail: 1.3%</b>		
China Life Insurance Co., Ltd. ADR	162,400	7,673,400	Golden Eagle Retail Group, Ltd.	13,532,000	17,914,218
		<u>66,246,866</u>	<b>Diversified Consumer Services: 1.0%</b>		
<b>Diversified Financial Services: 1.8%</b>			New Oriental Education & Technology Group, Inc. ADR	462,200	14,559,300
Hong Kong Exchanges and Clearing, Ltd.	1,519,300	25,395,609	<b>Total Consumer Discretionary</b>		
		<u>292,503,202</u>			<u>232,669,343</u>
<b>Total Financials</b>		<u>292,503,202</u>	<b>CONSUMER STAPLES: 11.5%</b>		
<b>INFORMATION TECHNOLOGY: 17.9%</b>			<b>Food Products: 4.3%</b>		
<b>Internet Software &amp; Services: 8.4%</b>			China Mengniu Dairy Co., Ltd.	7,299,000	34,714,491
Tencent Holdings, Ltd.	687,700	44,031,693	Tingyi (Cayman Islands) Holding Corp.	8,999,000	26,042,673
Sina Corp. <sup>b</sup>	415,900	35,039,575			<u>60,757,164</u>
NetEase, Inc. ADR	283,700	22,298,820	<b>Food &amp; Staples Retailing: 3.9%</b>		
Baidu, Inc. ADR <sup>b</sup>	90,800	16,151,504	China Resources Enterprise, Ltd.	7,546,000	25,103,736
		<u>117,521,592</u>	Lianhua Supermarket Holdings Co., Ltd. H Shares <sup>†</sup>	20,198,800	15,641,386
<b>Electronic Equipment, Instruments &amp; Components: 2.9%</b>			Sun Art Retail Group, Ltd.	9,443,000	13,336,141
Digital China Holdings, Ltd.	30,018,000	35,450,181			<u>54,081,263</u>
Hollysys Automation Technologies, Ltd. <sup>b</sup>	264,600	5,008,878	<b>Beverages: 1.7%</b>		
		<u>40,459,059</u>	Tsingtao Brewery Co., Ltd. H Shares	2,803,000	23,753,630
<b>Software: 2.7%</b>			<b>Personal Products: 1.6%</b>		
Kingdee International Software Group Co., Ltd. <sup>b</sup>	123,524,800	37,717,875	Hengan International Group Co., Ltd.	1,949,000	23,059,214
<b>Computers &amp; Peripherals: 2.1%</b>			<b>Total Consumer Staples</b>		
Lenovo Group, Ltd.	23,770,000	28,976,149			<u>161,651,271</u>
<b>Communications Equipment: 1.8%</b>			<b>INDUSTRIALS: 10.0%</b>		
ZTE Corp. H Shares <sup>b</sup>	12,981,904	25,868,692	<b>Transportation Infrastructure: 3.7%</b>		
		<u>250,543,367</u>	China Merchants Holdings International Co., Ltd.	7,156,581	26,218,575
<b>Total Information Technology</b>		<u>250,543,367</u>	Yuexiu Transport Infrastructure, Ltd.	48,899,000	25,632,105
					<u>51,850,680</u>

*Schedule of Investments<sup>a</sup> (continued)*

**COMMON EQUITIES: CHINA/HONG KONG: (continued)**

	Shares	Value		Shares	Value
<b>Machinery: 2.8%</b>			<b>Diversified Telecommunication Services: 2.3%</b>		
CSR Corp., Ltd. H Shares	36,955,000	\$30,393,025	China Communications Services Corp., Ltd. H Shares	51,940,800	\$32,208,614
Airtac International Group	1,166,000	9,467,747	<b>Total Telecommunication Services</b>		<b>70,252,126</b>
		<u>39,860,772</u>			
<b>Airlines: 1.7%</b>			<b>TOTAL INVESTMENTS: 99.8%</b>		
Air China, Ltd. H Shares	30,993,900	23,208,525			<b>1,400,760,489</b>
		<u>23,208,525</u>	(Cost \$1,122,665,390 <sup>c</sup> )		
<b>Industrial Conglomerates: 1.6%</b>			<b>CASH AND OTHER ASSETS,</b>		
NWS Holdings, Ltd.	14,403,914	21,985,204	<b>LESS LIABILITIES: 0.2%</b>		
		<u>21,985,204</u>			<u>3,226,370</u>
<b>Construction &amp; Engineering: 0.2%</b>			<b>NET ASSETS: 100.0%</b>		
China State Construction International Holdings, Ltd.	1,850,000	3,325,147			<u>\$1,403,986,859</u>
		<u>3,325,147</u>			
<b>Total Industrials</b>		<u>140,230,328</u>			
<b>HEALTH CARE: 6.3%</b>					
<b>Health Care Equipment &amp; Supplies: 2.6%</b>					
Mindray Medical International, Ltd. ADR	998,168	36,293,388			
		<u>36,293,388</u>			
<b>Health Care Providers &amp; Services: 2.6%</b>					
Sinopharm Group Co., Ltd. H Shares	12,602,000	36,255,603			
		<u>36,255,603</u>			
<b>Pharmaceuticals: 1.1%</b>					
Sino Biopharmaceutical, Ltd.	19,672,000	15,637,826			
		<u>15,637,826</u>			
<b>Total Health Care</b>		<u>88,186,817</u>			
<b>ENERGY: 6.2%</b>					
<b>Oil, Gas &amp; Consumable Fuels: 4.4%</b>					
Kunlun Energy Co., Ltd.	12,532,000	22,152,194			
CNOOC, Ltd.	10,657,000	19,819,652			
China Shenhua Energy Co., Ltd. H Shares	6,243,500	19,759,200			
		<u>19,759,200</u>			
		<u>61,731,046</u>			
<b>Energy Equipment &amp; Services: 1.8%</b>					
China Oilfield Services, Ltd. H Shares	8,160,000	25,417,827			
		<u>25,417,827</u>			
<b>Total Energy</b>		<u>87,148,873</u>			
<b>UTILITIES: 5.5%</b>					
<b>Independent Power Producers &amp; Energy Traders: 2.6%</b>					
China Longyuan Power Group Corp. H Shares	28,680,000	36,987,288			
		<u>36,987,288</u>			
<b>Electric Utilities: 1.7%</b>					
Cheung Kong Infrastructure Holdings, Ltd.	3,848,500	24,326,982			
		<u>24,326,982</u>			
<b>Gas Utilities: 1.2%</b>					
Hong Kong & China Gas Co., Ltd.	7,082,312	16,260,892			
		<u>16,260,892</u>			
<b>Total Utilities</b>		<u>77,575,162</u>			
<b>TELECOMMUNICATION SERVICES: 5.0%</b>					
<b>Wireless Telecommunication Services: 2.7%</b>					
China Mobile, Ltd.	1,842,083	19,187,738			
China Mobile, Ltd. ADR	360,600	18,855,774			
		<u>18,855,774</u>			
		<u>38,043,512</u>			

- a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).
- b Non-income producing security.
- c Cost for federal income tax purposes is \$1,123,309,005 and net unrealized appreciation consists of:
 

Gross unrealized appreciation	\$327,716,362
Gross unrealized depreciation	(50,264,878)
Net unrealized appreciation	<u>\$277,451,484</u>
- † Affiliated Issuer, as defined under the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of this issuer)
- ADR American Depositary Receipt

See accompanying notes to financial statements.



## PORTFOLIO MANAGERS

**Sharat Shroff, CFA**  
Lead Manager

**Sunil Asnani**  
Co-Manager

## FUND FACTS

	Investor Class	Institutional Class
Ticker	MINDX	MIDNX
CUSIP	577130859	577130768
Inception	10/31/05	10/29/10
NAV	\$16.28	\$16.31
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	1.13%	0.95%

### Portfolio Statistics

Total # of Positions	32
Net Assets	\$431.1 million
Weighted Average Market Cap	\$6.7 billion
Portfolio Turnover	8.70% <sup>2</sup>

### Benchmark

Bombay Stock Exchange 100 Index

### Redemption Fee

2% within first 90 calendar days of purchase

## OBJECTIVE

Long-term capital appreciation.

## STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total net assets, which include borrowings for investment purposes, in publicly traded common stocks, preferred stocks and convertible securities of companies located in India.

# Matthews India Fund

## Portfolio Manager Commentary

For the year ending December 31, 2013, the Matthews India Fund returned -5.90% (Investor Class) and -5.67% (Institutional Class) while its benchmark, the Bombay Stock Exchange 100 Index, returned -4.70%. For the fourth quarter of the year, the Fund returned 10.66% (Investor Class) and 10.83% (Institutional Class) versus 12.16% for the Index.

The bulk of the relative underperformance for the year came during the fourth quarter. Performance was also impacted by the depreciation in the Indian rupee of about 11% against the U.S. dollar, which erased local currency gains made by the portfolio during the year. The rupee is one of the region's more volatile currencies, which reflects persistent inflation issues and India's over-reliance on shorter-term foreign capital inflows. The central bank's recent efforts to attract U.S. dollars through more diversified sources helped add to India's foreign reserves, and may have stemmed the depreciation in the rupee. But, in our view, that is a short-term fix.

The more encouraging and sustainable development has been the pickup in exports in industries such as information technology, health care and textiles. Some foreign corporations have used the currency weakness and lower market valuations as an opportunity to raise their stakes in their Indian subsidiaries, reflecting a continued belief in the longer-term outlook for the economy.

The portfolio's relative underperformance for the year could be attributed in part to the portfolio's lower allocation to technology services industries, which generally reported better-than-expected results as they benefited from macroeconomic factors such as currency weakness and improving business climates in developed markets. Our low allocation to this sector was based on our belief that many leading players in this space are not geared to meet changing client needs, which are moving away from savings driven purely by labor arbitrage and toward expertise-based services.

The portfolio's exposure to the consumer discretionary sector also hurt relative performance. For example, our overweight in Exide Industries versus the benchmark was a drag on performance. A leader in making automotive and industrial batteries, the firm has begun facing rising competition from a formidable opponent in an environment of slowing growth. The retirement last year of its chief executive officer may have also been a distraction, and we are monitoring its progress in dealing with competitive forces, especially in the current environment of a domestic economic slowdown.

Our higher allocation to small- and mid-capitalization companies did not help the portfolio during the year since such companies underperformed versus their larger peers. However, our stock selection amid smaller and mid-cap holdings was positive. AIA Engineering, for example, a firm that makes chrome-based grinding media used in various industries such as cement, utilities and mining, performed well during the year. The company's competitive advantage comes from providing customized and operationally intensive solutions to its clients, who find it hard to switch suppliers without causing disruption to operations. The stock had come under pressure after the company offered discounts in order to build its mining business. However, after AIA Engineering established itself as a credible vendor to mining companies, its financial and market performance

(continued)

<sup>1</sup> Actual 2013 expense ratios.

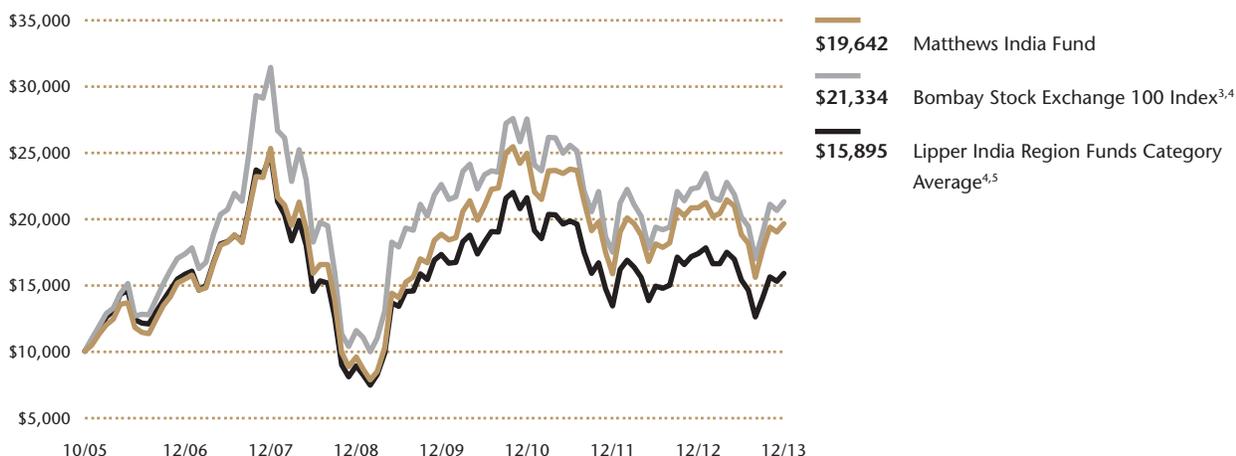
<sup>2</sup> The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

## PERFORMANCE AS OF DECEMBER 31, 2013

	Average Annual Total Returns					Inception Date
	3 Months	1 Year	3 Years	5 Years	Since Inception	
Investor Class (MINDX)	10.66%	-5.90%	-7.70%	15.50%	8.62%	10/31/05
Institutional Class (MIDNX)	10.83%	-5.67%	-7.52%	n.a.	-7.72%	10/29/10
Bombay Stock Exchange 100 Index <sup>3</sup>	12.16%	-4.70%	-8.21%	13.06%	9.72% <sup>4</sup>	
Lipper India Region Funds Category Average <sup>5</sup>	13.66%	-11.08%	-10.95%	11.47%	5.69% <sup>4</sup>	

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance, visit [matthewsasia.com](http://matthewsasia.com).*

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



Plotted monthly. The performance data and graph do not reflect the deduction of taxes that a shareholder would pay on dividends, capital gains distributions or redemption of Fund shares. Values are in US\$.

<sup>3</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definition.

<sup>4</sup> Calculated from 10/31/05.

<sup>5</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>6</sup>

	Sector	% of Net Assets
Emami, Ltd.	Consumer Staples	6.6%
Kotak Mahindra Bank, Ltd.	Financials	5.3%
ITC, Ltd.	Consumer Staples	5.1%
HDFC Bank, Ltd.	Financials	4.7%
Gujarat Pipavav Port, Ltd.	Industrials	4.5%
Dabur India, Ltd.	Consumer Staples	4.4%
Info Edge India, Ltd.	Information Technology	4.2%
AIA Engineering, Ltd.	Industrials	4.1%
Exide Industries, Ltd.	Consumer Discretionary	4.1%
Sun Pharmaceutical Industries, Ltd.	Health Care	3.9%
<b>% OF ASSETS IN TOP TEN</b>		<b>46.9%</b>

<sup>6</sup> Holdings may combine more than one security from same issuer and related depository receipts.

## Matthews India Fund

### *Portfolio Manager Commentary (continued)*

improved. Even though the company falls under the industrials sector, its performance has been driven more by stock-specific factors rather than India's investment cycle.

During the year, our exposure to quality private commercial banks, such as Kotak Mahindra Bank, benefited performance. Such private commercial banks have managed their credit costs better than their public sector peers. The sharp divergence in performance between such private and public banks underscores the importance of selecting the right management teams, which can at least partly offset the impact of adverse macroeconomic conditions. Our research suggests that the current credit cycle eventually could prove to be worse than the one that occurred a decade ago. A significant amount of growth for public sector and some private sector banks has come from financing infrastructure projects in cases where not enough hard collateral is available against the loans. In many cases, the only viable path to repay the loan is to make these projects operational and cash generative, which may be challenging unless structural reforms are enforced. Other contributors to relative performance included our limited exposure to metal stocks, which remained weak due to a sharp decline in investment activity.

During the year, we exited far more positions than we added new ones, reflecting our attempt to concentrate the portfolio with the highest conviction names during a challenging business environment. Over the past few years, Indian companies have suffered a sharp compression in their return on equity, narrowing the gap with their peers in other parts of Asia. While some of this compression was inevitable due to a high base and a slowing economy, we believe it also reflects an intensely competitive environment fostered by unusually accommodative capital markets in 2006 to 2007. In the past few quarters, we have seen instances of large conglomerates waking up to the reality of more normal liquidity conditions, and are starting to divest some non-core assets. The weak operating performance has also hurt India's relative valuation with a disproportionate impact on smaller to mid-sized companies.

While 2013 was a period of consolidation for the portfolio, we believe that the sell-off has created many opportunities, particularly within the small-cap universe, and we have already initiated a few new positions. We added Zydus Wellness, a consumer-related firm dominant in India's emerging health and wellness space. Zydus has been attempting to build brands in a few more categories and expand distribution in existing areas such as sugar and butter substitutes. Over time, these categories could become quite big, especially with a growing presence of modern retail that might get some boost from a recently enacted law that allows foreign investments in multi-brand formats.

Politics continues to dominate the narrative surrounding investing in India, particularly given that general elections will be held in 2014. Investors are generally seeking indicators of more decisive leadership and cleaner governance. Unfortunately, reform efforts still have not shown to be part of an institutional process. In an election year, there is additional risk of heightened populist policy measures that might further strain public finances. In our experience, good businesses run by pragmatic managers tend to do well over time, even if they suffer a few setbacks from a challenging macro environment. This is why we find it best to focus on bottom-up stock picking and long-term investing.

#### SECTOR ALLOCATION (%)

Financials	21.7
Consumer Staples	20.9
Industrials	20.9
Materials	12.4
Consumer Discretionary	10.6
Information Technology	6.5
Health Care	3.9
Utilities	3.2
Liabilities in Excess of Cash and Other Assets	-0.1

#### MARKET CAP EXPOSURE (%)<sup>7</sup>

Large Cap (over \$5B)	29.4
Mid Cap (\$1B-\$5B)	36.3
Small Cap (under \$1B)	34.4
Liabilities in Excess of Cash and Other Assets	-0.1

<sup>7</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

# Matthews India Fund

December 31, 2013

## Schedule of Investments

### COMMON EQUITIES: 100.1%

	Shares	Value		Shares	Value						
<b>FINANCIALS: 21.7%</b>			<b>Construction Materials: 1.8%</b>								
<b>Diversified Financial Services: 8.6%</b>			Grasim Industries, Ltd.	183,459	<u>\$8,051,375</u>						
Kotak Mahindra Bank, Ltd.	1,940,000	\$22,840,595	<b>Metals &amp; Mining: 1.7%</b>								
IDFC, Ltd.	7,311,855	12,955,773	NMDC, Ltd.	3,145,923	<u>7,216,983</u>						
Multi Commodity Exchange of India, Ltd.	159,509	1,235,353	<b>Total Materials</b>		<u><b>53,605,665</b></u>						
		<u>37,031,721</u>	<b>CONSUMER DISCRETIONARY: 10.6%</b>								
<b>Commercial Banks: 4.7%</b>			<b>Auto Components: 4.1%</b>								
HDFC Bank, Ltd.	1,790,165	19,270,574	Exide Industries, Ltd.	8,823,554	<u>17,560,092</u>						
HDFC Bank, Ltd. ADR	30,922	1,064,954	<b>Media: 3.2%</b>								
		<u>20,335,528</u>	Jagran Prakashan, Ltd.	9,426,091	<u>13,768,447</u>						
<b>Consumer Finance: 3.3%</b>			<b>Household Durables: 1.9%</b>								
Shriram City Union Finance, Ltd.	845,000	<u>14,529,137</u>	Symphony, Ltd.	1,173,560	<u>8,054,885</u>						
<b>Real Estate Management &amp; Development: 2.7%</b>			<b>Textiles, Apparel &amp; Luxury Goods: 1.4%</b>								
Ascendas India Trust	21,416,000	<u>11,539,982</u>	Titan Co., Ltd.	1,648,820	<u>6,117,601</u>						
<b>Thriffs &amp; Mortgage Finance: 2.4%</b>			<b>Total Consumer Discretionary</b>		<u><b>45,501,025</b></u>						
Housing Development Finance Corp.	800,000	<u>10,277,585</u>	<b>INFORMATION TECHNOLOGY: 6.5%</b>								
<b>Total Financials</b>		<u><b>93,713,953</b></u>	<b>Internet Software &amp; Services: 4.3%</b>								
<b>CONSUMER STAPLES: 20.9%</b>			Info Edge India, Ltd.	2,437,545	<u>18,204,250</u>						
<b>Personal Products: 14.1%</b>			<b>IT Services: 2.2%</b>								
Emami, Ltd.	3,707,801	28,416,184	Mindtree, Ltd.	387,000	<u>9,563,789</u>						
Dabur India, Ltd.	6,814,430	18,767,087	<b>Total Information Technology</b>		<u><b>27,768,039</b></u>						
Bajaj Corp., Ltd.	3,803,615	13,469,919	<b>HEALTH CARE: 3.9%</b>								
		<u>60,653,190</u>	<b>Pharmaceuticals: 3.9%</b>								
<b>Tobacco: 5.1%</b>			Sun Pharmaceutical Industries, Ltd.	1,831,559	<u>16,802,492</u>						
ITC, Ltd.	4,260,000	<u>22,166,050</u>	<b>Total Health Care</b>		<u><b>16,802,492</b></u>						
<b>Food Products: 1.7%</b>			<b>UTILITIES: 3.2%</b>								
Zydus Wellness, Ltd.	838,779	<u>7,397,880</u>	<b>Gas Utilities: 3.2%</b>								
<b>Total Consumer Staples</b>		<u><b>90,217,120</b></u>	GAIL India, Ltd.	2,509,751	<u>13,888,736</u>						
<b>INDUSTRIALS: 20.9%</b>			<b>Total Utilities</b>		<u><b>13,888,736</b></u>						
<b>Machinery: 9.7%</b>			<b>TOTAL INVESTMENTS: 100.1%</b>								
AIA Engineering, Ltd.	2,306,467	17,838,717	<b>431,655,003</b>								
Thermax, Ltd.	1,378,128	15,839,950	(Cost \$424,923,912 <sup>b</sup> )								
Ashok Leyland, Ltd.	29,622,554	8,261,079	<b>LIABILITIES IN EXCESS OF</b>								
		<u>41,939,746</u>	<b>CASH AND OTHER ASSETS: (0.1%)</b>								
<b>Transportation Infrastructure: 4.5%</b>			<b>(560,545)</b>								
Gujarat Pipavav Port, Ltd. <sup>a</sup>	18,880,000	<u>19,290,534</u>	<b>NET ASSETS: 100.0%</b>								
<b>Industrial Conglomerates: 3.4%</b>			<b>\$431,094,458</b>								
MAX India, Ltd.	4,238,102	<u>14,809,890</u>	<p>a Non-income producing security.</p> <p>b Cost for federal income tax purposes is \$424,986,010 and net unrealized appreciation consists of:</p> <table> <tr> <td>Gross unrealized appreciation</td> <td>\$87,917,562</td> </tr> <tr> <td>Gross unrealized depreciation</td> <td>(81,248,569)</td> </tr> <tr> <td>Net unrealized appreciation</td> <td><u>\$6,668,993</u></td> </tr> </table>			Gross unrealized appreciation	\$87,917,562	Gross unrealized depreciation	(81,248,569)	Net unrealized appreciation	<u>\$6,668,993</u>
Gross unrealized appreciation	\$87,917,562										
Gross unrealized depreciation	(81,248,569)										
Net unrealized appreciation	<u>\$6,668,993</u>										
<b>Road &amp; Rail: 3.3%</b>			ADR American Depositary Receipt								
Container Corp. of India, Ltd.	1,196,324	<u>14,117,803</u>	See accompanying notes to financial statements.								
<b>Total Industrials</b>		<u><b>90,157,973</b></u>									
<b>MATERIALS: 12.4%</b>											
<b>Chemicals: 8.9%</b>											
Supreme Industries, Ltd.	2,095,368	14,398,774									
Asian Paints, Ltd.	1,652,000	13,086,735									
Castrol India, Ltd.	2,139,063	10,851,798									
		<u>38,337,307</u>									



## PORTFOLIO MANAGERS

**Taizo Ishida**  
Lead Manager

**Kenichi Amaki**  
Co-Manager

## FUND FACTS

	Investor Class	Institutional Class
Ticker	MJFOX	MJFX
CUSIP	577130800	577130792
Inception	12/31/98	10/29/10
NAV	\$16.20	\$16.20
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	1.10%	0.96%

### Portfolio Statistics

Total # of Positions	65
Net Assets	\$372.7 million
Weighted Average Market Cap	\$29.4 billion
Portfolio Turnover	22.72% <sup>2</sup>

### Benchmarks

MSCI Japan Index  
Tokyo Stock Price Index (TOPIX)

### Redemption Fee

2% within first 90 calendar days of purchase

## OBJECTIVE

Long-term capital appreciation.

## STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total net assets, which include borrowings for investment purposes, in the common and preferred stocks of companies located in Japan.

# Matthews Japan Fund

## Portfolio Manager Commentary

For the year ending December 31, 2013, the Matthews Japan Fund returned 34.03% (Investor Class) and 34.27% (Institutional Class) while its benchmark, the MSCI Japan Index, returned 27.35%. For the fourth quarter of the year, the Fund returned 0.28% (Investor Class) and 0.31% (Institutional Class) versus 2.31% for the Index.

2013 was a positive year for Japan investors with the MSCI Japan Index gaining 54.80% in local currency terms, marking its highest annual return since 1986. The Index ended the year at its highs, regaining levels not seen since June 2008. The primary driver of the rally was “Abenomics,” the economic policies advocated by Prime Minister Shinzo Abe, supported by the Bank of Japan’s accommodative monetary policies and a weakening of the yen, which declined –17.6%.

While Abenomics has no shortage of critics, there are emerging signs that Japan is moving toward its ultimate goal of battling deflation, at least for the time being. Its consumer price index, excluding food and energy, advanced 0.6% year-on-year in November, showing the biggest rise in prices since 1998. As the effects of currency hedging by import companies wear off, we expect prices to increase further over the next several quarters. Meanwhile, job creation has been robust while the unemployment rate remains low and has contributed to an increase in total wages paid. However, growth in average wages per worker remains negative, and given the consumption tax hike in April, wages will eventually need to rise in order to maintain an inflationary environment.

The Fund has not employed an active hedging strategy. In hindsight, we underestimated the sheer impact of the yen’s devaluation from a rate of sub-80 yen to the U.S. dollar to 105 yen at the end of 2013. However, given the yen’s current levels, we believe the incremental return on a currency hedge is not attractive enough to account for the additional volatility and risk. Though we do expect the yen to continue weakening over the course of the year, we believe the pace should be more gradual and the impact on U.S. dollar returns should be smaller going forward. We believe there is sufficient room to add value through good stock selection and portfolio construction in order to counter the dilutive effects of a weaker currency.

In our investment process we aim to identify Japanese companies with the ability to grow their businesses through various economic cycles. Stock selection is the primary avenue through which we seek to add value. Attribution analysis shows that overall stock selection accounted for all of the outperformance for the year while sector allocation had a slight negative effect.

By sector, our holdings in financials made the largest absolute contribution to returns for the year. ORIX, Japan’s largest non-bank financial company, appreciated substantially as valuations re-rated on the back of strong business performance. ORIX was among the Fund’s top holdings for both the year and the fourth quarter. In addition, real estate leasing company Hulic also performed well for the year, reflecting improving sentiment toward real estate in Tokyo. Our bank holdings, such as Mitsubishi UFJ Financial Group and Sumitomo Mitsui Financial Group, also contributed positively to returns. We continue to favor the financials sector,

(continued)

<sup>1</sup> Actual 2013 expense ratios.

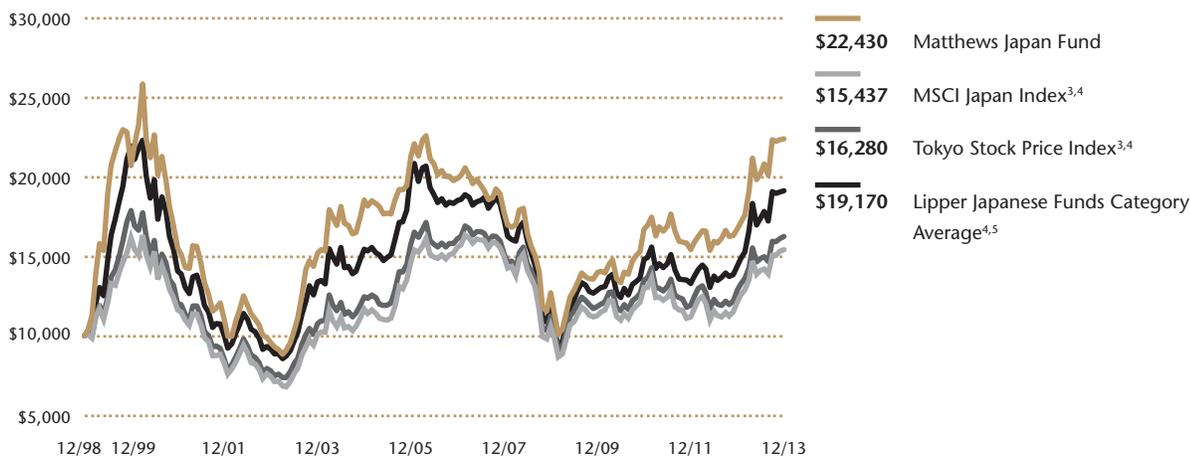
<sup>2</sup> The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

## PERFORMANCE AS OF DECEMBER 31, 2013

	Average Annual Total Returns						Inception Date
	3 Months	1 Year	3 Years	5 Years	10 Years	Since Inception	
Investor Class (MJFOX)	0.28%	34.03%	10.24%	12.01%	3.96%	5.53%	12/31/98
Institutional Class (MIJFX)	0.31%	34.27%	10.35%	n.a.	n.a.	13.51%	10/29/10
MSCI Japan Index <sup>3</sup>	2.31%	27.35%	5.80%	7.81%	4.36%	2.94% <sup>4</sup>	
Tokyo Stock Price Index <sup>3</sup>	1.99%	26.47%	6.39%	7.68%	4.21%	3.30% <sup>4</sup>	
Lipper Japanese Funds Category Average <sup>5</sup>	2.07%	27.90%	6.97%	8.79%	4.40%	4.18% <sup>4</sup>	

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance, visit [matthewsasiasia.com](http://matthewsasiasia.com).*

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



Plotted monthly. The performance data and graph do not reflect the deduction of taxes that a shareholder would pay on dividends, capital gains distributions or redemption of Fund shares. Values are in US\$.

<sup>3</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definitions.

<sup>4</sup> Calculated from 12/31/98.

<sup>5</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>6</sup>

	Sector	% of Net Assets
ORIX Corp.	Financials	4.1%
Toyota Motor Corp.	Consumer Discretionary	3.9%
Mitsubishi UFJ Financial Group, Inc.	Financials	3.6%
SoftBank Corp.	Telecommunication Services	3.6%
Honda Motor Co., Ltd.	Consumer Discretionary	3.3%
Sumitomo Mitsui Financial Group, Inc.	Financials	2.4%
FANUC Corp.	Industrials	2.3%
Nabtesco Corp.	Industrials	2.1%
Symex Corp.	Health Care	2.1%
Hitachi, Ltd.	Information Technology	2.1%
<b>% OF ASSETS IN TOP TEN</b>		<b>29.5%</b>

<sup>6</sup> Holdings may combine more than one security from same issuer and related depositary receipts.

## Matthews Japan Fund

### *Portfolio Manager Commentary (continued)*

and more specifically the banks, given the potential to capitalize on overseas growth opportunities while valuation levels remain attractive.

SoftBank, a telecommunications Internet conglomerate, was the top contributor to performance for the year. Led by its founder Masayoshi Son, the company made headlines with its acquisition of U.S. telecom carrier Sprint. We believe SoftBank has the potential to transform Sprint into a viable competitor against AT&T and Verizon Wireless over the long term. SoftBank also benefited from the rapid growth of Chinese e-commerce company Alibaba Group in which SoftBank holds roughly a 37% stake. We believe the value of this investment could rise even further as Alibaba secures its position as the dominant leader in China's e-commerce industry.

Amongst our small-cap holdings, medical equipment company Asahi Intecc was another top contributor to returns. The firm reorganized its distribution channels in Japan and Europe, which has resulted in increased market share and revenue growth. They recently launched several new products in adjacent categories and we expect sales from these new products to contribute to growth over the next few years.

On the other hand, our holdings in the materials sector performed poorly during the year. Electronic material and components manufacturer Nitto Denko missed consensus earnings estimates due to weaker than expected orders for their specialty films used in displays such as TVs and smartphones. Specialty chemical company Shin-Etsu Chemical also underperformed due to oversupply in silicon wafers and lower prices for its mainstay PVC business. However, we deem these issues to be cyclical in nature and continue to hold our positions.

Our position in data center operator Bit-isle had the largest negative effect on performance over the year. Bit-isle's business has been indirectly affected by a struggling mobile game company that had been one of their main customers. Although it will take some time to make up for this revenue elsewhere, demand for data center capacity itself continues to grow thanks to the increase in Internet data traffic. We believe the stock has been punished excessively and valuations now look quite attractive compared to other Internet-related businesses. Hence, we have been slowly adding to our position.

We are encouraged by the ongoing fundamental improvements in the Japanese economy. The outlook for corporate earnings is strong and domestic loan growth has been accelerating. Additionally, higher U.S. interest rates prompted by the U.S. Federal Reserve's tapering of bond purchases is likely to further weaken the yen. Although we believe Japan's consumption tax hike planned for April should pose significant challenges for growth over the following several quarters, we expect the Bank of Japan to implement further quantitative easing should the economy falter. In such an environment, we believe select Japanese companies could potentially experience more growth in both global and domestic markets. Finding such individual opportunities remains core to our strategy.

#### SECTOR ALLOCATION (%)

Financials	22.3
Industrials	20.9
Consumer Discretionary	15.8
Information Technology	13.7
Health Care	9.9
Consumer Staples	9.1
Telecommunication Services	3.5
Materials	2.4
Cash and Other Assets, Less Liabilities	2.4

#### MARKET CAP EXPOSURE (%)<sup>7</sup>

Large Cap (over \$5B)	55.5
Mid Cap (\$1B-\$5B)	23.7
Small Cap (under \$1B)	18.4
Cash and Other Assets, Less Liabilities	2.4

<sup>7</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

# Matthews Japan Fund

December 31, 2013

## Schedule of Investments<sup>a</sup>

### COMMON EQUITIES: JAPAN: 97.6%

	Shares	Value		Shares	Value
<b>FINANCIALS: 22.3%</b>			<b>Electrical Equipment: 1.4%</b>		
<b>Commercial Banks: 10.2%</b>			Nidec Corp.		
Mitsubishi UFJ Financial Group, Inc.	2,013,100	\$13,365,770		32,400	\$3,191,875
Sumitomo Mitsui Financial Group, Inc.	174,300	9,064,190	Endo Lighting Corp.		
Mizuho Financial Group, Inc.	2,685,000	5,829,220		106,800	2,128,012
Seven Bank, Ltd.	1,375,300	5,378,887	<b>3,319,887</b>		
Shinsei Bank, Ltd.	1,805,000	4,418,468	<b>Road &amp; Rail: 1.0%</b>		
		<b>38,056,535</b>	Trancom Co., Ltd.		
				112,500	<b>3,621,604</b>
<b>Diversified Financial Services: 5.0%</b>			<b>Total Industrials</b>		
ORIX Corp.	869,400	15,276,984			<b>77,821,053</b>
Zenkoku Hosho Co., Ltd.	75,800	3,327,282	<b>CONSUMER DISCRETIONARY: 15.8%</b>		
		<b>18,604,266</b>	<b>Automobiles: 8.5%</b>		
<b>Real Estate Management &amp; Development: 3.0%</b>			Toyota Motor Corp.		
Mitsui Fudosan Co., Ltd.	197,000	7,105,923		239,700	14,615,729
Hulic Co., Ltd.	279,200	4,131,953	Honda Motor Co., Ltd.		
		<b>11,237,876</b>		302,100	12,469,820
<b>Real Estate Investment Trusts: 2.5%</b>			Fuji Heavy Industries, Ltd.		
Global One Real Estate Investment Corp., REIT	762	5,174,293		155,000	4,454,539
GLP J-REIT	4,214	4,115,939	<b>31,540,088</b>		
		<b>9,290,232</b>	<b>Specialty Retail: 2.4%</b>		
<b>Insurance: 1.6%</b>			VT Holdings Co., Ltd.		
Tokio Marine Holdings, Inc.	180,100	6,027,890		328,200	5,400,000
		<b>83,216,799</b>	Workman Co., Ltd.		
				101,600	3,632,465
<b>INDUSTRIALS: 20.9%</b>			<b>9,032,465</b>		
<b>Machinery: 11.2%</b>			<b>Diversified Consumer Services: 1.8%</b>		
FANUC Corp.	46,500	8,520,691	ESCRIT, Inc.		
Nabtesco Corp.	344,500	7,950,641		413,700	3,679,387
Mitsubishi Heavy Industries, Ltd.	1,116,000	6,912,027	Success Holdings Co., Ltd.		
Glory, Ltd.	262,800	6,820,182		130,000	2,326,419
Freund Corp.	284,700	4,328,899	JP-Holdings, Inc.		
Harmonic Drive Systems, Inc.	175,500	4,003,678		207,000	811,441
Komatsu, Ltd.	163,800	3,363,025	<b>6,817,247</b>		
		<b>41,899,143</b>	<b>Household Durables: 1.5%</b>		
<b>Building Products: 2.9%</b>			Rinnai Corp.		
Aica Kogyo Co., Ltd.	321,700	6,362,319		74,200	<b>5,780,789</b>
Nihon Flush Co., Ltd.	179,500	4,464,094	<b>Auto Components: 1.3%</b>		
		<b>10,826,413</b>	Nifco, Inc.		
<b>Professional Services: 2.2%</b>			177,800		
Nihon M&A Center, Inc.	70,100	4,737,254	<b>4,716,088</b>		
Benefit One, Inc.	378,900	3,425,310	<b>Internet &amp; Catalog Retail: 0.3%</b>		
		<b>8,162,564</b>	Oisix, Inc. <sup>b</sup>		
<b>Trading Companies &amp; Distributors: 2.2%</b>			23,300		
ITOCHU Corp.	426,300	5,270,192	<b>58,861,998</b>		
Marubeni Corp.	378,000	2,721,250	<b>INFORMATION TECHNOLOGY: 13.7%</b>		
		<b>7,991,442</b>	<b>Electronic Equipment, Instruments &amp; Components: 7.8%</b>		
<b>Total Financials</b>			Hitachi, Ltd.		
				1,043,000	7,908,185
<b>83,216,799</b>			Yokogawa Electric Corp.		
				392,800	6,039,224
<b>INDUSTRIALS: 20.9%</b>			Keyence Corp.		
<b>Machinery: 11.2%</b>			13,900		
<b>Building Products: 2.9%</b>			5,951,777		
<b>Professional Services: 2.2%</b>			Kyocera Corp.		
<b>Trading Companies &amp; Distributors: 2.2%</b>			110,600		
<b>IT Services: 1.3%</b>			5,529,068		
<b>Total Industrials</b>			Murata Manufacturing Co., Ltd.		
				41,300	3,672,947
<b>77,821,053</b>			<b>29,101,201</b>		
<b>CONSUMER DISCRETIONARY: 15.8%</b>			<b>Internet Software &amp; Services: 4.6%</b>		
<b>Automobiles: 8.5%</b>			Yahoo! Japan Corp.		
<b>Specialty Retail: 2.4%</b>			1,061,900		
<b>Diversified Consumer Services: 1.8%</b>			5,921,581		
<b>Household Durables: 1.5%</b>			Kakaku.com, Inc.		
<b>Auto Components: 1.3%</b>			322,500		
<b>Internet &amp; Catalog Retail: 0.3%</b>			5,665,169		
<b>Total Consumer Discretionary</b>			Macromill, Inc.		
				736,800	5,460,034
<b>58,861,998</b>			<b>17,046,784</b>		
<b>INFORMATION TECHNOLOGY: 13.7%</b>			<b>IT Services: 1.3%</b>		
<b>Electronic Equipment, Instruments &amp; Components: 7.8%</b>			Bit-isle, Inc.		
<b>Hitachi, Ltd.</b>			605,900		
<b>Yokogawa Electric Corp.</b>			<b>4,810,378</b>		
<b>Keyence Corp.</b>			<b>Total Information Technology</b>		
<b>Kyocera Corp.</b>			<b>50,958,363</b>		
<b>Murata Manufacturing Co., Ltd.</b>					
<b>41,300</b>					
<b>3,672,947</b>					
<b>29,101,201</b>					

*Schedule of Investments<sup>a</sup> (continued)*

**COMMON EQUITIES: JAPAN: (continued)**

	Shares	Value		Shares	Value
<b>HEALTH CARE: 9.9%</b>			<b>TELECOMMUNICATION SERVICES: 3.5%</b>		
<b>Health Care Equipment &amp; Supplies: 5.0%</b>			<b>Wireless Telecommunication Services: 3.5%</b>		
Systemex Corp.	134,300	\$7,932,454	SoftBank Corp.	151,300	\$13,276,691
Asahi Intecc Co., Ltd.	180,800	6,758,511	<b>Total Telecommunication Services</b>		<b>13,276,691</b>
Daiken Medical Co., Ltd.	237,300	3,959,507			
		<u>18,650,472</u>	<b>MATERIALS: 2.4%</b>		
<b>Health Care Providers &amp; Services: 2.5%</b>			<b>Chemicals: 2.4%</b>		
Message Co., Ltd.	152,700	4,711,418	Nitto Denko Corp.	106,300	4,494,855
Ship Healthcare Holdings, Inc.	96,300	3,739,445	Shin-Etsu Chemical Co., Ltd.	75,600	4,421,790
N Field Co., Ltd. <sup>b</sup>	10,300	951,657	<b>Total Materials</b>		<b>8,916,645</b>
		<u>9,402,520</u>	<b>TOTAL INVESTMENTS: 97.6%</b>		
<b>Health Care Technology: 1.5%</b>			<b>363,882,345</b>		
M3, Inc.	2,152	5,389,397	(Cost \$315,696,717 <sup>c</sup> )		
<b>Pharmaceuticals: 0.9%</b>			<b>CASH AND OTHER ASSETS,</b>		
Rohto Pharmaceutical Co., Ltd.	225,000	3,433,269	<b>LESS LIABILITIES: 2.4%</b>		
<b>Total Health Care</b>		<b>36,875,658</b>	<b>8,808,283</b>		
<b>CONSUMER STAPLES: 9.1%</b>			<b>NET ASSETS: 100.0%</b>		
<b>Food &amp; Staples Retailing: 3.2%</b>			<b>\$372,690,628</b>		
Seven & I Holdings Co., Ltd.	171,900	6,844,444	a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).		
Cosmos Pharmaceutical Corp.	46,700	5,067,110	b Non-income producing security.		
		<u>11,911,554</u>	c Cost for federal income tax purposes is \$322,006,994 and net unrealized appreciation consists of:		
<b>Household Products: 3.0%</b>			Gross unrealized appreciation . . . . . \$49,704,000		
Unicharm Corp.	127,900	7,297,784	Gross unrealized depreciation . . . . . (7,828,649)		
Pigeon Corp.	77,800	3,773,265	Net unrealized appreciation . . . . . \$41,875,351		
		<u>11,071,049</u>	REIT Real Estate Investment Trust		
<b>Beverages: 1.9%</b>			See accompanying notes to financial statements.		
Suntory Beverage & Food, Ltd.	219,100	6,989,753			
<b>Food Products: 1.0%</b>					
Calbee, Inc.	164,000	3,982,782			
<b>Total Consumer Staples</b>		<b>33,955,138</b>			



## PORTFOLIO MANAGERS

**J. Michael Oh, CFA**  
Lead Manager

**Michael B. Han, CFA**  
Co-Manager

## FUND FACTS

	Investor Class	Institutional Class
Ticker	MAKOX	MIKOX
CUSIP	577130305	577130826
Inception	1/3/95	10/29/10
NAV	\$5.95	\$5.96
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	1.13%	0.97%

### Portfolio Statistics

Total # of Positions	50
Net Assets	\$151.1 million
Weighted Average Market Cap	\$33.0 billion
Portfolio Turnover	46.20% <sup>2</sup>

### Benchmark

Korea Composite Stock Price Index

### Redemption Fee

2% within first 90 calendar days of purchase

## OBJECTIVE

Long-term capital appreciation.

## STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total net assets, which include borrowings for investment purposes, in the common and preferred stocks of companies located in South Korea.

# Matthews Korea Fund

## Portfolio Manager Commentary

For the year ending December 31, 2013, the Matthews Korea Fund gained 10.11% (Investor Class) and 9.87% (Institutional Class), outperforming its benchmark, the Korea Composite Stock Price Index, which returned 2.90%. For the fourth quarter, the Fund gained 7.07% (Investor Class) and 7.04% (Institutional Class), outperforming its benchmark, which returned 3.51%.

In 2013, the overall Korean market performed in line with other markets in the region, with the exception of Japan. Korea's won did not experience the same severe depreciations against the U.S. dollar that other Asian currencies suffered. The challenges experienced during the first half of the year were mostly due to weak corporate earnings growth, especially among companies within cyclical industries. South Korean markets recovered during the second half of the year as foreign investors favored it over Southeast Asian economies, which saw rising volatility and political risks. Considering South Korea's healthy trade surplus, large foreign reserves, stable domestic political system and relatively stable currency, investors began identifying Korea as a "safe haven" among Asian countries.

In February, a new government was formed under the South Korea's first female president, Park Geun-hye. The transition to her administration has been fairly smooth. The president's economic policy so far has not deviated much from that of Korea's previous president. We continue to expect market-friendly policies and an increasing focus on improving programs related to social security. Park also recently announced a new goal for her administration, targeting 4% GDP growth and medium-term target of US\$30,000 GDP per capita.

Domestic consumer sentiment improved during the fourth quarter as Korea's housing market showed some signs of recovery and the government announced policy changes to support its weak housing market. Overall high household debt levels, however, still pose concerns. The rise in household debt was due in part to a trend of higher pricing among Korea's residential rental system. The system requires renters to pay a hefty deposit known as Jeonse, rather than monthly rent for housing, and the cost of Jeonse has been increasing. A continued rise in this trend for rentals could negatively impact consumer sentiment going forward.

During the year, technology giant Samsung Electronics was the largest detractor to Fund performance. The company underperformed the market mainly due to slowing growth in the high-end segment of the smartphone industry, particularly in developed markets. Samsung led mobile phone sales globally over the past two years, but has seen penetration reach saturation. Given these concerns, we reduced our position in Samsung during the year. Although we were underweight in Samsung Electronics compared to the benchmark during the year, the company remains a core holding in the Fund due to its attractive valuations and dominant position in a variety of other business units, such as semiconductors, components and consumer electronics.

During the year, the Fund's stock selection in the consumer discretionary, financials and information technology sectors were the biggest contributors to the Fund's relative performance against the benchmark. The Fund's focus on companies benefiting from increasing disposable income worked well during the year. Our underweight in industrials contributed to relative Fund performance as the sector overall suffered weak earnings

*(continued)*

<sup>1</sup> Actual 2013 expense ratios.

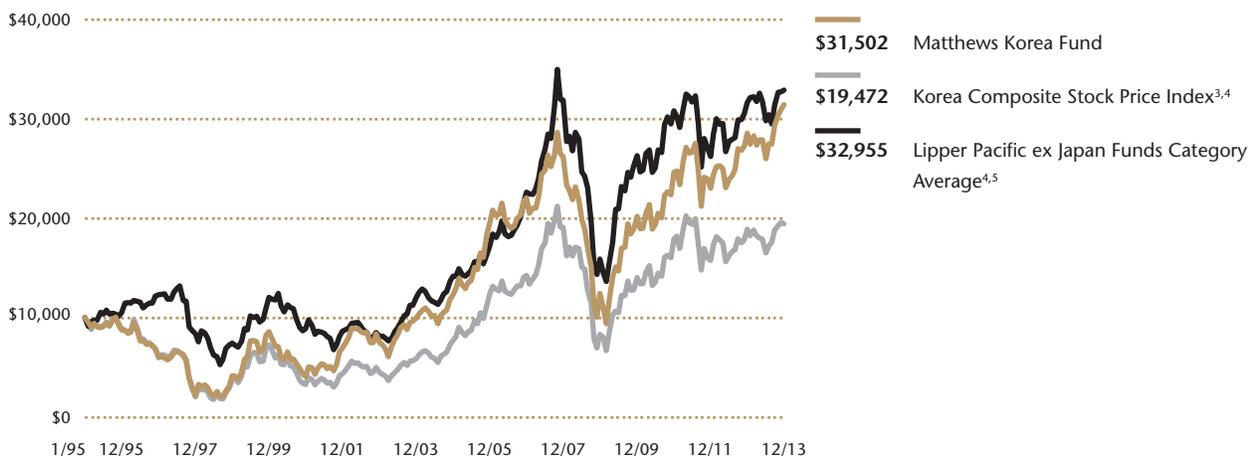
<sup>2</sup> The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

## PERFORMANCE AS OF DECEMBER 31, 2013

	Average Annual Total Returns						Inception Date
	3 Months	1 Year	3 Years	5 Years	10 Years	Since Inception	
Investor Class (MAKOX)	7.07%	10.11%	8.51%	20.46%	12.20%	6.23%	1/3/95
Institutional Class (MIKOX)	7.04%	9.87%	8.62%	n.a.	n.a.	10.96%	10/29/10
Korea Composite Stock Price Index <sup>3</sup>	3.51%	2.90%	2.89%	18.56%	12.75%	3.57% <sup>4</sup>	
Lipper Pacific ex Japan Funds Category Average <sup>5</sup>	3.35%	2.11%	1.04%	16.40%	10.55%	5.38% <sup>4</sup>	

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance, visit [matthewsasiasia.com](http://matthewsasiasia.com).*

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



Plotted monthly. The performance data and graph do not reflect the deduction of taxes that a shareholder would pay on dividends, capital gains distributions or redemption of Fund shares. Values are in US\$.

<sup>3</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definition.

<sup>4</sup> Calculated from 12/31/94.

<sup>5</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>6</sup>

	Sector	% of Net Assets
Samsung Electronics Co., Ltd.	Information Technology	7.1%
Hyundai Motor Co., Ltd., 2nd Pfd.	Consumer Discretionary	5.4%
Shinhan Financial Group Co., Ltd.	Financials	5.3%
Samsung Fire & Marine Insurance Co., Ltd., Pfd.	Financials	4.3%
SK Telecom Co., Ltd.	Telecommunication Services	3.5%
Hyundai Motor Co.	Consumer Discretionary	3.3%
E-Mart Co., Ltd.	Consumer Staples	3.3%
Samsung Electronics Co., Ltd., Pfd.	Information Technology	3.1%
Naver Corp.	Information Technology	2.9%
Hankook Tire Co., Ltd.	Consumer Discretionary	2.8%
<b>% OF ASSETS IN TOP TEN</b>		<b>41.0%</b>

<sup>6</sup> Holdings may combine more than one security from same issuer and related depositary receipts.

SECTOR ALLOCATION (%)	
Consumer Discretionary	32.8
Financials	21.2
Information Technology	13.9
Consumer Staples	12.7
Materials	5.7
Telecommunication Services	3.5
Industrials	3.4
Energy	3.1
Health Care	2.3
Cash and Other Assets, Less Liabilities	1.4

MARKET CAP EXPOSURE (%) <sup>7</sup>	
Large Cap (over \$5B)	66.0
Mid Cap (\$1B–\$5B)	20.3
Small Cap (under \$1B)	12.3
Cash and Other Assets, Less Liabilities	1.4

<sup>7</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

## Matthews Korea Fund

### *Portfolio Manager Commentary (continued)*

growth. We also further trimmed positions in the industrials sector, especially in construction-related industries during the year.

On a company basis, the preferred share classes of Hyundai Motor and Samsung Fire and Marine were among the biggest contributors to Fund performance. In Korea, preferred share classes tend to trade at a large discount to common shares. Preferred shares classes hold the same rights as common shares with the exception of voting rights. Preferred shares also tend to receive a higher dividend payout per share than common shares. As the discount to common shares expanded in last few years, we increased the Fund's exposure to preferred share classes, and that paid off this year as the discounts have narrowed. Preferred shares outperformed common shares. We continued to add new preferred share classes to the portfolio during the year when we identified holdings that offered attractive discounts.

During the year, Naver, a popular Korean search portal, was the top performer. Naver was re-listed after it was demerged from NHN, South Korea's largest Internet company. NHN had decided to separate its search-related business from online gaming business and this spin off became Naver, which performed well due to the success of LINE, a global messaging platform. LINE continued to expand globally with more than 200 million downloads and currently is the dominant messaging platform in Japan. LINE is also gaining traction in some Southeast Asian countries, which should bode well for Naver.

The weakening of Japan's yen was a major market concern during the year. Thus far, it does not appear to have fundamentally impacted Korea's export sector as the country maintains a large trade surplus. However, ongoing weakness in the yen may continue to hamper investor sentiment over Korea's export-oriented companies. While there are clearly some negatives, there are some tangible benefits to Korean exporters especially in the consumer electronics industry. In the global markets, many Japanese companies have reduced much of their consumer electronics businesses and Korean companies often no longer compete directly with Japanese companies. On the flip side, many Korean manufacturers still buy many components from Japanese companies. Hence, a weak yen can benefit some firms in Korea. The auto industry, however, may be more negatively impacted since Japanese automakers are still dominant competitors in several markets. North Korea remains another major risk as its new leadership appears just as unstable as its previous regime and may provoke tensions in the region.

We continue to focus on individual companies that will benefit from disposable income growth in Korea as well as from the region. We are most excited about companies in the media, leisure, health care and beauty and non-banking financials industries. Overall, we maintain a long-term focus and a diversified portfolio with an emphasis on consumer, technology and financials as we believe they hold sustainable, long-term growth drivers.

Schedule of Investments<sup>a</sup>

COMMON EQUITIES: SOUTH KOREA: 82.0%

	Shares	Value		Shares	Value
<b>CONSUMER DISCRETIONARY: 27.4%</b>			<b>CONSUMER STAPLES: 12.1%</b>		
<b>Hotels, Restaurants &amp; Leisure: 7.9%</b>			<b>Food Products: 3.5%</b>		
Shinsegae Food Co., Ltd.	39,361	\$3,205,721	Orion Corp.	2,123	\$1,921,622
Kangwon Land, Inc.	106,200	3,134,787	Binggrae Co., Ltd.	18,974	1,757,393
Hotel Shilla Co., Ltd.	48,246	3,057,163	Ottogi Corp.	4,285	1,626,503
Modetour Network, Inc.	112,891	2,470,974			<u>5,305,518</u>
		<u>11,868,645</u>			
<b>Auto Components: 5.3%</b>			<b>Food &amp; Staples Retailing: 3.3%</b>		
Hankook Tire Co., Ltd.	74,300	4,303,874	E-Mart Co., Ltd.	19,428	4,939,449
Hyundai Mobis	13,310	3,725,147			
		<u>8,029,021</u>	<b>Personal Products: 2.2%</b>		
<b>Automobiles: 4.8%</b>			<b>Household Products: 2.0%</b>		
Hyundai Motor Co.	22,221	5,014,245	LG Household & Health Care, Ltd.	5,875	3,071,064
Kia Motors Corp.	43,171	2,311,077			
		<u>7,325,322</u>	<b>Tobacco: 1.1%</b>		
<b>Media: 3.6%</b>			<b>Total Consumer Staples</b>		
CJ CGV Co., Ltd.	58,103	2,410,604			<u>18,298,465</u>
Cheil Worldwide, Inc. <sup>b</sup>	60,250	1,581,091	<b>INFORMATION TECHNOLOGY: 10.8%</b>		
SBS Media Holdings Co., Ltd.	288,090	1,448,129	<b>Semiconductors &amp; Semiconductor Equipment: 7.1%</b>		
		<u>5,439,824</u>	Samsung Electronics Co., Ltd.		
<b>Multiline Retail: 3.1%</b>			Internet Software & Services: 3.7%		
Hyundai Greenfood Co., Ltd.	154,720	2,478,354	Naver Corp.	6,283	4,352,680
Hyundai Department Store Co., Ltd.	14,204	2,183,426	Daum Communications Corp.	16,384	1,312,095
		<u>4,661,780</u>			<u>5,664,775</u>
<b>Internet &amp; Catalog Retail: 2.7%</b>			<b>Total Information Technology</b>		
Hyundai Home Shopping Network Corp.	22,856	4,055,332			<u>16,331,585</u>
<b>Total Consumer Discretionary</b>		<u>41,379,924</u>	<b>TELECOMMUNICATION SERVICES: 3.5%</b>		
<b>FINANCIALS: 16.8%</b>			<b>Wireless Telecommunication Services: 3.5%</b>		
<b>Commercial Banks: 7.0%</b>			SK Telecom Co., Ltd. ADR		
Shinhan Financial Group Co., Ltd.	177,584	8,014,754	217,400		5,352,388
KB Financial Group, Inc.	63,806	2,592,666			<u>5,352,388</u>
		<u>10,607,420</u>	<b>INDUSTRIALS: 3.4%</b>		
<b>Insurance: 7.0%</b>			<b>Professional Services: 1.2%</b>		
Dongbu Insurance Co., Ltd.	70,910	3,798,137	SaraminHR Co., Ltd. <sup>b</sup>	168,315	1,824,960
Samsung Fire & Marine Insurance Co., Ltd.	14,465	3,573,313			
Hyundai Marine & Fire Insurance Co., Ltd.	103,350	3,200,954	<b>Commercial Services &amp; Supplies: 1.2%</b>		
		<u>10,572,404</u>	KEPCO Plant Service & Engineering Co., Ltd.		
<b>Capital Markets: 2.4%</b>			Machinery: 1.0%		
Samsung Securities Co., Ltd.	53,243	2,238,000	Hy-Lok Corp.	59,523	1,518,548
Kiwoom Securities Co., Ltd.	28,565	1,377,385			<u>5,109,931</u>
		<u>3,615,385</u>	<b>Total Industrials</b>		
<b>Diversified Financial Services: 0.4%</b>			<b>MATERIALS: 3.4%</b>		
NICE Information Service Co., Ltd.	222,729	649,220	<b>Chemicals: 2.9%</b>		
<b>Total Financials</b>		<u>25,444,429</u>	LG Chem, Ltd.		
			9,208		2,632,985
			KPX Chemical Co., Ltd.		
			27,901		1,698,299
					<u>4,331,284</u>
			<b>Metals &amp; Mining: 0.5%</b>		
			POSCO ADR		
			9,300		725,400
			<b>Total Materials</b>		
					<u>5,056,684</u>

*Schedule of Investments<sup>a</sup> (continued)*

**COMMON EQUITIES: SOUTH KOREA (continued)**

	Shares	Value
<b>HEALTH CARE: 2.3%</b>		
<b>Pharmaceuticals: 2.3%</b>		
Yuhan Corp.	10,940	\$1,952,273
Dong-A ST Co., Ltd. <sup>b</sup>	8,753	830,551
Dong-A Socio Holdings Co., Ltd.	5,169	727,430
<b>Total Health Care</b>		<b>3,510,254</b>
<b>ENERGY: 2.3%</b>		
<b>Oil, Gas &amp; Consumable Fuels: 2.3%</b>		
SK Innovation Co., Ltd.	13,136	1,775,538
S-Oil Corp.	23,773	1,678,862
<b>Total Energy</b>		<b>3,454,400</b>
<b>TOTAL COMMON EQUITIES</b>		<b>123,938,060</b>
(Cost \$70,072,247)		

**PREFERRED EQUITIES: SOUTH KOREA: 16.6%**

<b>CONSUMER DISCRETIONARY: 5.4%</b>		
<b>Automobiles: 5.4%</b>		
Hyundai Motor Co., Ltd., 2nd Pfd.	65,501	8,154,868
<b>Total Consumer Discretionary</b>		<b>8,154,868</b>
<b>FINANCIALS: 4.4%</b>		
<b>Insurance: 4.4%</b>		
Samsung Fire & Marine Insurance Co., Ltd., Pfd.	48,164	6,543,151
<b>Total Financials</b>		<b>6,543,151</b>
<b>INFORMATION TECHNOLOGY: 3.1%</b>		
<b>Semiconductors &amp; Semiconductor Equipment: 3.1%</b>		
Samsung Electronics Co., Ltd., Pfd.	4,845	4,684,112
<b>Total Information Technology</b>		<b>4,684,112</b>

<b>MATERIALS: 2.3%</b>		
<b>Chemicals: 2.3%</b>		
LG Chem, Ltd., Pfd.	23,686	\$3,445,907
<b>Total Materials</b>		<b>3,445,907</b>
<b>ENERGY: 0.8%</b>		
<b>Oil, Gas &amp; Consumable Fuels: 0.8%</b>		
S-Oil Corp., Pfd.	24,348	1,222,965
<b>Total Energy</b>		<b>1,222,965</b>
<b>CONSUMER STAPLES: 0.6%</b>		
<b>Personal Products: 0.6%</b>		
Amorepacific Corp., Pfd.	2,327	934,637
<b>Total Consumer Staples</b>		<b>934,637</b>
<b>TOTAL PREFERRED EQUITIES</b>		<b>24,985,640</b>
(Cost \$13,867,290)		

<b>TOTAL INVESTMENTS: 98.6%</b>	<b>148,923,700</b>
(Cost \$83,939,537 <sup>c</sup> )	

<b>CASH AND OTHER ASSETS,</b>	
<b>LESS LIABILITIES: 1.4%</b>	<b>2,189,357</b>
<b>NET ASSETS: 100.0%</b>	<b>\$151,113,057</b>

- a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).
- b Non-income producing security.
- c Cost for federal income tax purposes is \$84,977,642 and net unrealized appreciation consists of:
 

Gross unrealized appreciation	\$65,800,562
Gross unrealized depreciation	(1,854,504)
Net unrealized appreciation	<u>\$63,946,058</u>

ADR American Depositary Receipt  
Pfd. Preferred

See accompanying notes to financial statements.



#### PORTFOLIO MANAGERS

**Lydia So, CFA**  
Lead Manager

**Kenichi Amaki**  
Co-Manager

#### FUND FACTS

	Investor Class	Institutional Class
Ticker	MSMLX	MISMX
CUSIP	577125206	577125867
Inception	9/15/08	4/30/13
NAV	\$19.34	\$19.33
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	1.47%	1.25%

#### Portfolio Statistics

Total # of Positions	74
Net Assets	\$452.1 million
Weighted Average Market Cap	\$1.1 billion
Portfolio Turnover	37.01% <sup>2</sup>

#### Benchmark

MSCI AC Asia ex Japan Small Cap Index

#### Redemption Fee

2% within first 90 calendar days of purchase

#### OBJECTIVE

Long-term capital appreciation.

#### STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total net assets, which include borrowings for investment purposes, in the common and preferred stocks of Small Companies located in Asia ex Japan, which consists of all countries and markets in Asia excluding Japan, but including all other developed, emerging and frontier countries and markets in the Asian region.

<sup>1</sup> Actual 2013 expense ratios.

<sup>2</sup> The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

## Matthews Asia Small Companies Fund

### Portfolio Manager Commentary

For the year ending December 31, 2013, the Matthews Asia Small Companies Fund returned 7.19% (Investor Class) and 7.36% (Institutional Class), nearly in line with its benchmark, the MSCI All Country Asia ex Japan Small Cap Index, which returned 7.16%. For the fourth quarter of the year, the Fund returned 4.54% (Investor and Institutional Class), outperforming the Index, which returned 1.97%.

The Fund's outperformance in the fourth quarter was due in part to good stock selection in the industrials and information technology sectors. Among the top performance contributors during the period was AIA Engineering in India. The company is a major manufacturer of high-chrome grinding media used in cement, mining and thermal power plants. Three years ago the company made efforts to capture more market share in mining industries and these efforts have recently begun to pay off. Overall, it has benefited from economies of scale that have led to higher profitability.

Holdings in China and Taiwan were also meaningful contributors to absolute performance while Southeast Asian equities fell out of favor. The resurgence of political unrest in Thailand toward the end of the year also furthered dampened investor enthusiasm for Southeast Asian markets.

Overall, Asian equities experienced much volatility during the year due to macroeconomic events. These included extreme reaction to U.S. Federal Reserve "tapering" of quantitative easing measures, tightening of banking liquidity in China and weaknesses among capital accounts and currencies in both Indonesia and India.

Despite the Fund's overweight in the Association of Southeast Asian Nations and India—economies that saw pronounced depreciation of their respective currencies against the U.S. dollar during the year—good stock selection enabled the Fund to generate performance that was in line with the benchmark. Key to our stock selection process has been identifying the sustainable growth drivers of individual holdings, considering the importance of their financial strength. We have stated in previous commentaries that the portfolio has always maintained a bias toward high quality growth companies that have the ability to weather tough business cycles and political troubles. In times of market turmoil, companies with sound fundamentals tend to hold up better.

Most of our health care sector holdings generated positive returns during the year due to the defensive nature of their business models as well as their recurring cash flows. St. Shine Optical, a Taiwan-based contact lens maker, was the largest performance contributor in 2013 due to a successful ramp-up in capacity and strong demand for its products. Our industrials sector holdings also benefited performance during the year. Companies specializing in automation solutions for manufacturing processes—a growth area we previously identified—performed well because of strong demand from corporate customers in light of rising wages in many parts of China. By contrast, our holdings in the financials sector, which tend to be more sensitive to economic cycles and rising funding costs, performed poorly during the year as bank and property developer holdings suffered from contractions in valuation multiples.

Throughout the year, we sought to upgrade overall portfolio quality by re-evaluating existing holdings along with prospective investment candidates from a broad perspective of sustainable competitive advantages and

*(continued)*

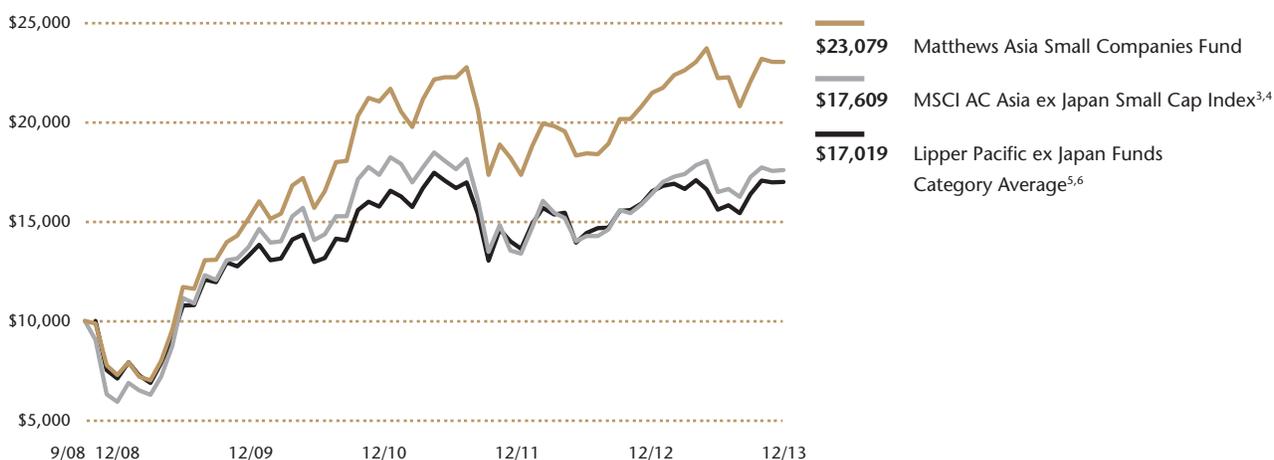
## PERFORMANCE AS OF DECEMBER 31, 2013

Institutional Class Shares were first offered on April 30, 2013. Performance since that date was 0.13%. Performance for the Institutional Class Shares prior to its inception is based on the performance of the Investor Class. Performance differences between the Institutional Class and the Investor Class may arise due to differences in fees charged to each class.

	Average Annual Total Returns					Inception Date
	3 Months	1 Year	3 Years	5 Years	Since Inception	
Investor Class (MSMLX)	4.54%	7.19%	2.03%	23.92%	17.12%	9/15/08
Institutional Class (MISMXX)	4.54%	7.36%	2.09%	23.96%	17.15%	4/30/13
MSCI AC Asia ex Japan Small Cap Index <sup>3</sup>	1.97%	7.16%	-1.19%	20.75%	11.28% <sup>4</sup>	
Lipper Pacific ex Japan Funds Category Average <sup>6</sup>	3.35%	2.11%	1.04%	16.40%	10.46% <sup>5</sup>	

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance, visit [matthewsasia.com](http://matthewsasia.com).*

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



Plotted monthly. The performance data does not reflect the deduction of taxes that a shareholder would pay on dividends, capital gains distributions or redemption of Fund shares. Values are in US\$.

<sup>3</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definition.

<sup>4</sup> Calculated from 9/15/08.

<sup>5</sup> Calculated from 9/30/08.

<sup>6</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>7</sup>

	Sector	Country	% of Net Assets
Towngas China Co., Ltd.	Utilities	China/Hong Kong	3.1%
St. Shine Optical Co., Ltd.	Health Care	Taiwan	2.9%
PChome Online, Inc.	Information Technology	Taiwan	2.7%
Vitasoy International Holdings, Ltd.	Consumer Staples	China/Hong Kong	2.4%
Minth Group, Ltd.	Consumer Discretionary	China/Hong Kong	2.4%
Super Group, Ltd.	Consumer Staples	Singapore	2.3%
Airtac International Group	Industrials	China/Hong Kong	2.1%
Haitian International Holdings, Ltd.	Industrials	China/Hong Kong	2.1%
Lee's Pharmaceutical Holdings, Ltd.	Health Care	China/Hong Kong	2.1%
ARA Asset Management, Ltd.	Financials	Singapore	2.0%
<b>% OF ASSETS IN TOP TEN</b>			<b>24.1%</b>

<sup>7</sup> Holdings may combine more than one security from same issuer and related depository receipts.

## Matthews Asia Small Companies Fund

### *Portfolio Manager Commentary (continued)*

valuations relative to growth prospects. During this period, we exited several components companies related to downstream technology industries because of concerns over the deterioration of their pricing power, and hence, diminishing returns on equity. We re-deployed some funds to our position in Pacific Online, a Chinese Internet portal which benefits from high margins and the attractive long-term structural growth trend of Internet advertising spending in China. There were several holdings in companies trading at valuations we deemed excessive relative to their growth prospects, especially in markets in which investors tend to pay up for quality growth stocks. Toward the second half of the year, we exited Nippon Indosari, a bakery producer in Indonesia and GlaxoSmithKline Consumer Healthcare, an Indian packaged food manufacturer, due to valuation considerations. Instead, we added to existing holdings within the consumer staples sector.

Asia is a diverse place in which various countries are facing many different headwinds at a macroeconomic level. However, there are several structural issues that are not new such as supply-side bottlenecks in Indonesia and India and the need for China to rebalance its economy. It will take time and political willingness for changes to take hold. Rather than focus on challenges that are beyond one's control, we prefer to focus on uncovering entrepreneurial companies that can control their own growth path at the micro level.

Going forward, Asia's economic growth rates might moderate and political uncertainties could intensify. However, moderation of growth in itself is not necessarily entirely negative if countries choose to focus on quality of growth and not merely the pace of growth, which should be more constructive over the long run. During the year, we were pleased to witness multiple successful initial public offerings in Asia, a testament to our belief that our investment universe will continue to expand. We believe factors such as rising household income and entrepreneurship, which are conducive to the growth of Asia's small companies, remain intact. Ultimately, companies with good corporate governance that can demonstrate the ability to carry out sensible and repeatable growth strategies and allocate capital prudently should prevail and emerge as leaders. We believe that the Asia small-cap universe remains a fertile hunting ground for bottom-up, long-term investors.

*Investing in small- and mid-size companies is more risky and volatile than investing in large companies as they may be more volatile and less liquid than larger companies.*

#### COUNTRY ALLOCATION (%)<sup>8</sup>

China/Hong Kong	26.5
India	15.2
Taiwan	12.1
Indonesia	8.6
Singapore	7.5
Malaysia	7.4
Thailand	7.0
South Korea	6.4
Philippines	5.2
Cash and Other Assets, Less Liabilities	4.1

#### SECTOR ALLOCATION (%)

Industrials	17.5
Financials	16.9
Consumer Staples	16.7
Consumer Discretionary	15.8
Health Care	13.2
Information Technology	8.2
Materials	3.8
Utilities	3.1
Telecommunication Services	0.7
Cash and Other Assets, Less Liabilities	4.1

#### MARKET CAP EXPOSURE (%)<sup>9,10</sup>

Large Cap (over \$5B)	0.0
Mid Cap (\$1B-\$5B)	52.0
Small Cap (under \$1B)	43.9
Cash and Other Assets, Less Liabilities	4.1

<sup>8</sup> Not all countries where the Fund may invest are included in the benchmark index.

<sup>9</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

<sup>10</sup> The Fund defines Small Companies as companies with market capitalization generally between \$100 million and \$3 billion or the largest company included in the Fund's primary benchmark, the MSCI All Country Asia ex Japan Small Cap Index. The Portfolio's market cap exposure breakdown presented is used for comparison purposes and the definition of the capitalization breakdown is from MSCI.

Schedule of Investments<sup>a</sup>

COMMON EQUITIES: 95.9%

	Shares	Value		Shares	Value
<b>CHINA/HONG KONG: 26.5%</b>			<b>INDONESIA: 8.6%</b>		
Towngas China Co., Ltd.	12,243,000	\$14,214,934	PT Bank Tabungan Pensiunan Nasional <sup>b</sup>	18,784,500	\$6,644,164
Vitasoy International Holdings, Ltd.	6,976,000	10,756,307	PT AKR Corporindo	14,052,500	5,063,505
Minth Group, Ltd.	5,118,000	10,650,028	PT Selamat Sempurna	16,730,500	4,746,448
Airtac International Group	1,182,520	9,601,887	PT Arwana Citramulia	59,239,500	3,991,487
Haitian International Holdings, Ltd.	4,202,000	9,493,963	PT Astra Otoparts	13,214,125	3,969,625
Lee's Pharmaceutical Holdings, Ltd.	9,855,000	9,354,879	PT Wismilak Inti Makmur	67,974,000	3,748,858
Pacific Online, Ltd.	18,638,000	8,951,112	PT Modern Internasional	59,089,000	3,739,085
Sunny Optical Technology Group Co., Ltd.	7,770,000	7,577,758	PT Sumber Alfaria Trijaya	88,890,000	3,286,812
Xingda International Holdings, Ltd.			PT Sarana Menara Nusantara <sup>b</sup>	13,122,500	2,955,205
H Shares	12,560,000	7,515,763	PT Ultrajaya Milk Industry & Trading Co. <sup>b</sup>	2,205,500	816,847
Stelux Holdings International, Ltd.	21,083,000	7,356,116	<b>Total Indonesia</b>		<b>38,962,036</b>
Yip's Chemical Holdings, Ltd.	6,898,000	5,959,120	<b>SINGAPORE: 7.5%</b>		
Convenience Retail Asia, Ltd.	7,726,000	5,599,489	Super Group, Ltd.	3,460,000	10,418,796
Trinity, Ltd.	12,636,000	4,245,647	ARA Asset Management, Ltd.	6,079,000	8,959,895
KWG Property Holding, Ltd.	7,592,000	4,221,755	Petra Foods, Ltd.	3,072,000	7,838,536
Fairwood Holdings, Ltd.	1,158,500	2,375,017	Raffles Medical Group, Ltd.	2,621,000	6,459,297
Lifetech Scientific Corp. <sup>b</sup>	1,710,000	1,323,137	<b>Total Singapore</b>		<b>33,676,524</b>
ASR Holdings, Ltd.	4,230,000	782,324	<b>MALAYSIA: 7.4%</b>		
Autohome, Inc. ADR <sup>b</sup>	1,200	43,908	Alliance Financial Group BHD	5,687,800	8,265,586
Integrated Waste Solutions Group Holdings, Ltd. <sup>b,c</sup>	24,622,000	514	Dialog Group BHD	6,995,205	7,645,500
<b>Total China/Hong Kong</b>		<b>120,023,658</b>	LPI Capital BHD	1,125,600	5,993,120
<b>INDIA: 15.2%</b>			KPJ Healthcare BHD	4,677,600	5,540,860
Ipca Laboratories, Ltd.	734,595	8,602,439	Oldtown BHD	6,240,100	4,953,216
Mindtree, Ltd.	333,492	8,241,466	Apex Healthcare BHD	763,600	1,049,061
Page Industries, Ltd.	95,185	7,959,808	<b>Total Malaysia</b>		<b>33,447,343</b>
Emami, Ltd.	1,035,478	7,935,791	<b>THAILAND: 7.0%</b>		
Gujarat Pipavav Port, Ltd. <sup>b</sup>	6,891,949	7,041,810	Bangkok Chain Hospital Public Co., Ltd.	30,234,675	5,562,625
Gruh Finance, Ltd.	1,704,502	7,039,286	Supalai Public Co., Ltd.	11,327,100	5,056,458
Supreme Industries, Ltd.	976,162	6,707,908	Aeon Thana Sinsap Thailand Public Co., Ltd.	1,460,500	4,187,412
AIA Engineering, Ltd.	849,415	6,569,560	Tisco Financial Group Public Co., Ltd.	3,332,010	3,922,864
Berger Paints India, Ltd.	1,218,565	4,420,758	Siam Global House Public Co., Ltd.	7,851,700	3,795,734
CRISIL, Ltd.	217,039	4,213,585	Oishi Group Public Co., Ltd.	1,352,900	3,571,609
<b>Total India</b>		<b>68,732,411</b>	SNC Former Public Co., Ltd.	5,359,600	2,565,593
<b>TAIWAN: 12.1%</b>			PTG Energy Public Co., Ltd.	21,610,400	2,454,817
St. Shine Optical Co., Ltd.	466,492	13,320,070	Aeon Thana Sinsap Thailand Public Co., Ltd. NVDR	115,900	332,298
PChome Online, Inc.	1,532,642	12,290,551	<b>Total Thailand</b>		<b>31,449,410</b>
Sinmag Equipment Corp.	1,690,032	8,931,167	<b>SOUTH KOREA: 6.4%</b>		
Pacific Hospital Supply Co., Ltd.	2,470,670	8,223,546	Pyeong Hwa Automotive Co., Ltd.	356,616	7,303,762
Yungtay Engineering Co., Ltd.	2,645,000	7,587,951	Binggrae Co., Ltd.	71,938	6,662,977
Sporton International, Inc.	946,000	4,364,420	Cheil Worldwide, Inc. <sup>b</sup>	214,255	5,622,518
<b>Total Taiwan</b>		<b>54,717,705</b>	SaraminHR Co., Ltd. <sup>b</sup>	518,098	5,617,491
			Kiwoom Securities Co., Ltd.	76,834	3,704,883
			<b>Total South Korea</b>		<b>28,911,631</b>

# Matthews Asia Small Companies Fund

December 31, 2013

## Schedule of Investments<sup>a</sup> (continued)

### COMMON EQUITIES (continued)

	Shares	Value
<b>PHILIPPINES: 5.2%</b>		
Security Bank Corp.	3,114,476	\$8,133,159
RFM Corp.	52,160,200	6,540,350
Vista Land & Lifescapes, Inc.	49,465,300	5,804,578
Philippine Seven Corp.	1,454,751	3,209,517
<b>Total Philippines</b>		<b>23,687,604</b>
<b>TOTAL COMMON EQUITIES</b>		<b>433,608,322</b>

(Cost \$378,060,152)

### RIGHTS: 0.0%

<b>MALAYSIA: 0.0%</b>		
KPJ Healthcare BHD, expires 01/13/14	207,893	130,747
<b>Total Malaysia</b>		<b>130,747</b>
<b>TOTAL RIGHTS</b>		<b>130,747</b>

(Cost \$0)

<b>TOTAL INVESTMENTS: 95.9%</b>	<b>433,739,069</b>
---------------------------------	--------------------

(Cost \$378,060,152<sup>d</sup>)

### CASH AND OTHER ASSETS,

<b>LESS LIABILITIES: 4.1%</b>	<b>18,381,356</b>
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<b>NET ASSETS: 100.0%</b>	<b>\$452,120,425</b>
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a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).

b Non-income producing security.

c Illiquid security.

d Cost for federal income tax purposes is \$378,064,422 and net unrealized appreciation consists of:

Gross unrealized appreciation	\$94,646,710
Gross unrealized depreciation	(38,972,063)
Net unrealized appreciation	<u>\$55,674,647</u>

ADR American Depositary Receipt

BHD Berhad

NVDR Non-voting Depositary Receipt

See accompanying notes to financial statements.



#### PORTFOLIO MANAGERS

**Richard H. Gao**  
Lead Manager

**Henry Zhang, CFA**  
Co-Manager

#### FUND FACTS

	Investor Class
Ticker	MCSMX
CUSIP	577125404
Inception	5/31/11
NAV	\$9.89
Initial Investment	\$2,500
Gross Expense Ratio <sup>1</sup>	2.04%
After Fee Waiver and Reimbursement <sup>2</sup>	2.00%

#### Portfolio Statistics

Total # of Positions	53
Net Assets	\$26.7 million
Weighted Average Market Cap	\$1.8 billion
Portfolio Turnover	10.28% <sup>3</sup>

#### Benchmark

MSCI China Small Cap Index

#### Redemption Fee

2% within first 90 calendar days of purchase

#### OBJECTIVE

Long-term capital appreciation.

#### STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total net assets, which include borrowings for investment purposes, in the common and preferred stocks of Small Companies located in China. China includes its administrative and other districts, such as Hong Kong.

1 Actual 2013 expense ratio.

2 The Advisor has contractually agreed to waive the Fund's fees and reimburse expenses until at least August 31, 2014 to the extent needed to limit total annual operating expenses to 2.00%. The amounts of the waivers and reimbursements are based on estimated Fund expenses. The fee waivers and expense reimbursements may be terminated at any time by the Board of Trustees or the Trust on behalf of the Fund on 60 days' written notice.

3 The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

## Matthews China Small Companies Fund

### Portfolio Manager Commentary

For the year ending December 31, 2013, the Matthews China Small Companies Fund returned 28.85%, outperforming its benchmark, the MSCI China Small Cap Index, which returned 18.68%. For the fourth quarter of the year, the Fund returned 9.15% versus 7.83% for the Index.

Over the course of 2013, China achieved relatively stable economic growth with benign inflation. While the markets experienced significant volatility, China's smaller companies generally fared well and rallied strongly toward the end of the year.

During both the fourth quarter and the year overall, one of the most important events was an ambitious reform package passed by the Communist Party's Third Plenum meeting in November. The package outlined a blueprint for the country's future growth, highlighting the government's new focus on developing a more market-oriented economy, and markets responded positively on the news.

The Fund's outperformance against its benchmark during both the fourth quarter and the annual period was due primarily to good selection amid growth-oriented companies. Such companies delivered strong operating results despite some macroeconomic headwinds. Health care companies, in particular, were among the major contributors to both the Fund's relative and absolute performance. Our holdings in the consumer discretionary sector also contributed significantly to the Fund's outperformance.

China's service industry has shown strong growth as household income continues to rise. During the year, TAL Education Group, a leading education service provider for K-12 students in China, was among the top contributors to performance. The company has been able to expand its education facilities while maintaining its margins and profitability. We believe TAL Education will continue to be a long-term beneficiary of a trend in rising spending in education.

China's health care sector was another area in which we have seen strong growth. Medical research outsourcing company Wuxi PharmaTech and pharmaceutical company Sino Biopharmaceutical were two of the top contributors to Fund performance during the year. Wuxi PharmaTech delivered solid operating results, given its strong execution capability and growing demand in medicinal chemistry and biotech research. Sino Biopharmaceutical has differentiated itself among peers due in part to its strong in-house research and development capability, which has been driving its growth. We believe both companies are well-positioned for a secular trend of growing medical spending and health care demand.

Urban gas distributor Towngas China rebounded strongly during the fourth quarter and was another major contributor to Fund performance. Investor sentiment over the utilities sector turned positive after recent government reform measures for natural gas pricing seemed to have limited impact on industry growth. We continue to believe that long-term growth prospects for natural gas usage remain attractive, especially in light of the government's plan to tackle its notorious air pollution.

During the year, the financials sector performed poorly as investors became increasingly concerned about the sustainability of rising property prices and associated regulatory risks. Within financials, real estate developer China Overseas Grand Oceans was the largest detractor to Fund

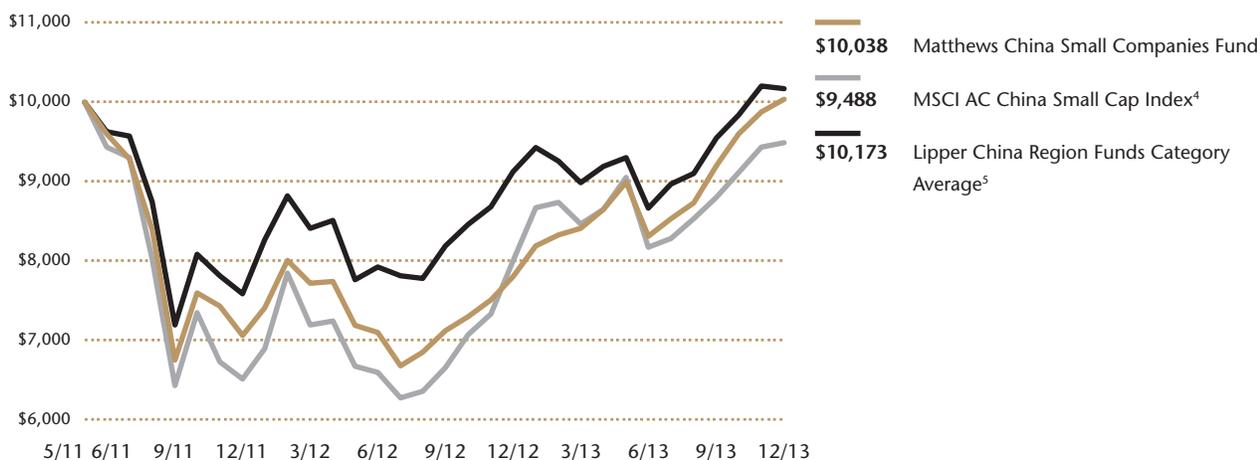
*(continued)*

## PERFORMANCE AS OF DECEMBER 31, 2013

Investor Class (MCSMX)	Average Annual Total Returns		
	3 Months	1 Year	Inception 5/31/11
Investor Class (MCSMX)	9.15%	28.85%	0.15%
MSCI China Small Cap Index <sup>4</sup>	7.83%	18.68%	-2.01%
Lipper China Region Funds Category Average <sup>5</sup>	6.52%	11.73%	0.58%

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance, visit [matthewsasiasia.com](http://matthewsasiasia.com).*

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



The performance data does not reflect the deduction of taxes that a shareholder would pay on dividends, capital gains distributions or redemption of Fund shares. Values are in US\$.

<sup>4</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definition.

<sup>5</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>6</sup>

	Sector	% of Net Assets
Towngas China Co., Ltd.	Utilities	5.6%
Chailease Holding Co., Ltd.	Financials	3.9%
Sino Biopharmaceutical, Ltd.	Health Care	3.9%
Minth Group, Ltd.	Consumer Discretionary	3.5%
Ginko International Co., Ltd.	Health Care	3.5%
Franshion Properties China, Ltd.	Financials	3.4%
TAL Education Group	Consumer Discretionary	3.3%
Yungtay Engineering Co., Ltd.	Industrials	3.3%
Airtac International Group	Industrials	2.8%
China Overseas Grand Oceans Group, Ltd.	Financials	2.8%
<b>% OF ASSETS IN TOP TEN</b>		<b>36.0%</b>

<sup>6</sup> Holdings may combine more than one security from same issuer and related depositary receipts.

COUNTRY ALLOCATION (%)	
China/Hong Kong	80.3
Taiwan	15.7
Cash and Other Assets, Less Liabilities	4.0

SECTOR ALLOCATION (%)	
Consumer Discretionary	21.3
Industrials	21.0
Health Care	19.2
Financials	13.2
Information Technology	9.0
Utilities	5.6
Materials	3.8
Energy	2.1
Consumer Staples	0.8
Cash and Other Assets, Less Liabilities	4.0

MARKET CAP EXPOSURE (%) <sup>7,8</sup>	
Large Cap (over \$5B)	0.9
Mid Cap (\$1B–\$5B)	73.7
Small Cap (under \$1B)	21.4
Cash and Other Assets, Less Liabilities	4.0

7 Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

8 The Fund defines Small Companies as companies with market capitalization generally between \$100 million and \$3 billion or the largest company included in the Fund's primary benchmark, the MSCI China Small Cap Index. The Portfolio's market cap exposure breakdown presented is used for comparison purposes and the definition of the capitalization breakdown is from MSCI.

## Matthews China Small Companies Fund

### *Portfolio Manager Commentary (continued)*

performance during both the fourth quarter and for the year. The company suffered from a heavy sell-off as its projects tend to be mostly in smaller cities, where demand has been subdued compared to China's major urban centers. However, we continue to hold this company because we believe such smaller cities will ultimately benefit from China's ongoing urbanization. With its strong execution and solid national brand, China Overseas Grand Oceans should have tremendous growth opportunities in this fragmented industry.

The Fund remained overweight in the health care sector as we believe the sector offers more long-term growth opportunities. In addition, we favor consumer discretionary holdings, and companies that may benefit from the secular growth of industrial automation and e-commerce. During the quarter, we participated in the initial public offering of Qunar, an online Chinese search platform for travel-related services. China's travel industry has experienced robust growth in recent years, driven by rising household income, favorable government policies and better infrastructure. As a leading information aggregator and facilitator, we believe Qunar is uniquely positioned to benefit from the country's fast-growing online travel booking business.

Looking forward, China's new administration appears committed to reducing government intervention in the economy. As China continues to take on more economic reform and deregulate state-dominated sectors, non-state-owned enterprises should encounter many growth opportunities, and we expect smaller companies, in particular, may be among the chief beneficiaries of this long-term process. China's GDP growth is likely to maintain a moderate yet steady pace going into 2014, and we will continue to look for small companies with sustainable business models, strong competitive positions and quality management teams.

*Investing in small- and mid-size companies is more risky and volatile than investing in large companies as they may be more volatile and less liquid than larger companies.*

# Matthews China Small Companies Fund

December 31, 2013

## Schedule of Investments<sup>a</sup>

### COMMON EQUITIES: 96.0%

	Shares	Value		Shares	Value
<b>CONSUMER DISCRETIONARY: 21.3%</b>			<b>Marine: 1.8%</b>		
<b>Hotels, Restaurants &amp; Leisure: 5.1%</b>			SITC International Holdings Co., Ltd.		
Tao Heung Holdings, Ltd.	514,000	\$382,356	1,099,000		\$484,389
China Lodging Group, Ltd. ADS <sup>b</sup>	12,100	368,566	<b>Total Industrials</b>		
Gourmet Master Co., Ltd.	50,970	344,606			5,600,931
Home Inns & Hotels Management, Inc. ADR <sup>b</sup>	6,100	266,204	<b>HEALTH CARE: 19.2%</b>		
		<b>1,361,732</b>	<b>Pharmaceuticals: 10.0%</b>		
<b>Auto Components: 4.4%</b>			Sino Biopharmaceutical, Ltd.		
Minth Group, Ltd.	452,000	940,565	1,296,000	1,030,227	
Xingda International Holdings, Ltd. H Shares	376,000	224,994	CSPC Pharmaceutical Group, Ltd.	910,000	719,310
		<b>1,165,559</b>	Lee's Pharmaceutical Holdings, Ltd.	755,000	716,685
<b>Diversified Consumer Services: 3.4%</b>			Tianjin ZhongXin Pharmaceutical Group Corp., Ltd. S Shares		
TAL Education Group ADR <sup>b</sup>	40,600	892,794	178,000	192,240	
<b>Leisure Equipment &amp; Products: 2.6%</b>			<b>2,658,462</b>		
Goodbaby International Holdings, Ltd.	1,257,000	698,754	<b>Health Care Equipment &amp; Supplies: 6.4%</b>		
<b>Multiline Retail: 2.6%</b>			Ginko International Co., Ltd.		
Springland International Holdings, Ltd.	1,334,000	686,414	49,000	925,630	
<b>Media: 1.5%</b>			St. Shine Optical Co., Ltd.		
Television Broadcasts, Ltd.	61,300	410,611	17,000	485,413	
<b>Specialty Retail: 0.9%</b>			Pacific Hospital Supply Co., Ltd.		
Hengdeli Holdings, Ltd.	1,025,200	242,273	90,000	299,562	
<b>Textiles, Apparel &amp; Luxury Goods: 0.7%</b>			<b>1,710,605</b>		
ANTA Sports Products, Ltd.	149,000	184,875	<b>Life Sciences Tools &amp; Services: 2.8%</b>		
<b>Internet &amp; Catalog Retail: 0.1%</b>			WuXi PharmaTech Cayman, Inc. ADR <sup>b</sup>		
Qunar Cayman Islands, Ltd. ADR <sup>b</sup>	1,465	38,866	19,200	736,896	
<b>Total Consumer Discretionary</b>			<b>Total Health Care</b>		
		<b>5,681,878</b>			<b>5,105,963</b>
<b>INDUSTRIALS: 21.0%</b>			<b>FINANCIALS: 13.2%</b>		
<b>Machinery: 8.9%</b>			<b>Real Estate Management &amp; Development: 9.3%</b>		
Yungtay Engineering Co., Ltd.	307,000	880,719	Franshion Properties China, Ltd.		
Airtac International Group	93,010	755,227	2,630,000	918,597	
Haitian International Holdings, Ltd.	214,000	483,510	China Overseas Grand Oceans Group, Ltd.		
CIMC Enric Holdings, Ltd.	86,000	139,016	783,750	749,679	
Sany Heavy Equipment International Holdings Co., Ltd.	346,000	108,818	K Wah International Holdings, Ltd.		
		<b>2,367,290</b>	688,000	418,331	
<b>Electrical Equipment: 3.3%</b>			KWG Property Holding, Ltd.		
Hangzhou Steam Turbine Co., Ltd. B Shares	325,667	463,940	724,000	402,601	
Zhuzhou CSR Times Electric Co., Ltd. H Shares	72,000	259,694	<b>2,489,208</b>		
Boer Power Holdings, Ltd.	174,000	160,154	<b>Diversified Financial Services: 3.9%</b>		
		<b>883,788</b>	Chailease Holding Co., Ltd.		
<b>Professional Services: 3.2%</b>			394,900	1,038,810	
51job, Inc. ADR <sup>b</sup>	8,155	635,275	<b>Total Financials</b>		
Sporton International, Inc.	45,000	207,610			3,528,018
		<b>842,885</b>	<b>INFORMATION TECHNOLOGY: 9.0%</b>		
<b>Air Freight &amp; Logistics: 1.9%</b>			<b>Electronic Equipment, Instruments &amp; Components: 5.8%</b>		
Shenzhen Chiwan Petroleum B Shares	250,483	515,168	Sunny Optical Technology Group Co., Ltd.		
<b>Transportation Infrastructure: 1.9%</b>			PAX Global Technology, Ltd. <sup>b</sup>		
Yuexiu Transport Infrastructure, Ltd.	968,000	507,411	1,250,000	503,984	
		<b>507,411</b>	Digital China Holdings, Ltd.	215,000	253,907
			Truly International Holdings, Ltd.	336,000	180,951
			China High Precision Automation Group, Ltd. <sup>b,c</sup>	195,000	7,544
			<b>1,555,922</b>		
			<b>Internet Software &amp; Services: 3.2%</b>		
			21Vianet Group, Inc. ADR <sup>b</sup>		
			23,600	555,072	
			Sina Corp. <sup>b</sup>		
			2,900	244,325	
			Autohome, Inc. ADR <sup>b</sup>		
			1,200	43,908	
			<b>843,305</b>		
			<b>Total Information Technology</b>		
					<b>2,399,227</b>
			<b>UTILITIES: 5.6%</b>		
			<b>Gas Utilities: 5.6%</b>		
			Towngas China Co., Ltd.		
			1,282,000	1,488,487	
			<b>Total Utilities</b>		
					<b>1,488,487</b>

*Schedule of Investments<sup>a</sup> (continued)*

**COMMON EQUITIES (continued)**

	Shares	Value
<b>MATERIALS: 3.8%</b>		
<b>Containers &amp; Packaging: 2.4%</b>		
Greatview Aseptic Packaging Co., Ltd.	1,109,000	<u>\$655,578</u>
<b>Chemicals: 1.4%</b>		
Yip's Chemical Holdings, Ltd.	422,000	<u>364,562</u>
<b>Total Materials</b>		<u><u>1,020,140</u></u>
<b>ENERGY: 2.1%</b>		
<b>Energy Equipment &amp; Services: 1.6%</b>		
Hilong Holding, Ltd.	508,000	<u>436,335</u>
<b>Oil, Gas &amp; Consumable Fuels: 0.5%</b>		
Sinopec Kantons Holdings, Ltd.	112,000	<u>124,492</u>
<b>Total Energy</b>		<u><u>560,827</u></u>
<b>CONSUMER STAPLES: 0.8%</b>		
<b>Food Products: 0.8%</b>		
Shenguan Holdings Group, Ltd.	498,000	<u>222,498</u>
<b>Total Consumer Staples</b>		<u><u>222,498</u></u>
<b>TOTAL INVESTMENTS: 96.0%</b>		<b>25,607,969</b>
(Cost \$20,296,743 <sup>d</sup> )		
<b>CASH AND OTHER ASSETS, LESS LIABILITIES: 4.0%</b>		<u><u>1,066,248</u></u>
<b>NET ASSETS: 100.0%</b>		<u><u>\$26,674,217</u></u>

a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).

b Non-income producing security.

c Illiquid security.

d Cost for federal income tax purposes is \$20,610,502 and net unrealized appreciation consists of:

Gross unrealized appreciation	\$5,745,209
Gross unrealized depreciation	<u>(747,742)</u>
Net unrealized appreciation	<u><u>\$4,997,467</u></u>

ADR American Depositary Receipt

ADS American Depositary Share

See accompanying notes to financial statements.



## PORTFOLIO MANAGERS

**J. Michael Oh, CFA**  
Lead Manager

**Lydia So, CFA**  
Co-Manager

## FUND FACTS

	Investor Class	Institutional Class
Ticker	MATFX	MITEX
CUSIP	577130883	577125859
Inception	12/27/99	4/30/13
NAV	\$12.59	\$12.58
Initial Investment	\$2,500	\$3 million
Gross Expense Ratio <sup>1</sup>	1.18%	1.00%

### Portfolio Statistics

Total # of Positions	46
Net Assets	\$161.0 million
Weighted Average Market Cap	\$39.2 billion
Portfolio Turnover	62.04% <sup>2</sup>

### Benchmark

MSCI AC Asia Index\*  
MSCI AC Asia IT and Telecom Services Index

### Redemption Fee

2% within first 90 calendar days of purchase

## OBJECTIVE

Long-term capital appreciation.

## STRATEGY

Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total net assets, which include borrowings for investment purposes, in the common and preferred stocks of companies located in Asia that derive more than 50% of their revenues from the sale of products or services in science- and technology-related industries and services. Asia consists of all countries and markets in Asia, including developed, emerging, and frontier countries and markets in the Asian region.

<sup>1</sup> Actual 2013 expense ratios.

<sup>2</sup> The lesser of fiscal year 2013 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

\* Effective April 30, 2013, the Fund's primary benchmark became the MSCI AC Asia Index. The MSCI AC Asia Index was determined to be a more appropriate index for comparison purposes.

# Matthews Asia Science and Technology Fund

## Portfolio Manager Commentary

For the year ending December 31, 2013, the Matthews Asia Science and Technology Fund gained 35.61% (Investor Class) and 35.75% (Institutional Class), outperforming its primary benchmark, the MSCI All Country Asia Index and its secondary benchmark, the MSCI All Country Asia IT and Telecom Services Index, which returned 13.66% and 19.08%, respectively. For the fourth quarter of the year, the Fund gained 11.88% (Investor Class) and 11.90% (Institutional Class), outperforming its primary and secondary benchmarks, which returned 2.88% and 7.10%, respectively.

Asia's science and technology sectors performed strongly in 2013 as they seemed to hit an inflection point in terms of growth drivers. In the past, the main growth drivers were fairly cyclical in nature—stemming from hardware production and other manufacturing-based industries. Now growth drivers to science and tech fields in Asia appear to be shifting to more sustainable, domestic service-oriented industries.

The region's burgeoning Internet industry is among these recent growth drivers. Asia already has the world's largest collective number of Internet users and the potential for penetration growth remains strong. China alone now has more than 600 million Internet users and more than 400 million who access the Web via mobile devices. Not surprisingly, there have been several recent initial public offerings for Chinese IT-related companies in the U.S. as entrepreneurship activity in this space has increased. The Fund added a few new Chinese Internet companies during the year through IPOs but did not build full positions in these due to the sector's high valuations.

As incomes rise in Asia, consumers are expected to seek better health care, higher quality drugs and higher quality hospitals and services. Such secular trends should lay a firm foundation for Asia's science and technology sector. In fact, the Fund's biggest contributors to performance during the year were the companies that benefited from these trends.

China's popular web services firm Baidu was the largest contributor to Fund performance for the year. The company did well, particularly in the second half of the year, on the back of strong growth in China's Internet industry and as concerns over China's regulatory environment eased. The Fund added to its position in Baidu when the share price corrected sharply during the first half of the year.

Wuxi Pharmatech also performed well during the year. Based in Shanghai, the firm provides pharmaceutical and biotechnology research and development services. The demand for such services is rising in China as local companies focus more on research and development of new original drugs, and Wuxi Pharmatech has benefited from this trend.

Asia's e-commerce market is also growing quickly. E-commerce in China is gaining fast popularity over traditional brick-and-mortar modern retailing in second- and third-tier cities. In fact, China has become one of the world's biggest e-commerce markets. It now holds the distinction of being the second largest e-commerce market behind the U.S. in terms of transaction value. In addition, overall Internet penetration remains low in many more developing areas of the region, particularly India, Indonesia, Vietnam and Thailand. As more people in the region become connected

(continued)

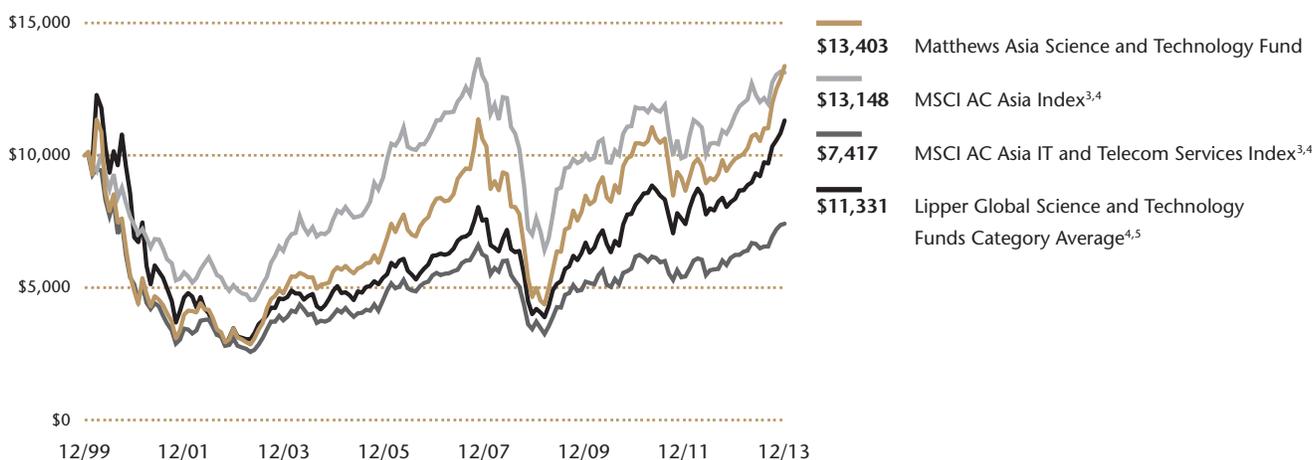
## PERFORMANCE AS OF DECEMBER 31, 2013

Institutional Class Shares were first offered on April 30, 2013. Performance since that date was 24.99%. Performance for the Institutional Class Shares prior to its inception is based on the performance of the Investor Class. Performance differences between the Institutional Class and the Investor Class may arise due to differences in fees charged to each class.

	Average Annual Total Returns						Inception Date
	3 Months	1 Year	3 Years	5 Years	10 Years	Since Inception	
Investor Class (MATFX)	11.88%	35.61%	8.59%	21.92%	10.14%	2.11%	12/27/99
Institutional Class (MITEX)	11.90%	35.75%	8.62%	21.95%	10.15%	2.12%	4/30/13
MSCI AC Asia Index <sup>3</sup>	2.88%	13.66%	3.58%	11.55%	6.81%	1.97% <sup>4</sup>	
MSCI AC Asia IT and Telecom Services Index <sup>3</sup>	7.10%	19.08%	6.35%	14.90%	6.71%	-2.11% <sup>4</sup>	
Lipper Global Science and Technology Funds Category Average <sup>5</sup>	9.77%	33.58%	11.34%	21.28%	9.35%	0.77% <sup>4</sup>	

*Performance assumes reinvestment of all dividends and/or distributions before taxes. All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the Fund's most recent month-end performance, visit [matthewsasia.com](http://matthewsasia.com).*

## GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION—INVESTOR CLASS



Plotted monthly. The performance data and graph do not reflect the deduction of taxes that a shareholder would pay on dividends, capital gains distributions or redemption of Fund shares. Values are in US\$.

<sup>3</sup> It is not possible to invest directly in an index. Source: Index data from Morgan Stanley Capital International and Bloomberg; total return calculations performed by BNY Mellon Investment Servicing (US) Inc. Please see page 79 for index definition.

<sup>4</sup> Calculated from 12/31/99.

<sup>5</sup> The Lipper Category Average does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains for the stated periods.

## TOP TEN HOLDINGS<sup>6</sup>

	Sector	Country	% of Net Assets
Baidu, Inc.	Information Technology	China/Hong Kong	9.3%
Samsung Electronics Co., Ltd.	Information Technology	South Korea	4.6%
SoftBank Corp.	Telecommunication Services	Japan	4.5%
Taiwan Semiconductor Manufacturing Co., Ltd.	Information Technology	Taiwan	3.4%
WuXi PharmaTech Cayman, Inc.	Health Care	China/Hong Kong	3.2%
Delta Electronics, Inc.	Information Technology	Taiwan	3.0%
Naver Corp.	Information Technology	South Korea	2.9%
MediaTek, Inc.	Information Technology	Taiwan	2.9%
Samsung Electronics Co., Ltd., Pfd.	Information Technology	South Korea	2.8%
Airtac International Group	Industrials	China/Hong Kong	2.8%
<b>% OF ASSETS IN TOP TEN</b>			<b>39.4%</b>

<sup>6</sup> Holdings may combine more than one security from same issuer and related depositary receipts.

# Matthews Asia Science and Technology Fund

## Portfolio Manager Commentary (continued)

online, we expect the industry to continue to evolve and attract a growing swath of Asian consumers.

On a country basis, China and Japan benefited Fund performance the most during the year. Japanese companies have performed very well on the back of Japan's weakening yen and "Abenomics," the economic policies advocated by Prime Minister Shinzo Abe. We are focusing on Japanese companies that are strong in providing automation services in Asia as well as companies with strong niche technology in the medical devices sector.

Demand for higher productivity growth in Asia is another factor that should benefit the region's technology industries. Over the past decade, physical labor and capital inputs have been major sources for GDP growth in Asia. However, over the next 10 years, we believe that better automation should play a larger role in Asia's development. Currently, the level of automation in China is comparable to Japan in the 1980s. Not long ago, a manager I spoke with in China told me that it was far cheaper to hire additional workers to increase production volume since the payback period of installing a robot to replace labor was more than 10 years. But now, with strong wage inflation over the last few years, the payback period has lessened to about five years, meaning that it may make more economic sense to start replacing human labor with computerized labor.

During the year, technology giant Samsung Electronics was the largest detractor to Fund performance. The company underperformed the market mainly due to slowing growth in the high-end segment of the smartphone industry, especially in developed markets. Samsung had led mobile phone sales globally for two years but as it has seen penetration reach saturation. The company remains a core holding in the Fund, however, due to its attractive valuations and dominant position in a variety of other business units, such as semiconductors, components and consumer electronics. The Fund continues to underweight hardware and semiconductor industries in favor of more domestically oriented companies that may face fewer negative impacts from macroeconomic cycles.

Looking forward, we expect the strong growth of mobile devices, such as low- and mid-end smartphones, to continue in Asia. We expect local mobile device makers and Internet companies to be the biggest beneficiaries of this trend. Fundamentals for most Internet companies remain strong, but we have become a bit cautious over valuations preventing us from taking a full position in some newer companies. The demand for health care products and services should remain healthy as the overall health care standards improve in Asia.

We believe the future growth drivers of Asia's science and technology industry are becoming more domestic and sustainable in nature. We will continue to further emphasize industries that focus on domestic services, such as Internet, health care and industrial services over Asia's hardware manufacturing based industries.

### COUNTRY ALLOCATION (%)<sup>7</sup>

China/Hong Kong	35.1
Japan	22.3
South Korea	15.3
Taiwan	13.4
India	7.4
United States	2.6
Indonesia	1.0
Cash and Other Assets, Less Liabilities	2.9

### SECTOR ALLOCATION (%)

Information Technology	54.8
Industrials	12.3
Health Care	11.4
Telecommunication Services	10.1
Consumer Discretionary	5.3
Financials	1.9
Consumer Staples	1.3
Cash and Other Assets, Less Liabilities	2.9

### MARKET CAP EXPOSURE (%)<sup>8</sup>

Large Cap (over \$5B)	53.8
Mid Cap (\$1B-\$5B)	31.7
Small Cap (under \$1B)	11.6
Cash and Other Assets, Less Liabilities	2.9

<sup>7</sup> Not all countries are included in the benchmark index(es).

<sup>8</sup> Source: FactSet Research Systems. Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding.

# Matthews Asia Science and Technology Fund

December 31, 2013

## Schedule of Investments<sup>a</sup>

### COMMON EQUITIES: 94.3%

	Shares	Value		Shares	Value
<b>CHINA/HONG KONG: 35.1%</b>			<b>INDIA: 7.4%</b>		
Baidu, Inc. ADR <sup>b</sup>	84,100	\$14,959,708	Info Edge India, Ltd.	541,185	\$4,041,717
WuXi PharmaTech Cayman, Inc. ADR <sup>b</sup>	134,800	5,173,624	Just Dial, Ltd. <sup>b</sup>	118,196	2,755,072
Airtac International Group	546,220	4,435,225	Ipca Laboratories, Ltd.	228,239	2,672,782
51job, Inc. ADR <sup>b</sup>	54,549	4,249,367	Mindtree, Ltd.	99,082	2,448,577
NetEase, Inc. ADR	42,200	3,316,920	<b>Total India</b>		<b>11,918,148</b>
Pacific Online, Ltd.	6,489,000	3,116,416	<b>UNITED STATES: 2.6%</b>		
E-House China Holdings, Ltd. ADS	206,500	3,114,020	Cognizant Technology Solutions Corp. Class A <sup>b</sup>	20,500	2,070,090
CITIC Telecom International Holdings, Ltd.	9,132,000	2,940,103	Mead Johnson Nutrition Co.	24,500	2,052,120
Haitian International Holdings, Ltd.	1,288,000	2,910,096	<b>Total United States</b>		<b>4,122,210</b>
Sunny Optical Technology Group Co., Ltd.	2,490,000	2,428,393	<b>INDONESIA: 1.0%</b>		
Xingda International Holdings, Ltd. H Shares	4,031,000	2,412,105	PT Astra Graphia	11,417,000	1,569,157
Phoenix Satellite Television Holdings, Ltd.	6,234,000	2,271,888	<b>Total Indonesia</b>		<b>1,569,157</b>
China Mobile, Ltd. ADR	41,300	2,159,577	<b>TOTAL COMMON EQUITIES</b>		
Lenovo Group, Ltd.	1,746,000	2,128,412			<b>151,831,332</b>
Sinopharm Group Co., Ltd. H Shares	304,800	876,901	(Cost \$95,732,644)		
Autohome, Inc. ADR <sup>b</sup>	1,200	43,908	<b>PREFERRED EQUITIES: 2.8%</b>		
<b>Total China/Hong Kong</b>		<b>56,536,663</b>	<b>SOUTH KOREA: 2.8%</b>		
<b>JAPAN: 22.3%</b>			<b>SOUTH KOREA: 2.8%</b>		
SoftBank Corp.	83,100	7,292,089	Samsung Electronics Co., Ltd., Pfd.	4,719	4,562,296
Hitachi, Ltd.	569,000	4,314,245	<b>Total South Korea</b>		<b>4,562,296</b>
Asahi Intecc Co., Ltd.	102,000	3,812,877	<b>TOTAL PREFERRED EQUITIES</b>		
FANUC Corp.	15,800	2,895,202			<b>4,562,296</b>
Hoya Corp.	101,500	2,822,907	(Cost \$3,314,097)		
Macromill, Inc.	337,800	2,503,257	<b>TOTAL INVESTMENTS: 97.1%</b>		
Yahoo! Japan Corp.	441,700	2,463,097			<b>156,393,628</b>
Sawai Pharmaceutical Co., Ltd.	33,400	2,156,640	(Cost \$99,046,741 <sup>c</sup> )		
Murata Manufacturing Co., Ltd.	23,500	2,089,933	<b>CASH AND OTHER ASSETS,</b>		
Yokogawa Electric Corp.	131,500	2,021,787	<b>LESS LIABILITIES: 2.9%</b>		
Nabtesco Corp.	80,500	1,857,842			<b>4,593,671</b>
Sony Corp.	97,300	1,677,288	<b>NET ASSETS: 100.0%</b>		
<b>Total Japan</b>		<b>35,907,164</b>			<b>\$160,987,299</b>
<b>TAIWAN: 13.4%</b>					
Taiwan Semiconductor Manufacturing Co., Ltd.	1,561,933	5,529,013	a Certain securities were fair valued under the valuation policies approved by the Board of Trustees (Note 2-A).		
Delta Electronics, Inc.	839,000	4,785,680	b Non-income producing security.		
MediaTek, Inc.	309,000	4,598,168	c Cost for federal income tax purposes is \$99,968,550 and net unrealized appreciation consists of:		
St. Shine Optical Co., Ltd.	126,000	3,597,765	Gross unrealized appreciation . . . . . \$57,725,704		
PChome Online, Inc.	385,732	3,093,259	Gross unrealized depreciation . . . . . (1,300,626)		
<b>Total Taiwan</b>		<b>21,603,885</b>	Net unrealized appreciation . . . . . \$56,425,078		
<b>SOUTH KOREA: 12.5%</b>			ADR American Depositary Receipt		
Samsung Electronics Co., Ltd.	5,710	7,479,735	ADS American Depositary Share		
Naver Corp.	6,842	4,739,939	Pfd. Preferred		
SK Telecom Co., Ltd. ADR	161,300	3,971,206	See accompanying notes to financial statements.		
Hyundai Home Shopping Network Corp.	11,928	2,116,381			
SaraminHR Co., Ltd. <sup>b</sup>	172,178	1,866,844			
<b>Total South Korea</b>		<b>20,174,105</b>			

## Disclosures

**Fund Holdings:** The Fund holdings shown in this report are as of December 31, 2013. Holdings are subject to change at any time, so holdings shown in this report may not reflect current Fund holdings. The Funds file complete schedules of portfolio holdings with the Securities and Exchange Commission (the "SEC") for the first and third quarters of each fiscal year on Form N-Q. The Funds' Form N-Q is filed with the SEC within 60 days of the end of the quarter to which it relates, and is available on the SEC's website at [www.sec.gov](http://www.sec.gov). It may also be reviewed and copied at the Commission's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 800-SEC-0330. Complete schedules of investments are also available without charge, upon request, from the Funds by calling us at 800.789.ASIA (2472).

**Proxy Voting Record:** The Funds' Statement of Additional Information containing a description of the policies and procedures that the Funds have used to vote proxies relating to portfolio securities, along with each Fund's proxy voting record relating to portfolio securities held during the most recent 12-month period ended June 30, is available upon request, at no charge, at the Funds' website at [matthewsasiasia.com](http://matthewsasiasia.com) or by calling 800.789.ASIA (2742), or on the SEC's website at [www.sec.gov](http://www.sec.gov).

## Index Definitions

The **HSBC Asian Local Bond Index (ALBI)** tracks the total return performance of a bond portfolio consisting of local-currency denominated, high quality and liquid bonds in Asia ex-Japan. The ALBI includes bonds from the following countries: Korea, Hong Kong, India, Singapore, Taiwan, Malaysia, Thailand, Philippines, Indonesia and China.

The **J.P. Morgan Asia Credit Index (JACI)** tracks the total return performance of the Asia fixed-rate dollar bond market. JACI is a market cap-weighted index comprising sovereign, quasi-sovereign and corporate bonds and is partitioned by country, sector and credit rating. JACI includes bonds from the following countries: China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Thailand and Singapore.

The **MSCI All Country Asia ex Japan Index** is a free float-adjusted market capitalization-weighted index of the stock markets of China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

The **MSCI All Country Asia Pacific Index** is a free float-adjusted market capitalization-weighted index of the stock markets of Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan and Thailand.

The **MSCI Emerging Markets (EM) Asia Index** is a free float-adjusted market capitalization-weighted index of the stock markets of China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan and Thailand.

The **MSCI China Index** is a free float-adjusted market capitalization-weighted index of Chinese equities that includes China-affiliated corporations and H shares listed on the Hong Kong Exchange, and B shares listed on the Shanghai and Shenzhen exchanges.

The **Bombay Stock Exchange (BSE) 100 Index** is a free float-adjusted market capitalization-weighted index of the 100 stocks listed on the Bombay Stock Exchange.

**Shareholder Reports and Prospectuses:** To reduce the Funds' expenses, we try to identify related shareholders in a household and send only one copy of the Funds' prospectus and financial reports to that address. This process, called "householding," will continue indefinitely unless you instruct us otherwise. At any time you may view the Funds' current prospectus, summary prospectus and financial reports on our website. If you prefer to receive individual copies of the Funds' prospectus or financial reports, please call us at 800.789.ASIA (2742).

**Redemption Fee Policy:** The Funds assess a redemption fee of 2.00% on the total redemption proceeds on most sales or exchanges of shares that take place within 90 calendar days after their purchase as part of the Funds' efforts to discourage short-term trading activity. This fee is payable directly to the Funds. For purposes of determining whether the redemption fee applies, the shares that have been held longest will be redeemed first. The Funds may grant exemptions from the redemption fee in certain circumstances. For more information on this policy, please see the Funds' prospectus.

The **MSCI Japan Index** is a free float-adjusted market capitalization-weighted index of Japanese equities listed in Japan.

The **Tokyo Stock Price Index (TOPIX)** is a market capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange.

The **Korea Composite Stock Price Index (KOSPI)** is a market capitalization-weighted index of all common stocks listed on the Korea Stock Exchange.

The **MSCI All Country Asia ex Japan Small Cap Index** is a free float-adjusted market capitalization-weighted small cap index of the stock markets of China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

The **MSCI China Small Cap Index** is a free float-adjusted market capitalization-weighted small cap index of the Chinese equity securities markets, including H shares listed on the Hong Kong Exchange, B shares listed on the Shanghai and Shenzhen exchanges, and Hong Kong-listed securities known as Red Chips (issued by entities owned by national or local governments in China) and P Chips (issued by companies controlled by individuals in China and deriving substantial revenues in China).

The **MSCI All Country Asia Index** is a free float-adjusted market capitalization-weighted index of the stock markets of China, Hong Kong, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

The **MSCI All Country Asia IT and Telecom Services Index** is a free float-adjusted market capitalization-weighted index of Asian equities tracking a broad range of technology stocks including semiconductor equipment and products, communications equipment, computers and peripherals, electronic equipment and instruments, office electronics, software, IT consulting and services, Internet software and services, diversified telecommunications services, and wireless telecommunications services.

## Disclosure of Fund Expenses *(Unaudited)*

We believe it is important for you to understand the impact of fees regarding your investment. All mutual funds have operating expenses. As a shareholder of a mutual fund, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports (like this one), among others. Operating expenses, which are deducted from a fund's gross income, directly reduce the investment return of the fund. A fund's operating expenses are expressed as a percentage of its average net assets. This figure is known as the expense ratio. The following examples are intended to help you understand the ongoing fees (in dollars) of investing in your fund and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period.

### **This table illustrates your fund's costs in two ways:**

**Actual Fund Return:** This section helps you to estimate the actual operating expenses, after any applicable fee waivers, that you paid over the period. The "Ending Account Value" shown is derived from the fund's actual return for the past six month period, the "Expense Ratio" column shows the period's annualized expense ratio, and the "Operating Expenses Paid During Period" column shows the dollar amount that would have been paid by an investor who started with \$1,000 in the fund at the beginning of the period. You may use the information here, together with your account value, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number given for your fund in the first line under the heading entitled "Operating Expenses Paid During Period."

**Hypothetical 5% Return:** This section is intended to help you compare your fund's costs with those of other mutual funds. It assumes that the fund had an annual

return of 5% before operating expenses, but that the expense ratio is unchanged. In this case, because the return used is not the fund's actual return, the results do not apply to your investment. This example is useful in making comparisons to other mutual funds because the Securities and Exchange Commission requires all mutual funds to calculate expenses based on an assumed 5% annual return. You can assess your fund's costs by comparing this hypothetical example with the hypothetical examples that appear in shareholder reports of other funds.

Please note that the operating expenses shown in the table are meant to highlight and help you compare your ongoing costs only and do not reflect any transactional costs such as sales charges (loads), redemption fees, or exchange fees. The Funds generally assess a redemption fee of 2.00% of the total redemption proceeds if you sell or exchange your shares within 90 calendar days after purchasing them. The redemption fee is paid directly to the Funds and is designed to discourage frequent short-term trading and to offset transaction costs associated with such trading of Fund shares. For purposes of determining whether the redemption fee applies, the shares that have been held the longest will be redeemed first. The Funds may grant exemption from the redemption fee when the Funds have previously received assurances that transactions do not involve market timing activity. The Funds may also waive the imposition of redemption fees in certain circumstances.

For more information on this policy, please see the Funds' prospectus.

The Matthews Asia Funds does not charge any sales loads, exchange fees, or 12b-1 fees, but these may be present in other funds to which you compare this data. Therefore, the hypothetical portions of the table are useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds.

December 31, 2013

	INVESTOR CLASS				INSTITUTIONAL CLASS			
	Beginning Account Value 7/1/13	Ending Account Value 12/31/13	Expense Ratio <sup>1</sup>	Operating Expenses Paid During Period 7/1/13–12/31/13 <sup>2</sup>	Beginning Account Value 7/1/13	Ending Account Value 12/31/13	Expense Ratio <sup>1</sup>	Operating Expenses Paid During Period 7/1/13–12/31/13 <sup>2</sup>
<b>ASIA FIXED INCOME STRATEGIES</b>								
<b>Matthews Asia Strategic Income Fund</b>								
Actual Fund Return	\$1,000.00	\$1,030.20	1.23%	\$6.29	\$1,000.00	\$1,032.40	1.00%	\$5.12
Hypothetical 5% Return	\$1,000.00	\$1,019.00	1.23%	\$6.26	\$1,000.00	\$1,020.16	1.00%	\$5.09
<b>ASIA GROWTH AND INCOME STRATEGIES</b>								
<b>Matthews Asian Growth and Income Fund</b>								
Actual Fund Return	\$1,000.00	\$1,030.00	1.09%	\$5.58	\$1,000.00	\$1,031.20	0.92%	\$4.71
Hypothetical 5% Return	\$1,000.00	\$1,019.71	1.09%	\$5.55	\$1,000.00	\$1,020.57	0.92%	\$4.69
<b>Matthews Asia Dividend Fund</b>								
Actual Fund Return	\$1,000.00	\$1,058.80	1.08%	\$5.60	\$1,000.00	\$1,059.60	0.94%	\$4.88
Hypothetical 5% Return	\$1,000.00	\$1,019.76	1.08%	\$5.50	\$1,000.00	\$1,020.47	0.94%	\$4.79
<b>Matthews China Dividend Fund</b>								
Actual Fund Return	\$1,000.00	\$1,136.10	1.25%	\$6.73	\$1,000.00	\$1,138.00	1.09%	\$5.87
Hypothetical 5% Return	\$1,000.00	\$1,018.90	1.25%	\$6.36	\$1,000.00	\$1,019.71	1.09%	\$5.55
<b>ASIA GROWTH STRATEGIES</b>								
<b>Matthews Asia Focus Fund*</b>								
Actual Fund Return	\$1,000.00	\$1,041.40	1.72%	\$8.85	\$1,000.00	\$1,043.00	1.50%	\$7.72
Hypothetical 5% Return	\$1,000.00	\$1,016.53	1.72%	\$8.74	\$1,000.00	\$1,017.64	1.50%	\$7.63
<b>Matthews Asia Growth Fund</b>								
Actual Fund Return	\$1,000.00	\$1,073.70	1.13%	\$5.91	\$1,000.00	\$1,075.60	0.92%	\$4.81
Hypothetical 5% Return	\$1,000.00	\$1,019.51	1.13%	\$5.75	\$1,000.00	\$1,020.57	0.92%	\$4.69
<b>Matthews Pacific Tiger Fund</b>								
Actual Fund Return	\$1,000.00	\$1,054.50	1.09%	\$5.64	\$1,000.00	\$1,055.50	0.91%	\$4.71
Hypothetical 5% Return	\$1,000.00	\$1,019.71	1.09%	\$5.55	\$1,000.00	\$1,020.62	0.91%	\$4.63
<b>Matthews Emerging Asia Fund*</b>								
Actual Fund Return	\$1,000.00	\$1,052.90	1.99%	\$10.30	\$1,000.00	\$1,053.50	1.75%	\$9.06
Hypothetical 5% Return	\$1,000.00	\$1,015.17	1.99%	\$10.11	\$1,000.00	\$1,016.38	1.75%	\$8.89
<b>Matthews China Fund</b>								
Actual Fund Return	\$1,000.00	\$1,178.30	1.04%	\$5.71	\$1,000.00	\$1,178.80	0.90%	\$4.94
Hypothetical 5% Return	\$1,000.00	\$1,019.96	1.04%	\$5.30	\$1,000.00	\$1,020.67	0.90%	\$4.58
<b>Matthews India Fund</b>								
Actual Fund Return	\$1,000.00	\$1,043.50	1.09%	\$5.61	\$1,000.00	\$1,045.20	0.90%	\$4.64
Hypothetical 5% Return	\$1,000.00	\$1,019.71	1.09%	\$5.55	\$1,000.00	\$1,020.67	0.90%	\$4.58
<b>Matthews Japan Fund</b>								
Actual Fund Return	\$1,000.00	\$1,106.00	1.12%	\$5.95	\$1,000.00	\$1,107.00	0.96%	\$5.10
Hypothetical 5% Return	\$1,000.00	\$1,019.56	1.12%	\$5.70	\$1,000.00	\$1,020.37	0.96%	\$4.89
<b>Matthews Korea Fund</b>								
Actual Fund Return	\$1,000.00	\$1,210.60	1.10%	\$6.13	\$1,000.00	\$1,209.70	0.95%	\$5.29
Hypothetical 5% Return	\$1,000.00	\$1,019.66	1.10%	\$5.60	\$1,000.00	\$1,020.42	0.95%	\$4.84
<b>ASIA SMALL COMPANY STRATEGY</b>								
<b>Matthews Asia Small Companies Fund**</b>								
Actual Fund Return	\$1,000.00	\$1,036.40	1.48%	\$7.60	\$1,000.00	\$1,037.60	1.25%	\$6.42
Hypothetical 5% Return	\$1,000.00	\$1,017.74	1.48%	\$7.53	\$1,000.00	\$1,018.90	1.25%	\$6.36
<b>Matthews China Small Companies Fund</b>								
Actual Fund Return	\$1,000.00	\$1,209.00	2.00%	\$11.14				
Hypothetical 5% Return	\$1,000.00	\$1,015.12	2.00%	\$10.16				
<b>ASIA SPECIALTY STRATEGY</b>								
<b>Matthews Asia Science and Technology Fund**</b>								
Actual Fund Return	\$1,000.00	\$1,271.20	1.15%	\$6.58	\$1,000.00	\$1,271.30	0.99%	\$5.67
Hypothetical 5% Return	\$1,000.00	\$1,019.41	1.15%	\$5.85	\$1,000.00	\$1,020.21	0.99%	\$5.04

\* Commenced operations on April 30, 2013.

\*\* Institutional Classes commenced operations on April 30, 2013.

<sup>1</sup> Annualized, based on the Fund's most recent fiscal half-year expenses.<sup>2</sup> Operating expenses are equal to the Fund's annualized expense ratio multiplied by the average account value over the period, multiplied by 184 days, then divided by 365.

# Statements of Assets and Liabilities

	Matthews Asia Strategic Income Fund	Matthews Asian Growth and Income Fund	Matthews Asia Dividend Fund
<b>ASSETS:</b>			
Investments at value (A) (Note 2-A and 7):			
Unaffiliated issuers	\$45,021,511	\$4,150,686,461	\$4,541,450,426
Affiliated issuers	—	141,415,431	1,100,670,362
<b>Total investments</b>	<b>45,021,511</b>	<b>4,292,101,892</b>	<b>5,642,120,788</b>
Cash	—	90,154,424	133,667,394
Cash pledged as collateral for financial futures contracts	44,250	—	—
Foreign currency at value (B)	30,317	615,982	8,725,775
Dividends, interest and other receivable—Unaffiliated issuers	630,957	7,998,673	9,718,236
Dividends receivable—Affiliated issuers	—	—	—
Receivable for securities sold	426,907	13,281,136	—
Receivable for capital shares sold	51,082	9,271,488	19,737,427
Receivable for daily variation margin on financial futures contracts	5,156	—	—
Deferred offering costs (Note 2-E)	—	—	—
Unrealized appreciation on forward foreign currency exchange contracts	37,595	—	—
Prepaid expenses	17,192	31,243	44,551
<b>TOTAL ASSETS</b>	<b>46,264,967</b>	<b>4,413,454,838</b>	<b>5,814,014,171</b>
<b>LIABILITIES:</b>			
Payable for securities purchased	—	—	1,490,668
Payable for capital shares redeemed	185,279	10,468,197	10,940,134
Cash overdraft	299,512	—	—
Deferred foreign capital gains tax liability (Note 2-D)	4,346	—	2,281,179
Due to Advisor (Note 5)	6,017	2,422,986	3,182,804
Administration and accounting fees payable	631	59,278	77,433
Administration and shareholder servicing fees payable	7,839	773,012	956,840
Professional fees payable	27,943	36,561	33,854
Trustees fees payable	12	832	613
Offering costs (Note 2-E)	—	—	—
Accrued other expenses payable	20,504	890,162	1,146,713
<b>TOTAL LIABILITIES</b>	<b>552,083</b>	<b>14,651,028</b>	<b>20,110,238</b>
<b>NET ASSETS</b>	<b>\$45,712,884</b>	<b>\$4,398,803,810</b>	<b>\$5,793,903,933</b>
<b>NET ASSETS:</b>			
Investor Class	\$38,051,265	\$3,278,585,794	\$3,669,689,624
Institutional Class	7,661,619	1,120,218,016	2,124,214,309
<b>TOTAL</b>	<b>\$45,712,884</b>	<b>\$4,398,803,810</b>	<b>\$5,793,903,933</b>
<b>SHARES OUTSTANDING:</b>			
(shares of beneficial interest issued and outstanding, respectively, unlimited number of shares authorized with a \$0.001 par value)			
Investor Class	3,650,090	173,388,558	235,183,104
Institutional Class	735,476	59,279,138	136,230,322
<b>TOTAL</b>	<b>4,385,566</b>	<b>232,667,696</b>	<b>371,413,426</b>

See accompanying notes to financial statements.

December 31, 2013

Matthews China Dividend Fund	Matthews Asia Focus Fund	Matthews Asia Growth Fund	Matthews Pacific Tiger Fund	Matthews Emerging Asia Fund
\$142,641,450	\$8,379,541	\$765,079,945	\$6,383,755,487	\$38,937,861
—	—	—	980,879,743	—
142,641,450	8,379,541	765,079,945	7,364,635,230	38,937,861
6,973,093	222,269	30,767,451	292,785,609	1,642,964
—	—	—	—	—
33,379	—	76,544	4,236,300	42,187
—	10,159	524,467	3,944,012	7,917
—	—	—	1,911,560	—
—	—	—	4,288,740	—
1,633,669	56,150	1,786,932	20,466,806	195,849
—	—	—	—	—
—	19,582	—	—	19,781
—	—	—	—	—
22,169	1,565	38,660	31,840	2,072
<b>151,303,760</b>	<b>8,689,266</b>	<b>798,273,999</b>	<b>7,692,300,097</b>	<b>40,848,631</b>
—	—	10,407,470	38,299,185	459,639
374,563	209,075	846,830	12,772,252	19,740
—	—	—	—	—
—	9,501	—	1,189,109	172,792
81,265	6,090	425,455	4,208,794	53,093
1,915	115	10,281	101,661	507
23,347	1,368	122,734	1,153,483	6,419
28,017	21,130	32,602	38,266	12,233
10	—	40	1,163	1
—	58,006	—	—	58,609
40,218	8,200	169,461	1,389,137	26,587
<b>549,335</b>	<b>313,485</b>	<b>12,014,873</b>	<b>59,153,050</b>	<b>809,620</b>
<b>\$150,754,425</b>	<b>\$8,375,781</b>	<b>\$786,259,126</b>	<b>\$7,633,147,047</b>	<b>\$40,039,011</b>
\$125,964,609	\$6,257,767	\$558,407,475	\$2,954,107,626	\$38,021,828
24,789,816	2,118,014	227,851,651	4,679,039,421	2,017,183
<b>\$150,754,425</b>	<b>\$8,375,781</b>	<b>\$786,259,126</b>	<b>\$7,633,147,047</b>	<b>\$40,039,011</b>
9,168,352	647,765	26,374,702	118,234,661	3,828,886
1,804,650	219,230	10,719,351	187,384,693	203,285
<b>10,973,002</b>	<b>866,995</b>	<b>37,094,053</b>	<b>305,619,354</b>	<b>4,032,171</b>

# Statements of Assets and Liabilities *(continued)*

	Matthews Asia Strategic Income Fund	Matthews Asian Growth and Income Fund	Matthews Asia Dividend Fund
<b>NET ASSET VALUE:</b>			
Investor Class, offering price and redemption price	\$10.42	\$18.91	\$15.60
Institutional Class, offering price and redemption price	\$10.42	\$18.90	\$15.59
<b>NET ASSETS CONSIST OF:</b>			
Capital paid-in	\$47,172,764	\$3,543,291,086	\$5,233,166,748
Undistributed (distributions in excess of) net investment income (loss)	6,710	(32,982,969)	(163,945,391)
Undistributed/accumulated net realized gain (loss) on investments, financial futures contracts, foreign currency related transactions and foreign capital gains taxes	(656,744)	16,386,185	(214,799,153)
Net unrealized appreciation (depreciation) on investments, financial futures contracts, foreign currency translations and deferred foreign capital gains taxes	(809,846)	872,109,508	939,481,729
<b>NET ASSETS</b>	<b>\$45,712,884</b>	<b>\$4,398,803,810</b>	<b>\$5,793,903,933</b>
<b>(A) Investments at cost:</b>			
Unaffiliated issuers	\$45,925,883	\$3,339,800,965	\$3,813,317,331
Affiliated issuers	—	80,214,361	887,059,501
Total investments at cost	\$45,925,883	\$3,420,015,326	\$4,700,376,832
<b>(B) Foreign currency at cost</b>	<b>\$30,317</b>	<b>\$615,982</b>	<b>\$8,725,775</b>

See accompanying notes to financial statements.

December 31, 2013

Matthews China Dividend Fund	Matthews Asia Focus Fund	Matthews Asia Growth Fund	Matthews Pacific Tiger Fund	Matthews Emerging Asia Fund
\$13.74	\$9.66	\$21.17	\$24.99	\$9.93
\$13.74	\$9.66	\$21.26	\$24.97	\$9.92
\$135,805,551	\$8,534,654	\$657,072,731	\$5,551,230,327	\$39,765,210
(492,556)	(298)	(4,691,410)	554,843	(1,820)
(1,316,285)	(105,571)	(42,179,332)	93,971,162	(113,563)
16,757,715	(53,004)	176,057,137	1,987,390,715	389,184
<b>\$150,754,425</b>	<b>\$8,375,781</b>	<b>\$786,259,126</b>	<b>\$7,633,147,047</b>	<b>\$40,039,011</b>
\$125,883,735	\$8,423,106	\$589,037,820	\$4,435,577,285	\$38,374,415
—	—	—	940,503,937	—
\$125,883,735	\$8,423,106	\$589,037,820	\$5,376,081,222	\$38,374,415
\$33,379	\$—	\$76,799	\$4,236,827	\$42,205

# Statements of Assets and Liabilities *(continued)*

	Matthews China Fund	Matthews India Fund
<b>ASSETS:</b>		
Investments at value (A) (Note 2-A and 7):		
Unaffiliated issuers	\$1,385,119,103	\$431,655,003
Affiliated issuers	15,641,386	—
Total investments	1,400,760,489	431,655,003
Cash	—	—
Foreign currency at value (B)	731,457	416,728
Dividends, interest and other receivable—Unaffiliated issuers	—	368,882
Receivable for securities sold	13,331,784	2,980,204
Receivable for capital shares sold	1,215,357	1,275,044
Prepaid expenses	24,365	28,617
<b>TOTAL ASSETS</b>	<b>1,416,063,452</b>	<b>436,724,478</b>
<b>LIABILITIES:</b>		
Payable for securities purchased	1,230,642	—
Payable for capital shares redeemed	7,984,499	3,081,603
Cash overdraft	1,456,784	2,052,337
Deferred foreign capital gains tax liability (Note 2-D)	—	—
Due to Advisor (Note 5)	789,015	239,263
Administration and accounting fees payable	19,192	5,792
Administration and shareholder servicing fees payable	252,438	75,229
Professional fees payable	29,808	38,550
Trustees fees payable	418	149
Transfer agent fees payable	181,941	57,975
Accrued other expenses payable	131,856	79,122
<b>TOTAL LIABILITIES</b>	<b>12,076,593</b>	<b>5,630,020</b>
<b>NET ASSETS</b>	<b>\$1,403,986,859</b>	<b>\$431,094,458</b>
<b>NET ASSETS:</b>		
Investor Class	\$1,286,308,574	\$427,860,922
Institutional Class	117,678,285	3,233,536
<b>TOTAL</b>	<b>\$1,403,986,859</b>	<b>\$431,094,458</b>
<b>SHARES OUTSTANDING:</b>		
(shares of beneficial interest issued and outstanding, respectively, unlimited number of shares authorized with a \$0.001 par value)		
Investor Class	56,329,843	26,281,909
Institutional Class	5,158,449	198,247
<b>TOTAL</b>	<b>61,488,292</b>	<b>26,480,156</b>

See accompanying notes to financial statements.

December 31, 2013

Matthews Japan Fund	Matthews Korea Fund	Matthews Asia Small Companies Fund	Matthews China Small Companies Fund	Matthews Asia Science and Technology Fund
\$363,882,345	\$148,923,700	\$433,739,069	\$25,607,969	\$156,393,628
—	—	—	—	—
363,882,345	148,923,700	433,739,069	25,607,969	156,393,628
5,510,901	409,279	21,864,014	1,193,794	4,463,726
—	—	499,221	—	133,000
191,188	1,214,399	211,217	867	200,739
—	501,523	119,310	—	—
5,519,240	272,277	1,999,783	57,611	428,948
13,799	11,461	25,116	4,057	18,332
<b>375,117,473</b>	<b>151,332,639</b>	<b>458,457,730</b>	<b>26,864,298</b>	<b>161,638,373</b>
81,733	—	4,382,906	127,899	171,773
1,971,678	44,647	476,294	3,144	96,857
—	—	—	—	—
—	—	893,784	—	201,559
199,460	82,474	360,914	14,045	86,255
4,729	1,977	5,715	329	2,046
58,891	23,791	75,647	4,269	23,856
28,157	28,046	32,653	27,904	32,458
—	24	68	—	17
33,879	14,837	50,995	2,789	12,494
48,318	23,786	58,329	9,702	23,759
<b>2,426,845</b>	<b>219,582</b>	<b>6,337,305</b>	<b>190,081</b>	<b>651,074</b>
<b>\$372,690,628</b>	<b>\$151,113,057</b>	<b>\$452,120,425</b>	<b>\$26,674,217</b>	<b>\$160,987,299</b>
\$312,988,498	\$138,829,964	\$407,351,755	\$26,674,217	\$111,750,950
59,702,130	12,283,093	44,768,670	—	49,236,349
<b>\$372,690,628</b>	<b>\$151,113,057</b>	<b>\$452,120,425</b>	<b>\$26,674,217</b>	<b>\$160,987,299</b>
19,320,017	23,345,604	21,058,669	2,697,278	8,874,462
3,685,142	2,059,925	2,315,662	—	3,912,568
<b>23,005,159</b>	<b>25,405,529</b>	<b>23,374,331</b>	<b>2,697,278</b>	<b>12,787,030</b>

# Statements of Assets and Liabilities *(continued)*

	Matthews China Fund	Matthews India Fund
<b>NET ASSET VALUE:</b>		
Investor Class, offering price and redemption price	\$22.84	\$16.28
Institutional Class, offering price and redemption price	\$22.81	\$16.31
<b>NET ASSETS CONSIST OF:</b>		
Capital paid-in	\$1,126,325,521	\$420,453,453
Undistributed (distributions in excess of) net investment income (loss)	164,220	1,813,280
Undistributed/accumulated net realized gain (loss) on investments, foreign currency related transactions and foreign capital gains taxes	(597,981)	2,191,375
Net unrealized appreciation (depreciation) on investments, foreign currency translations and deferred foreign capital gains taxes	278,095,099	6,636,350
<b>NET ASSETS</b>	<b>\$1,403,986,859</b>	<b>\$431,094,458</b>
<b>(A) Investments at cost:</b>		
Unaffiliated issuers	\$1,102,454,743	\$424,923,912
Affiliated issuers	20,210,647	—
Total investments at cost	\$1,122,665,390	\$424,923,912
<b>(B) Foreign currency at cost</b>	<b>\$731,457</b>	<b>\$416,702</b>

See accompanying notes to financial statements.

December 31, 2013

Matthews Japan Fund	Matthews Korea Fund	Matthews Asia Small Companies Fund	Matthews China Small Companies Fund	Matthews Asia Science and Technology Fund
\$16.20	\$5.95	\$19.34	\$9.89	\$12.59
\$16.20	\$5.96	\$19.33	\$—	\$12.58
\$391,823,427 (2,984,878)	\$77,370,116 (530,537)	\$403,953,613 1,663,283	\$22,979,667 (228,652)	\$108,843,891 92,541
(64,332,433)	9,282,282	(8,267,899)	(1,388,008)	(5,093,909)
48,184,512	64,991,196	54,771,428	5,311,210	57,144,776
<b>\$372,690,628</b>	<b>\$151,113,057</b>	<b>\$452,120,425</b>	<b>\$26,674,217</b>	<b>\$160,987,299</b>
\$315,696,717	\$83,939,537	\$378,060,152	\$20,296,743	\$99,046,741
—	—	—	—	—
\$315,696,717	\$83,939,537	\$378,060,152	\$20,296,743	\$99,046,741
\$—	\$—	\$499,303	\$—	\$133,000

# Statements of Operations

	Matthews Asia Strategic Income Fund	Matthews Asian Growth and Income Fund	Matthews Asia Dividend Fund
<b>INVESTMENT INCOME:</b>			
Dividends—Unaffiliated Issuers	\$148,703	\$134,249,968	\$146,257,354
Dividends—Affiliated Issuers (Note 7)	—	3,204,369	27,819,183
Interest	2,499,752	14,614,065	4,994
Foreign withholding tax	(35,318)	(6,993,225)	(11,893,658)
<b>TOTAL INVESTMENT INCOME</b>	<b>2,613,137</b>	<b>145,075,177</b>	<b>162,187,873</b>
<b>EXPENSES:</b>			
Investment advisory fees (Note 5)	342,529	29,911,798	34,737,711
Administration and accounting fees (Note 5)	4,215	360,046	418,555
Administration and shareholder servicing fees (Note 5)	106,708	9,237,488	10,087,664
Accounting out-of-pocket fees	24,901	42,932	42,892
Custodian fees	22,190	1,151,400	1,183,933
Printing fees	6,791	195,920	400,219
Professional fees	39,314	94,757	106,141
Registration fees	43,296	134,103	403,311
Transfer agent fees	66,072	5,664,530	5,586,013
Trustees fees	1,858	166,170	177,176
Offering costs (Note 2-E)	—	—	—
Other expenses	2,055	96,955	134,502
<b>TOTAL EXPENSES</b>	<b>659,929</b>	<b>47,056,099</b>	<b>53,278,117</b>
Advisory fees waived or recaptured and expenses waived or reimbursed (Note 5)	(41,268)	—	—
<b>NET EXPENSES</b>	<b>618,661</b>	<b>47,056,099</b>	<b>53,278,117</b>
<b>NET INVESTMENT INCOME (LOSS)</b>	<b>1,994,476</b>	<b>98,019,078</b>	<b>108,909,756</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, FINANCIAL FUTURES CONTRACTS, FOREIGN CURRENCY RELATED TRANSACTIONS AND DEFERRED CAPITAL GAINS TAXES:</b>			
Net realized gain (loss) on investments—Unaffiliated Issuers	71,656	39,137,399	(66,276,950)
Net realized gain (loss) on investments—Affiliated Issuers	—	—	1,993,149
Net realized gain (loss) on financial futures contracts	21,000	—	—
Net realized foreign capital gains tax	—	—	—
Net realized gain (loss) on foreign currency related transactions	(778,887)	2,947,620	(207,258)
Net change in unrealized appreciation/depreciation on investments	(2,878,856)	58,553,505	443,418,202
Net change in deferred foreign capital gains taxes on unrealized appreciation	2,295	1,468,703	(793,218)
Net change in unrealized appreciation/depreciation on financial futures contracts	64,922	—	—
Net change in unrealized appreciation/depreciation on foreign currency related translations	33,226	12,649	44,376
<b>Net realized and unrealized gain (loss) on investments, financial futures contracts, foreign currency related transactions and deferred capital gains taxes</b>	<b>(3,464,644)</b>	<b>102,119,876</b>	<b>378,178,301</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>	<b>(\$1,470,168)</b>	<b>\$200,138,954</b>	<b>\$487,088,057</b>

\* Matthews Asia Focus Fund and Matthews Emerging Asia Fund commenced operations on April 30, 2013.

See accompanying notes to financial statements.

Year Ended December 31, 2013

Matthews China Dividend Fund	Matthews Asia Focus Fund*	Matthews Asia Growth Fund	Matthews Pacific Tiger Fund	Matthews Emerging Asia Fund*
\$4,220,545	\$119,400	\$11,389,596	\$123,830,909	\$420,965
—	—	—	16,979,906	—
—	31	165	119	—
(249,583)	(4,694)	(791,369)	(12,204,224)	(28,016)
<b>3,970,962</b>	<b>114,737</b>	<b>10,598,392</b>	<b>128,606,710</b>	<b>392,949</b>
793,795	32,399	4,225,929	48,602,934	205,456
9,562	393	50,952	585,149	1,654
246,659	9,907	1,241,536	13,270,400	44,333
25,715	17,281	37,726	48,077	25,857
90,042	34,324	293,822	3,129,242	115,169
18,006	1,770	19,480	160,126	4,434
39,346	25,989	58,669	137,278	18,173
55,315	1,232	89,259	188,271	5,259
165,461	6,830	688,991	6,114,878	31,779
3,664	107	20,606	268,010	407
—	38,424	—	—	38,828
5,937	1,218	17,990	149,807	1,566
<b>1,453,502</b>	<b>169,874</b>	<b>6,744,960</b>	<b>72,654,172</b>	<b>492,915</b>
104,529	(87,951)	—	—	(85,829)
<b>1,558,031</b>	<b>81,923</b>	<b>6,744,960</b>	<b>72,654,172</b>	<b>407,086</b>
<b>2,412,931</b>	<b>32,814</b>	<b>3,853,432</b>	<b>55,952,538</b>	<b>(14,137)</b>
839,481	(105,570)	7,981,818	140,987,802	(113,563)
—	—	—	—	—
—	—	—	—	—
—	(29)	—	—	—
11,317	(3,957)	(58,426)	(1,970,569)	(24,385)
10,206,361	(43,565)	88,160,325	67,098,804	563,446
—	(9,501)	356,319	1,887,327	(172,792)
—	—	—	—	—
2	62	5,877	11,557	(1,470)
<b>11,057,161</b>	<b>(162,560)</b>	<b>96,445,913</b>	<b>208,014,921</b>	<b>251,236</b>
<b>\$13,470,092</b>	<b>(\$129,746)</b>	<b>\$100,299,345</b>	<b>\$263,967,459</b>	<b>\$237,099</b>

# Statements of Operations *(continued)*

	Matthews China Fund	Matthews India Fund
<b>INVESTMENT INCOME:</b>		
Dividends—Unaffiliated Issuers	\$36,491,930	\$8,260,775
Dividends—Affiliated Issuers (Note 7)	354,669	—
Interest	118	229,048
Foreign withholding tax	(1,683,380)	—
<b>TOTAL INVESTMENT INCOME</b>	<b>35,163,337</b>	<b>8,489,823</b>
<b>EXPENSES:</b>		
Investment advisory fees (Note 5)	10,995,785	3,511,555
Administration and accounting fees (Note 5)	132,144	42,215
Administration and shareholder servicing fees (Note 5)	3,407,155	1,090,305
Accounting out-of-pocket fees	37,314	30,011
Custodian fees	426,297	308,974
Printing fees	61,129	11,430
Professional fees	60,070	78,496
Registration fees	54,163	40,264
Transfer agent fees	2,211,650	762,277
Trustees fees	69,006	22,476
Other expenses	59,816	17,543
<b>TOTAL EXPENSES</b>	<b>17,514,529</b>	<b>5,915,546</b>
Advisory fees waived and expenses waived or reimbursed (Note 5)	—	—
<b>NET EXPENSES</b>	<b>17,514,529</b>	<b>5,915,546</b>
<b>NET INVESTMENT INCOME (LOSS)</b>	<b>17,648,808</b>	<b>2,574,277</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, FOREIGN CURRENCY RELATED TRANSACTIONS AND DEFERRED CAPITAL GAINS TAXES:</b>		
Net realized gain (loss) on investments—Unaffiliated Issuers	123,701,441	6,686,219
Net realized gain (loss) on investments—Affiliated Issuers	2,226,393	—
Net realized foreign capital gains tax	—	(49,704)
Net realized gain (loss) on foreign currency related transactions	(44,519)	94,470
Net change in unrealized appreciation/depreciation on investments	(75,323,757)	(56,803,200)
Net change in deferred foreign capital gains taxes on unrealized appreciation	—	—
Net change in unrealized appreciation/depreciation on foreign currency related translations	—	32,146
<b>Net realized and unrealized gain (loss) on investments, foreign currency related transactions and deferred capital gains taxes</b>	<b>50,559,558</b>	<b>(50,040,069)</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>	<b>\$68,208,366</b>	<b>(\$47,465,792)</b>

See accompanying notes to financial statements.

Year Ended December 31, 2013

Matthews Japan Fund	Matthews Korea Fund	Matthews Asia Small Companies Fund	Matthews China Small Companies Fund	Matthews Asia Science and Technology Fund
\$3,513,882	\$1,989,260	\$9,146,711	\$431,486	\$2,002,424
—	—	—	—	—
893	—	9,049	—	—
(254,073)	(377,320)	(613,441)	(11,777)	(202,941)
<b>3,260,702</b>	<b>1,611,940</b>	<b>8,542,319</b>	<b>419,709</b>	<b>1,799,483</b>
1,649,630	949,149	4,112,567	192,536	908,992
19,923	11,426	32,908	1,543	10,946
489,911	278,946	878,869	41,975	263,591
37,822	35,143	40,860	30,885	31,334
45,904	54,473	206,084	27,698	75,514
21,662	3,668	12,346	2,712	4,144
41,102	40,352	53,840	38,269	50,990
77,368	37,249	47,007	23,131	55,379
283,332	173,724	600,932	32,006	151,951
7,096	5,437	14,764	576	5,070
8,789	6,781	12,242	2,492	6,781
<b>2,682,539</b>	<b>1,596,348</b>	<b>6,012,419</b>	<b>393,823</b>	<b>1,564,692</b>
—	—	—	(7,801)	—
<b>2,682,539</b>	<b>1,596,348</b>	<b>6,012,419</b>	<b>386,022</b>	<b>1,564,692</b>
<b>578,163</b>	<b>15,592</b>	<b>2,529,900</b>	<b>33,687</b>	<b>234,791</b>
10,115,102	11,565,686	8,947,568	(180,877)	7,254,084
—	—	—	—	—
—	—	—	—	—
(163,449)	(104,458)	(234,884)	(716)	(88,141)
41,654,043	2,112,170	17,453,610	4,876,431	35,540,257
—	—	(893,784)	—	(201,559)
4,040	6,046	(2,970)	(16)	675
<b>51,609,736</b>	<b>13,579,444</b>	<b>25,269,540</b>	<b>4,694,822</b>	<b>42,505,316</b>
<b>\$52,187,899</b>	<b>\$13,595,036</b>	<b>\$27,799,440</b>	<b>\$4,728,509</b>	<b>\$42,740,107</b>

# Statements of Changes in Net Assets

MATTHEWS ASIA STRATEGIC INCOME FUND	Year Ended December 31, 2013	Year Ended December 31, 2012
<b>OPERATIONS:</b>		
Net investment income (loss)	\$1,994,476	\$846,899
Net realized gain (loss) on investments, financial futures contracts and foreign currency related transactions	(686,231)	40,630
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	(2,845,630)	2,057,488
Net change on deferred foreign capital gains taxes on unrealized appreciation	2,295	(5,392)
Net change in unrealized appreciation/depreciation on financial future contracts	64,922	—
Net increase (decrease) in net assets resulting from operations	(1,470,168)	2,939,625
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>		
<b>Net investment income:</b>		
Investor Class	(1,589,709)	(826,795)
Institutional Class	(258,124)	(244,478)
<b>Realized gains on investments:</b>		
Investor Class	(36,733)	—
Institutional Class	(7,098)	—
Net decrease in net assets resulting from distributions	(1,891,664)	(1,071,273)
<b>CAPITAL SHARE TRANSACTIONS (net) (Note 4)</b>	<b>13,276,778</b>	<b>20,792,275</b>
<b>REDEMPTION FEES</b>	<b>114,081</b>	<b>11,821</b>
Total increase (decrease) in net assets	10,029,027	22,672,448
<b>NET ASSETS:</b>		
Beginning of year	35,683,857	13,011,409
End of year (including undistributed/(distributions in excess of) net investment income of \$6,710 and (\$110,372), respectively)	\$45,712,884	\$35,683,857

MATTHEWS ASIAN GROWTH AND INCOME FUND	Year Ended December 31, 2013	Year Ended December 31, 2012
<b>OPERATIONS:</b>		
Net investment income (loss)	\$98,019,078	\$86,663,128
Net realized gain (loss) on investments and foreign currency related transactions	42,085,019	23,210,338
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	58,566,154	694,832,409
Net change on deferred foreign capital gains taxes on unrealized appreciation	1,468,703	(1,468,703)
Net increase (decrease) in net assets resulting from operations	200,138,954	803,237,172
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>		
<b>Net investment income:</b>		
Investor Class	(81,799,391)	(76,159,190)
Institutional Class	(28,309,395)	(21,993,302)
<b>Realized gains on investments:</b>		
Investor Class	(20,324,691)	—
Institutional Class	(7,044,765)	—
Net decrease in net assets resulting from distributions	(137,478,242)	(98,152,492)
<b>CAPITAL SHARE TRANSACTIONS (net) (Note 4)</b>	<b>263,721,884</b>	<b>494,377,253</b>
<b>REDEMPTION FEES</b>	<b>560,563</b>	<b>299,883</b>
Total increase (decrease) in net assets	326,943,159	1,199,761,816
<b>NET ASSETS:</b>		
Beginning of year	4,071,860,651	2,872,098,835
End of year (including distributions in excess of net investment income of (\$32,982,969) and (\$32,863,458), respectively)	\$4,398,803,810	\$4,071,860,651

See accompanying notes to financial statements.

**MATTHEWS ASIA DIVIDEND FUND**

Year Ended  
December 31, 2013

Year Ended  
December 31, 2012

**OPERATIONS:**

Net investment income (loss)	\$108,909,756	\$77,461,662
Net realized gain (loss) on investments and foreign currency related transactions	(64,491,059)	(91,900,011)
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	443,462,578	581,403,382
Net change on deferred foreign capital gains taxes on unrealized appreciation	(793,218)	(1,487,960)
Net increase (decrease) in net assets resulting from operations	487,088,057	565,477,073

**DISTRIBUTIONS TO SHAREHOLDERS FROM:**
**Net investment income:**

Investor Class	(140,503,427)	(97,249,044)
Institutional Class	(71,771,090)	(29,462,711)
Net decrease in net assets resulting from distributions	(212,274,517)	(126,711,755)

<b>CAPITAL SHARE TRANSACTIONS (net) (Note 4)</b>	<b>1,815,678,058</b>	<b>988,608,171</b>
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<b>REDEMPTION FEES</b>	<b>808,032</b>	<b>365,281</b>
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Total increase (decrease) in net assets	2,091,299,630	1,427,738,770
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**NET ASSETS:**

Beginning of year	3,702,604,303	2,274,865,533
End of year (including distributions in excess of net investment income of (\$163,945,391) and (\$62,410,638), respectively)	\$5,793,903,933	\$3,702,604,303

**MATTHEWS CHINA DIVIDEND FUND**

Year Ended  
December 31, 2013

Year Ended  
December 31, 2012

**OPERATIONS:**

Net investment income (loss)	\$2,412,931	\$725,829
Net realized gain (loss) on investments and foreign currency related transactions	850,798	(1,125,861)
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	10,206,363	8,841,018
Net increase (decrease) in net assets resulting from operations	13,470,092	8,440,986

**DISTRIBUTIONS TO SHAREHOLDERS FROM:**
**Net investment income:**

Investor Class	(1,996,260)	(1,503,223)
Institutional Class	(381,714)	(4,528)
Net decrease in net assets resulting from distributions	(2,377,974)	(1,507,751)

<b>CAPITAL SHARE TRANSACTIONS (net) (Note 4)</b>	<b>79,790,869</b>	<b>26,295,804</b>
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<b>REDEMPTION FEES</b>	<b>135,085</b>	<b>29,199</b>
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Total increase (decrease) in net assets	91,018,072	33,258,238
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**NET ASSETS:**

Beginning of year	59,736,353	26,478,115
End of year (including distributions in excess of net investment income of (\$492,556) and (\$801,799), respectively)	\$150,754,425	\$59,736,353

See accompanying notes to financial statements.

# Statements of Changes in Net Assets *(continued)*

## MATTHEWS ASIA FOCUS FUND

Period Ended  
December 31, 2013<sup>1</sup>

### OPERATIONS:

Net investment income (loss)	\$32,814
Net realized gain (loss) on investments and foreign currency related transactions	(109,556)
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	(43,503)
Net change on deferred foreign capital gains taxes on unrealized appreciation	(9,501)
Net increase (decrease) in net assets resulting from operations	(129,746)

### DISTRIBUTIONS TO SHAREHOLDERS FROM:

#### Net investment income:

Investor Class	(50,059)
Institutional Class	(19,682)
Net decrease in net assets resulting from distributions	(69,741)

CAPITAL SHARE TRANSACTIONS (net) (Note 4) 8,573,304

REDEMPTION FEES 1,964

Total increase (decrease) in net assets 8,375,781

### NET ASSETS:

Beginning of period	—
End of period (including distribution in excess of net investment income of (\$298))	\$8,375,781

<sup>1</sup> Matthews Asia Focus Fund commenced operations on April 30, 2013.

## MATTHEWS ASIA GROWTH FUND

Year Ended  
December 31, 2013

Year Ended  
December 31, 2012

### OPERATIONS:

Net investment income (loss)	\$3,853,432	\$3,605,538
Net realized gain (loss) on investments and foreign currency related transactions	7,923,392	18,134,467
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	88,166,202	38,344,220
Net change on deferred foreign capital gains taxes on unrealized appreciation	356,319	(356,319)
Net increase (decrease) in net assets resulting from operations	100,299,345	59,727,906

### DISTRIBUTIONS TO SHAREHOLDERS FROM:

#### Net investment income:

Investor Class	(8,514,779)	—
Institutional Class	(3,834,235)	—
Net decrease in net assets resulting from distributions	(12,349,014)	—

CAPITAL SHARE TRANSACTIONS (net) (Note 4) 274,137,238 20,786,713

REDEMPTION FEES 145,542 43,244

Total increase (decrease) in net assets 362,233,111 80,557,863

### NET ASSETS:

Beginning of year	424,026,015	343,468,152
End of year (including undistributed/(distributions in excess of) net investment income of (\$4,691,410) and \$2,902,963, respectively)	\$786,259,126	\$424,026,015

See accompanying notes to financial statements.

**MATTHEWS PACIFIC TIGER FUND**

Year Ended  
December 31, 2013      Year Ended  
December 31, 2012

**OPERATIONS:**

Net investment income (loss)	\$55,952,538	\$51,360,619
Net realized gain (loss) on investments and foreign currency related transactions	139,017,233	2,052,185
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	67,110,361	1,049,124,550
Net change on deferred foreign capital gains taxes on unrealized appreciation	1,887,327	(3,076,436)
Net increase (decrease) in net assets resulting from operations	263,967,459	1,099,460,918

**DISTRIBUTIONS TO SHAREHOLDERS FROM:**
**Net investment income:**

Investor Class	(18,386,626)	(19,031,664)
Institutional Class	(37,413,781)	(29,138,401)

**Realized gains on investments:**

Investor Class	(18,776,931)	(2,495,226)
Institutional Class	(29,778,886)	(2,957,326)
Net decrease in net assets resulting from distributions	(104,356,224)	(53,622,617)

<b>CAPITAL SHARE TRANSACTIONS (net) (Note 4)</b>	708,410,077	908,423,520
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<b>REDEMPTION FEES</b>	531,715	600,987
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Total increase (decrease) in net assets	868,553,027	1,954,862,808
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**NET ASSETS:**

Beginning of year	6,764,594,020	4,809,731,212
End of year (including undistributed net investment income of \$554,843 and \$2,373,281, respectively)	\$7,633,147,047	\$6,764,594,020

**MATTHEWS EMERGING ASIA FUND**

Period Ended  
December 31, 2013<sup>1</sup>

**OPERATIONS:**

Net investment income (loss)	(\$14,137)
Net realized gain (loss) on investments and foreign currency related transactions	(137,948)
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	561,976
Net change on deferred foreign capital gains taxes on unrealized appreciation	(172,792)
Net increase (decrease) in net assets resulting from operations	237,099

**DISTRIBUTIONS TO SHAREHOLDERS FROM:**
**Net investment income:**

Investor Class	(1,843)
Institutional Class	(283)

**Return of capital:**

Investor Class	(30,975)
Institutional Class	(4,757)
Net decrease in net assets resulting from distributions	(37,858)

<b>CAPITAL SHARE TRANSACTIONS (net) (Note 4)</b>	39,826,472
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<b>REDEMPTION FEES</b>	13,298
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Total increase (decrease) in net assets	40,039,011
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**NET ASSETS:**

Beginning of period	—
End of period (including distributions in excess of net investment loss of (\$1,820)	\$40,039,011

<sup>1</sup> Matthews Emerging Asia Fund commenced operations on April 30, 2013.  
See accompanying notes to financial statements.

# Statements of Changes in Net Assets *(continued)*

MATTHEWS CHINA FUND	Year Ended December 31, 2013	Year Ended December 31, 2012
<b>OPERATIONS:</b>		
Net investment income (loss)	\$17,648,808	\$29,401,597
Net realized gain (loss) on investments and foreign currency related transactions	125,883,315	69,898,698
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	(75,323,757)	119,730,206
Net increase (decrease) in net assets resulting from operations	68,208,366	219,030,501
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>		
<b>Net investment income:</b>		
Investor Class	(14,160,927)	(23,450,603)
Institutional Class	(1,500,281)	(6,100,821)
<b>Realized gains on investments:</b>		
Investor Class	(104,225,815)	(16,894,676)
Institutional Class	(9,564,766)	(3,819,767)
Net decrease in net assets resulting from distributions	(129,451,789)	(50,265,867)
<b>CAPITAL SHARE TRANSACTIONS (net) (Note 4)</b>	<b>(567,939,044)</b>	<b>(260,760,729)</b>
<b>REDEMPTION FEES</b>	<b>335,544</b>	<b>220,100</b>
Total increase (decrease) in net assets	(628,846,923)	(91,775,995)
<b>NET ASSETS:</b>		
Beginning of year	2,032,833,782	2,124,609,777
End of year (including undistributed/(distributions in excess of) net investment income of \$164,220 and (\$3,835), respectively)	\$1,403,986,859	\$2,032,833,782

MATTHEWS INDIA FUND	Year Ended December 31, 2013	Year Ended December 31, 2012
<b>OPERATIONS:</b>		
Net investment income (loss)	\$2,574,277	\$4,287,230
Net realized gain (loss) on investments and foreign currency related transactions	6,730,985	3,158,610
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	(56,771,054)	162,955,308
Net increase (decrease) in net assets resulting from operations	(47,465,792)	170,401,148
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>		
<b>Net investment income:</b>		
Investor Class	(4,840,984)	(3,145,386)
Institutional Class	(41,650)	(252,093)
<b>Realized gains on investments:</b>		
Investor Class	(369,552)	(9,352,977)
Institutional Class	(2,745)	(547,723)
Net decrease in net assets resulting from distributions	(5,254,931)	(13,298,179)
<b>CAPITAL SHARE TRANSACTIONS (net) (Note 4)</b>	<b>(160,379,740)</b>	<b>(99,540,038)</b>
<b>REDEMPTION FEES</b>	<b>229,028</b>	<b>146,264</b>
Total increase (decrease) in net assets	(212,871,435)	57,709,195
<b>NET ASSETS:</b>		
Beginning of year	643,965,893	586,256,698
End of year (including undistributed net investment income of \$1,813,280 and \$3,587,957, respectively)	\$431,094,458	\$643,965,893

See accompanying notes to financial statements.

**MATTHEWS JAPAN FUND**

	Year Ended December 31, 2013	Year Ended December 31, 2012
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**OPERATIONS:**

Net investment income (loss)	\$578,163	\$970,649
Net realized gain (loss) on investments and foreign currency related transactions	9,951,653	6,319,870
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	41,658,083	1,680,062
Net increase (decrease) in net assets resulting from operations	52,187,899	8,970,581

**DISTRIBUTIONS TO SHAREHOLDERS FROM:****Net investment income:**

Investor Class	(4,541,567)	(80,356)
Institutional Class	(927,799)	(70,916)
Net decrease in net assets resulting from distributions	(5,469,366)	(151,272)

**CAPITAL SHARE TRANSACTIONS (net) (Note 4)**

	220,891,495	(35,836,826)
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**REDEMPTION FEES**

	384,672	42,650
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Total increase (decrease) in net assets	267,994,700	(26,974,867)
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**NET ASSETS:**

Beginning of year	104,695,928	131,670,795
End of year (including undistributed/(distribution in excess of) net investment income of (\$2,984,878) and \$1,481,000, respectively)	\$372,690,628	\$104,695,928

**MATTHEWS KOREA FUND**

	Year Ended December 31, 2013	Year Ended December 31, 2012
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**OPERATIONS:**

Net investment income (loss)	\$15,592	(\$4,327)
Net realized gain (loss) on investments and foreign currency related transactions	11,461,228	5,630,506
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	2,118,216	23,184,535
Net increase (decrease) in net assets resulting from operations	13,595,036	28,810,714

**DISTRIBUTIONS TO SHAREHOLDERS FROM:****Net investment income:**

Investor Class	(405,628)	—
Institutional Class	(57,142)	—

**Realized gains on investments:**

Investor Class	(5,378,606)	(1,320,452)
Institutional Class	(486,472)	(80,111)
Net decrease in net assets resulting from distributions	(6,327,848)	(1,400,563)

**CAPITAL SHARE TRANSACTIONS (net) (Note 4)**

	(6,062,003)	(34,290,287)
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**REDEMPTION FEES**

	64,006	24,373
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Total increase (decrease) in net assets	1,269,191	(6,855,763)
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**NET ASSETS:**

Beginning of year	149,843,866	156,699,629
End of year (including distributions in excess of net investment income of (\$530,537) and (\$161,740), respectively)	\$151,113,057	\$149,843,866

See accompanying notes to financial statements.

# Statements of Changes in Net Assets *(continued)*

MATTHEWS ASIA SMALL COMPANIES FUND	Year Ended December 31, 2013	Year Ended December 31, 2012
<b>OPERATIONS:</b>		
Net investment income (loss)	\$2,529,900	\$3,352,429
Net realized gain (loss) on investments and foreign currency related transactions	8,712,684	(17,198,260)
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	17,450,640	76,129,263
Net change on deferred foreign capital gains taxes on unrealized appreciation	(893,784)	—
Net increase (decrease) in net assets resulting from operations	27,799,440	62,283,432
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>		
<b>Net investment income:</b>		
Investor Class	(1,895,218)	(1,711,401)
Institutional Class	(259,608)	—
<b>Realized gains on investments:</b>		
Investor Class	—	(1,439,994)
Net decrease in net assets resulting from distributions	(2,154,826)	(3,151,395)
<b>CAPITAL SHARE TRANSACTIONS (net) (Note 4)</b>	59,667,066	48,592,420
<b>REDEMPTION FEES</b>	56,198	84,348
Total increase (decrease) in net assets	85,367,878	107,808,805
<b>NET ASSETS:</b>		
Beginning of year	366,752,547	258,943,742
End of year (including undistributed net investment income of \$1,663,283 and \$1,522,985, respectively)	\$452,120,425	\$366,752,547

MATTHEWS CHINA SMALL COMPANIES FUND	Year Ended December 31, 2013	Year Ended December 31, 2012
<b>OPERATIONS:</b>		
Net investment income (loss)	\$33,687	\$24,235
Net realized gain (loss) on investments and foreign currency related transactions	(181,593)	(1,090,613)
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	4,876,415	1,689,474
Net increase (decrease) in net assets resulting from operations	4,728,509	623,096
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>		
<b>Net investment income:</b>		
Investor Class	(278,033)	(24,817)
Net decrease in net assets resulting from distributions	(278,033)	(24,817)
<b>CAPITAL SHARE TRANSACTIONS (net) (Note 4)</b>	11,950,924	5,152,371
<b>REDEMPTION FEES</b>	6,383	22,486
Total increase (decrease) in net assets	16,407,783	5,773,136
<b>NET ASSETS:</b>		
Beginning of year	10,266,434	4,493,298
End of year (including undistributed/(distributions in excess of) net investment income of (\$228,652) and \$15,809, respectively)	\$26,674,217	\$10,266,434

See accompanying notes to financial statements.

**MATTHEWS ASIA SCIENCE AND TECHNOLOGY FUND**

Year Ended  
December 31, 2013      Year Ended  
December 31, 2012

**OPERATIONS:**

Net investment income (loss)	\$234,791	\$421,904
Net realized gain (loss) on investments and foreign currency related transactions	7,165,943	(1,180,489)
Net change in unrealized appreciation/depreciation on investments and foreign currency related translations	35,540,932	19,606,502
Net change on deferred foreign capital gains taxes on unrealized appreciation	(201,559)	—
Net increase (decrease) in net assets resulting from operations	42,740,107	18,847,917

**DISTRIBUTIONS TO SHAREHOLDERS FROM:**
**Net investment income:**

Investor Class	(68,138)	(297,871)
Institutional Class	(119,153)	—
Net decrease in net assets resulting from distributions	(187,291)	(297,871)

<b>CAPITAL SHARE TRANSACTIONS (net) (Note 4)</b>	<b>(13,205,251)</b>	<b>(40,279,638)</b>
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<b>REDEMPTION FEES</b>	<b>11,048</b>	<b>9,379</b>
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Total increase (decrease) in net assets	29,358,613	(21,720,213)
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**NET ASSETS:**

Beginning of year	131,628,686	153,348,899
End of year (including undistributed net investment income of \$92,541 and \$131,430, respectively)	\$160,987,299	\$131,628,686

See accompanying notes to financial statements.

# Financial Highlights

## Matthews Asia Strategic Income Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Year Ended Dec. 31		Period Ended
	2013	2012	Dec. 31, 2011 <sup>1</sup>
Net Asset Value, beginning of period	\$10.84	\$9.93	\$10.00
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>			
Net investment income (loss) <sup>2</sup>	0.40	0.37	0.02
Net realized gain (loss) and unrealized appreciation/depreciation on investments, financial futures contracts and foreign currency	(0.48)	0.95	(0.07)
Total from investment operations	(0.08)	1.32	(0.05)
<b>LESS DISTRIBUTIONS FROM:</b>			
Net investment income	(0.35)	(0.42)	(0.02)
Net realized gains on investments	(0.01)	—	—
Total distributions	(0.36)	(0.42)	(0.02)
Paid-in capital from redemption fees (Note 4)	0.02	0.01	—
Net Asset Value, end of period	\$10.42	\$10.84	\$9.93
<b>TOTAL RETURN</b>	<b>(0.50%)</b>	<b>13.62%</b>	<b>(0.52%)<sup>3</sup></b>
<b>RATIOS/SUPPLEMENTAL DATA</b>			
Net assets, end of period (in 000's)	\$38,051	\$29,479	\$7,746
Ratio of expenses to average net assets before any reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 5)	1.28%	1.85%	3.20% <sup>4</sup>
Ratio of expenses to average net assets after any reimbursement, waiver or recapture of expenses by Advisor and Administrator	1.20%	1.17%	1.00% <sup>4</sup>
Ratio of net investment income (loss) to average net assets	3.75%	3.58%	2.06% <sup>4</sup>
Portfolio turnover <sup>5</sup>	48.71%	18.45%	3.66% <sup>3</sup>
<b>INSTITUTIONAL CLASS</b>			
Net Asset Value, beginning of period	\$10.83	\$9.93	\$10.00
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>			
Net investment income (loss) <sup>2</sup>	0.42	0.39	0.02
Net realized gain (loss) and unrealized appreciation/depreciation on investments, financial futures contracts, and foreign currency	(0.46)	0.94	(0.07)
Total from investment operations	(0.04)	1.33	(0.05)
<b>LESS DISTRIBUTIONS FROM:</b>			
Net investment income	(0.38)	(0.44)	(0.02)
Net realized gains on investments	(0.01)	—	—
Total distributions	(0.39)	(0.44)	(0.02)
Paid-in capital from redemption fees (Note 4)	0.02	0.01	—
Net Asset Value, end of period	\$10.42	\$10.83	\$9.93
<b>TOTAL RETURN</b>	<b>(0.20%)</b>	<b>13.74%</b>	<b>(0.52%)<sup>3</sup></b>
<b>RATIOS/SUPPLEMENTAL DATA</b>			
Net assets, end of period (in 000's)	\$7,662	\$6,205	\$5,266
Ratio of expenses to average net assets before any reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 5)	1.09%	1.70%	3.20% <sup>4</sup>
Ratio of expenses to average net assets after any reimbursement, waiver or recapture of expenses by Advisor and Administrator	1.00%	1.00%	1.00% <sup>4</sup>
Ratio of net investment income (loss) to average net assets	3.99%	3.70%	1.96% <sup>4</sup>
Portfolio turnover <sup>5</sup>	48.71%	18.45%	3.66% <sup>3</sup>

<sup>1</sup> Commencement of operations on November 30, 2011.

<sup>2</sup> Calculated using the average daily shares method.

<sup>3</sup> Not annualized.

<sup>4</sup> Annualized.

<sup>5</sup> The portfolio turnover rate is calculated on the Fund as a whole without distinguishing between classes of shares issued.

See accompanying notes to financial statements.

## Matthews Asian Growth and Income Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Year Ended Dec. 31				
	2013	2012	2011	2010	2009
Net Asset Value, beginning of year	\$18.61	\$15.07	\$18.04	\$15.77	\$11.50
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>	0.41	0.43	0.47	0.41	0.48
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	0.47	3.58	(2.36)	2.57	4.23
Total from investment operations	0.88	4.01	(1.89)	2.98	4.71
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.46)	(0.47)	(0.47)	(0.47)	(0.44)
Net realized gains on investments	(0.12)	—	(0.61)	(0.24)	—
Total distributions	(0.58)	(0.47)	(1.08)	(0.71)	(0.44)
Paid-in capital from redemption fees (Note 4) <sup>2</sup>	—	—	—	—	—
Net Asset Value, end of year	\$18.91	\$18.61	\$15.07	\$18.04	\$15.77
<b>TOTAL RETURN</b>	<b>4.83%</b>	<b>26.90%</b>	<b>(10.62%)</b>	<b>19.18%</b>	<b>41.44%</b>
<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of year (in 000's)	\$3,278,586	\$3,214,984	\$2,340,606	\$3,926,253	\$2,547,411
Ratio of expenses to average net assets	1.08%	1.11%	1.12%	1.13%	1.18%
Ratio of net investment income (loss) to average net assets	2.14%	2.52%	2.71%	2.47%	3.47%
Portfolio turnover	15.27% <sup>3</sup>	17.43% <sup>3</sup>	16.54% <sup>3</sup>	19.84% <sup>3</sup>	17.51%

INSTITUTIONAL CLASS	Year Ended Dec. 31			Period Ended
	2013	2012	2011	Dec. 31, 2010 <sup>4</sup>
Net Asset Value, beginning of period	\$18.60	\$15.06	\$18.04	\$18.13
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>				
Net investment income (loss) <sup>1</sup>	0.44	0.45	0.52	0.07
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	0.48	3.58	(2.39)	0.37
Total from investment operations	0.92	4.03	(1.87)	0.44
<b>LESS DISTRIBUTIONS FROM:</b>				
Net investment income	(0.50)	(0.49)	(0.50)	(0.29)
Net realized gains on investments	(0.12)	—	(0.61)	(0.24)
Total distributions	(0.62)	(0.49)	(1.11)	(0.53)
Paid-in capital from redemption fees (Note 4)	— <sup>2</sup>	— <sup>2</sup>	— <sup>2</sup>	—
Net Asset Value, end of period	\$18.90	\$18.60	\$15.06	\$18.04
<b>TOTAL RETURN</b>	<b>5.04%</b>	<b>27.09%</b>	<b>(10.54%)</b>	<b>2.49%</b> <sup>5</sup>
<b>RATIOS/SUPPLEMENTAL DATA</b>				
Net assets, end of period (in 000's)	\$1,120,218	\$856,876	\$531,493	\$128,417
Ratio of expenses to average net assets	0.93%	0.97%	0.99%	0.93% <sup>6</sup>
Ratio of net investment income (loss) to average net assets	2.30%	2.69%	3.05%	2.46% <sup>6</sup>
Portfolio turnover <sup>3</sup>	15.27%	17.43%	16.54%	19.84% <sup>5</sup>

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 The portfolio turnover rate is calculated on the Fund as a whole without distinguishing between classes of shares issued.

4 Institutional Class commenced operations on October 29, 2010.

5 Not annualized.

6 Annualized.

See accompanying notes to financial statements.

# Financial Highlights *(continued)*

## Matthews Asia Dividend Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Year Ended Dec. 31				
	2013	2012	2011	2010	2009
Net Asset Value, beginning of year	\$14.58	\$12.48	\$14.33	\$12.06	\$8.61
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>	0.32	0.36	0.36	0.31	0.32
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	1.30	2.30	(1.78)	2.40	3.67
Total from investment operations	1.62	2.66	(1.42)	2.71	3.99
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.60)	(0.56)	(0.37)	(0.41)	(0.55)
Net realized gains on investments	—	—	(0.06)	(0.04)	—
Total distributions	(0.60)	(0.56)	(0.43)	(0.45)	(0.55)
Paid-in capital from redemption fees (Note 4)	— <sup>2</sup>	— <sup>2</sup>	— <sup>2</sup>	0.01	0.01
Net Asset Value, end of year	\$15.60	\$14.58	\$12.48	\$14.33	\$12.06
<b>TOTAL RETURN</b>	<b>11.27%</b>	<b>21.63%</b>	<b>(10.02%)</b>	<b>22.83%</b>	<b>47.59%</b>

<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of year (in 000's)	\$3,669,690	\$2,780,043	\$1,930,363	\$1,933,383	\$322,003
Ratio of expenses to average net assets before any reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 5)	1.06%	1.09%	1.10%	1.14%	1.28%
Ratio of expenses to average net assets after any reimbursement, waiver or recapture of expenses by Advisor and Administrator	1.06%	1.09%	1.10%	1.15%	1.30%
Ratio of net investment income (loss) to average net assets	2.04%	2.65%	2.61%	2.31%	3.16%
Portfolio turnover	14.06% <sup>3</sup>	9.17% <sup>3</sup>	16.48% <sup>3</sup>	10.48% <sup>3</sup>	32.41%

INSTITUTIONAL CLASS	Year Ended Dec. 31			Period Ended
	2013	2012	2011	Dec. 31, 2010 <sup>4</sup>
Net Asset Value, beginning of period	\$14.57	\$12.48	\$14.33	\$14.13
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>				
Net investment income (loss) <sup>1</sup>	0.34	0.37	0.41	0.09
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	1.30	2.29	(1.82)	0.32
Total from investment operations	1.64	2.66	(1.41)	0.41
<b>LESS DISTRIBUTIONS FROM:</b>				
Net investment income	(0.62)	(0.57)	(0.38)	(0.17)
Net realized gains on investments	—	—	(0.06)	(0.04)
Total distributions	(0.62)	(0.57)	(0.44)	(0.21)
Paid-in capital from redemption fees (Note 4) <sup>2</sup>	—	—	—	—
Net Asset Value, end of period	\$15.59	\$14.57	\$12.48	\$14.33
<b>TOTAL RETURN</b>	<b>11.43%</b>	<b>21.70%</b>	<b>(9.93%)</b>	<b>2.95%<sup>5</sup></b>

<b>RATIOS/SUPPLEMENTAL DATA</b>				
Net assets, end of period (in 000's)	\$2,124,214	\$922,561	\$344,502	\$48,293
Ratio of expenses to average net assets	0.93%	0.97%	1.00%	1.02% <sup>6</sup>
Ratio of net investment income (loss) to average net assets	2.17%	2.72%	3.03%	3.86% <sup>6</sup>
Portfolio turnover <sup>3</sup>	14.06%	9.17%	16.48%	10.48% <sup>5</sup>

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 The portfolio turnover rate is calculated on the Fund as a whole without distinguishing between classes of share issues.

4 Institutional Class commenced operations on October 29, 2010.

5 Not annualized.

6 Annualized.

See accompanying notes to financial statements.

## Matthews China Dividend Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Year Ended Dec. 31				Period Ended Dec. 31, 2009 <sup>1</sup>
	2013	2012	2011	2010	
Net Asset Value, beginning of period	\$12.35	\$10.06	\$12.17	\$10.18	\$10.00
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>2</sup>	0.25	0.25	0.29	0.17	(0.01)
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	1.35	2.49	(2.04)	2.09	0.19
Total from investment operations	1.60	2.74	(1.75)	2.26	0.18
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.23)	(0.46)	(0.35)	(0.24)	—
Net realized gains on investments	—	—	(0.02)	(0.04)	—
Total distributions	(0.23)	(0.46)	(0.37)	(0.28)	—
Paid-in capital from redemption fees (Note 4)	0.02	0.01	0.01	0.01	— <sup>3</sup>
Net Asset Value, end of period	\$13.74	\$12.35	\$10.06	\$12.17	\$10.18
<b>TOTAL RETURN</b>	<b>13.35%</b>	<b>27.81%</b>	<b>(14.44%)</b>	<b>22.53%</b>	<b>1.80%</b> <sup>4</sup>

<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of period (in 000's)	\$125,965	\$59,535	\$26,467	\$45,364	\$7,134
Ratio of expenses to average net assets before any reimbursement or waiver or recapture of expenses by Advisor and Administrator (Note 5)	1.24%	1.47%	1.52%	1.95%	10.50% <sup>5</sup>
Ratio of expenses to average net assets after any reimbursement or waiver or recapture of expenses by Advisor and Administrator	1.34%	1.50%	1.50%	1.50%	1.50% <sup>5</sup>
Ratio of net investment income (loss) to average net assets	1.94%	2.24%	2.47%	1.49%	(0.81%) <sup>5</sup>
Portfolio turnover	20.52% <sup>6</sup>	21.40% <sup>6</sup>	22.31% <sup>6</sup>	6.84% <sup>6</sup>	0.00% <sup>4</sup>

INSTITUTIONAL CLASS	Year Ended Dec. 31			Period Ended Dec. 31, 2010 <sup>7</sup>
	2013	2012	2011	
Net Asset Value, beginning of period	\$12.34	\$10.06	\$12.17	\$11.87
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>				
Net investment income (loss) <sup>2</sup>	0.33	0.22	0.30	— <sup>3</sup>
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	1.32	2.53	(2.01)	0.47
Total from investment operations	1.65	2.75	(1.71)	0.47
<b>LESS DISTRIBUTIONS FROM:</b>				
Net investment income	(0.26)	(0.48)	(0.38)	(0.13)
Net realized gains on investments	—	—	(0.02)	(0.04)
Total distributions	(0.26)	(0.48)	(0.40)	(0.17)
Paid-in capital from redemption fees (Note 4)	0.01	0.01	— <sup>3</sup>	—
Net Asset Value, end of period	\$13.74	\$12.34	\$10.06	\$12.17
<b>TOTAL RETURN</b>	<b>13.72%</b>	<b>27.90%</b>	<b>(14.22%)</b>	<b>3.91%</b> <sup>4</sup>

<b>RATIOS/SUPPLEMENTAL DATA</b>				
Net assets, end of period (in 000's)	\$24,790	\$201	\$12	\$4
Ratio of expenses to average net assets	1.08%	1.29%	1.31%	1.24% <sup>5</sup>
Ratio of net investment income (loss) to average net assets	2.54%	1.87%	2.61%	(0.06%) <sup>5</sup>
Portfolio turnover <sup>6</sup>	20.52%	21.40%	22.31%	6.84% <sup>4</sup>

1 Investor Class commenced operations on November 30, 2009.

2 Calculated using the average daily shares method.

3 Less than \$0.01 per share.

4 Not annualized.

5 Annualized.

6 The portfolio turnover rate is calculated on the Fund as a whole without distinguishing between classes of shares issued.

7 Institutional Class commenced operations on October 29, 2010.

See accompanying notes to financial statements.

# Financial Highlights *(continued)*

## Matthews Asia Focus Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Period Ended Dec. 31, 2013 <sup>1</sup>
Net Asset Value, beginning of period	\$10.00
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>	
Net investment income (loss) <sup>2</sup>	0.04
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	(0.30)
Total from investment operations	(0.26)
<b>LESS DISTRIBUTIONS FROM:</b>	
Net investment income	(0.08)
Total distributions	(0.08)
Paid-in capital from redemption fees (Note 4)	— <sup>3</sup>
Net Asset Value, end of period	\$9.66
<b>TOTAL RETURN</b>	<b>(2.63%)<sup>4</sup></b>
<b>RATIOS/SUPPLEMENTAL DATA</b>	
Net assets, end of period (in 000's)	\$6,258
Ratio of expenses to average net assets before any reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 5)	3.50% <sup>5</sup>
Ratio of expenses to average net assets after any reimbursement, waiver or recapture of expenses by Advisor and Administrator	1.71% <sup>5</sup>
Ratio of net investment income (loss) to average net assets	0.64% <sup>5</sup>
Portfolio turnover <sup>6</sup>	16.23% <sup>4</sup>
<b>INSTITUTIONAL CLASS</b>	
Net Asset Value, beginning of period	\$10.00
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>	
Net investment income (loss) <sup>2</sup>	0.05
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	(0.30)
Total from investment operations	(0.25)
<b>LESS DISTRIBUTIONS FROM:</b>	
Net investment income	(0.09)
Total distributions	(0.09)
Paid-in capital from redemption fees (Note 4)	— <sup>3</sup>
Net Asset Value, end of period	9.66
<b>TOTAL RETURN</b>	<b>(2.48%)<sup>4</sup></b>
<b>RATIOS/SUPPLEMENTAL DATA</b>	
Net assets, end of period (in 000's)	\$2,118
Ratio of expenses to average net assets before any reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 5)	3.32% <sup>5</sup>
Ratio of expenses to average net assets after any reimbursement, waiver or recapture of expenses by Advisor and Administrator	1.50% <sup>5</sup>
Ratio of net investment income (loss) to average net assets	0.79% <sup>5</sup>
Portfolio turnover <sup>6</sup>	16.23% <sup>4</sup>

1 Commenced operations on April 30, 2013.

2 Calculated using the average daily shares method.

3 Less than \$0.01 per share.

4 Not annualized.

5 Annualized.

6 The portfolio turnover rate is calculated on the Fund as a whole without distinguishing between classes of shares issued.

See accompanying notes to financial statements.

## Matthews Asia Growth Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Year Ended Dec. 31				
	2013	2012	2011	2010	2009
Net Asset Value, beginning of year	\$18.02	\$15.34	\$17.97	\$14.29	\$10.03
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>	0.11	0.15	0.11	0.10	0.06
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	3.37	2.53	(2.41)	3.72	4.44
Total from investment operations	3.48	2.68	(2.30)	3.82	4.50
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.33)	—	(0.35)	(0.15)	(0.24)
Net realized gains on investments	—	—	—	—	—
Total distributions	(0.33)	—	(0.35)	(0.15)	(0.24)
Paid-in capital from redemption fees (Note 4)	— <sup>2</sup>	— <sup>2</sup>	0.02	0.01	— <sup>2</sup>
Net Asset Value, end of year	\$21.17	\$18.02	\$15.34	\$17.97	\$14.29
<b>TOTAL RETURN</b>	<b>19.35%</b>	<b>17.47%</b>	<b>(12.70%)</b>	<b>26.85%</b>	<b>44.82%</b>
<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of year (in 000's)	\$558,407	\$276,884	\$259,166	\$335,429	\$227,651
Ratio of expenses to average net assets	1.12%	1.16%	1.19%	1.19%	1.28%
Ratio of net investment income (loss) to average net assets	0.55%	0.92%	0.63%	0.63%	0.50%
Portfolio turnover	10.77% <sup>3</sup>	44.76% <sup>3</sup>	28.06% <sup>3</sup>	26.33% <sup>3</sup>	58.10%

INSTITUTIONAL CLASS	Year Ended Dec. 31			Period Ended
	2013	2012	2011	Dec. 31, 2010 <sup>4</sup>
Net Asset Value, beginning of period	\$18.08	\$15.37	\$17.98	\$17.65
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>				
Net investment income (loss) <sup>1</sup>	0.15	0.17	0.14	0.01
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	3.39	2.54	(2.42)	0.47
Total from investment operations	3.54	2.71	(2.28)	0.48
<b>LESS DISTRIBUTIONS FROM:</b>				
Net investment income	(0.36)	—	(0.35)	(0.15)
Total distributions	(0.36)	—	(0.35)	(0.15)
Paid-in capital from redemption fees (Note 4)	— <sup>2</sup>	— <sup>2</sup>	0.02	—
Net Asset Value, end of period	\$21.26	\$18.08	\$15.37	\$17.98
<b>TOTAL RETURN</b>	<b>19.63%</b>	<b>17.63%</b>	<b>(12.58%)</b>	<b>2.76%<sup>5</sup></b>
<b>RATIOS/SUPPLEMENTAL DATA</b>				
Net assets, end of period (in 000's)	\$227,852	\$147,142	\$84,302	\$8,853
Ratio of expenses to average net assets	0.93%	0.98%	1.03%	0.99% <sup>6</sup>
Ratio of net investment income (loss) to average net assets	0.73%	1.02%	0.84%	0.37% <sup>6</sup>
Portfolio turnover <sup>3</sup>	10.77%	44.76%	28.06%	26.33% <sup>5</sup>

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 The portfolio turnover rate is calculated on the Fund as a whole without distinguishing between classes of shares issued.

4 Institutional Class commenced operations on October 29, 2010.

5 Not annualized.

6 Annualized.

See accompanying notes to financial statements.

# Financial Highlights *(continued)*

## Matthews Pacific Tiger Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Year Ended Dec. 31				
	2013	2012	2011	2010	2009
Net Asset Value, beginning of year	\$24.42	\$20.33	\$23.44	\$19.23	\$11.05
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>	0.17	0.18	0.10	0.09	0.06
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	0.72	4.09	(2.78)	4.20	8.27
Total from investment operations	0.89	4.27	(2.68)	4.29	8.33
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.16)	(0.16)	(0.11)	(0.08)	(0.15)
Net realized gains on investments	(0.16)	(0.02)	(0.33)	—	—
Total distributions	(0.32)	(0.18)	(0.44)	(0.08)	(0.15)
Paid-in capital from redemption fees (Note 4)	— <sup>2</sup>	— <sup>2</sup>	0.01	— <sup>2</sup>	—
Net Asset Value, end of year	\$24.99	\$24.42	\$20.33	\$23.44	\$19.23
<b>TOTAL RETURN</b>	<b>3.63%</b>	<b>21.00%</b>	<b>(11.41%)</b>	<b>22.30%</b>	<b>75.37%</b>
<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of year (in 000's)	\$2,954,108	\$2,994,026	\$2,780,640	\$5,196,743	\$3,565,745
Ratio of expenses to average net assets	1.09%	1.11%	1.11%	1.09%	1.13%
Ratio of net investment income (loss) to average net assets	0.67%	0.82%	0.44%	0.43%	0.41%
Portfolio turnover	7.73% <sup>3</sup>	6.53% <sup>3</sup>	10.51% <sup>3</sup>	11.43% <sup>3</sup>	13.22%

INSTITUTIONAL CLASS	Year Ended Dec. 31			Period Ended
	2013	2012	2011	Dec. 31, 2010 <sup>4</sup>
Net Asset Value, beginning of period	\$24.41	\$20.32	\$23.44	\$23.37
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>				
Net investment income (loss) <sup>1</sup>	0.21	0.21	0.23	0.01
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	0.71	4.10	(2.87)	0.15
Total from investment operations	0.92	4.31	(2.64)	0.16
<b>LESS DISTRIBUTIONS FROM:</b>				
Net investment income	(0.20)	(0.20)	(0.15)	(0.09)
Net realized gains on investments	(0.16)	(0.02)	(0.33)	—
Total distributions	(0.36)	(0.22)	(0.48)	(0.09)
Paid-in capital from redemption fees (Note 4) <sup>2</sup>	—	—	—	—
Net Asset Value, end of period	\$24.97	\$24.41	\$20.32	\$23.44
<b>TOTAL RETURN</b>	<b>3.78%</b>	<b>21.24%</b>	<b>(11.28%)</b>	<b>0.67%</b> <sup>5</sup>
<b>RATIOS/SUPPLEMENTAL DATA</b>				
Net assets, end of period (in 000's)	\$4,679,039	\$3,770,568	\$2,029,091	\$540,469
Ratio of expenses to average net assets	0.92%	0.95%	0.95%	0.95% <sup>6</sup>
Ratio of net investment income (loss) to average net assets	0.83%	0.95%	1.03%	0.38% <sup>6</sup>
Portfolio turnover <sup>3</sup>	7.73%	6.53%	10.51%	11.43% <sup>5</sup>

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 The portfolio turnover rate is calculated on the Fund as a whole without distinguishing between classes of shares issued.

4 Institutional Class commenced operations on October 29, 2010.

5 Not annualized.

6 Annualized.

See accompanying notes to financial statements.

## Matthews Emerging Asia Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Period Ended Dec. 31, 2013 <sup>1</sup>
Net Asset Value, beginning of period	\$10.00
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>	
Net investment income (loss) <sup>2</sup>	(0.01)
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	(0.05)
Total from investment operations	(0.06)
<b>LESS DISTRIBUTIONS FROM:</b>	
Net investment income	— <sup>3</sup>
Return of capital	(0.01)
Total distributions	(0.01)
Paid-in capital from redemption fees (Note 4)	— <sup>3</sup>
Net Asset Value, end of period	\$9.93
<b>TOTAL RETURN</b>	<b>(0.61%)<sup>4</sup></b>
<b>RATIOS/SUPPLEMENTAL DATA</b>	
Net assets, end of period (in 000's)	\$38,022
Ratio of expenses to average net assets before any reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 5)	2.39% <sup>5</sup>
Ratio of expenses to average net assets after any reimbursement, waiver or recapture of expenses by Advisor and Administrator	1.98% <sup>5</sup>
Ratio of net investment income (loss) to average net assets	(0.08%) <sup>5</sup>
Portfolio turnover <sup>6</sup>	1.66% <sup>4</sup>
<b>INSTITUTIONAL CLASS</b>	
Net Asset Value, beginning of period	\$10.00
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>	
Net investment income (loss) <sup>2</sup>	0.01
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	(0.07)
Total from investment operations	(0.06)
<b>LESS DISTRIBUTIONS FROM:</b>	
Net investment income	— <sup>3</sup>
Return of capital	(0.02)
Total distributions	(0.02)
Paid-in capital from redemption fees (Note 4)	— <sup>3</sup>
Net Asset Value, end of period	\$9.92
<b>TOTAL RETURN</b>	<b>(0.55%)<sup>4</sup></b>
<b>RATIOS/SUPPLEMENTAL DATA</b>	
Net assets, end of period (in 000's)	\$2,017
Ratio of expenses to average net assets before any reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 5)	2.21% <sup>5</sup>
Ratio of expenses to average net assets after any reimbursement, waiver or recapture of expenses by Advisor and Administrator	1.75% <sup>5</sup>
Ratio of net investment income (loss) to average net assets	0.19% <sup>5</sup>
Portfolio turnover <sup>6</sup>	1.66% <sup>4</sup>

<sup>1</sup> Commenced operations on April 30, 2013.

<sup>2</sup> Calculated using the average daily shares method.

<sup>3</sup> Less than \$0.01 per share.

<sup>4</sup> Not annualized.

<sup>5</sup> Annualized.

<sup>6</sup> The portfolio turnover rate is calculated on the Fund as a whole without distinguishing between classes of shares issued.

See accompanying notes to financial statements.

# Financial Highlights *(continued)*

## Matthews China Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Year Ended Dec. 31				
	2013	2012	2011	2010	2009
Net Asset Value, beginning of year	\$23.47	\$21.51	\$29.36	\$25.50	\$14.34
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>	0.25	0.30	0.26	0.15	0.09
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	1.33	2.26	(5.78)	3.86	11.12
Total from investment operations	1.58	2.56	(5.52)	4.01	11.21
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.26)	(0.35)	(0.28)	(0.15)	(0.07)
Net realized gains on investments	(1.95)	(0.25)	(2.06)	(0.02)	—
Total distributions	(2.21)	(0.60)	(2.34)	(0.17)	(0.07)
Paid-in capital from redemption fees (Note 4)	— <sup>2</sup>	— <sup>2</sup>	0.01	0.02	0.02
Net Asset Value, end of year	\$22.84	\$23.47	\$21.51	\$29.36	\$25.50
<b>TOTAL RETURN</b>	<b>6.84%</b>	<b>11.96%</b>	<b>(18.93%)</b>	<b>15.77%</b>	<b>78.30%</b>
<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of year (in 000's)	\$1,286,309	\$1,642,090	\$1,836,333	\$2,939,638	\$2,566,005
Ratio of expenses to average net assets	1.08%	1.12%	1.13%	1.15%	1.21%
Ratio of net investment income (loss) to average net assets	1.06%	1.33%	0.93%	0.54%	0.46%
Portfolio turnover	6.29% <sup>3</sup>	9.61% <sup>3</sup>	8.43% <sup>3</sup>	9.98% <sup>3</sup>	5.28%
<b>INSTITUTIONAL CLASS</b>					
	Year Ended Dec. 31			Period Ended	
	2013	2012	2011	Dec. 31, 2010 <sup>4</sup>	
Net Asset Value, beginning of period	\$23.45	\$21.49	\$29.36	\$30.02	
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>	0.26	0.36	0.26	(0.04)	
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	1.36	2.25	(5.73)	(0.44)	
Total from investment operations	1.62	2.61	(5.47)	(0.48)	
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.31)	(0.40)	(0.34)	(0.16)	
Net realized gains on investments	(1.95)	(0.25)	(2.06)	(0.02)	
Total distributions	(2.26)	(0.65)	(2.40)	(0.18)	
Paid-in capital from redemption fees (Note 4)	— <sup>2</sup>	— <sup>2</sup>	— <sup>2</sup>	—	
Net Asset Value, end of period	\$22.81	\$23.45	\$21.49	\$29.36	
<b>TOTAL RETURN</b>	<b>6.97%</b>	<b>12.22%</b>	<b>(18.80%)</b>	<b>(1.62%)<sup>5</sup></b>	
<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of period (in 000's)	\$117,678	\$390,744	\$288,277	\$41,545	
Ratio of expenses to average net assets	0.91%	0.91%	0.96%	0.97% <sup>6</sup>	
Ratio of net investment income (loss) to average net assets	1.13%	1.58%	0.99%	(0.74%) <sup>6</sup>	
Portfolio turnover <sup>3</sup>	6.29%	9.61%	8.43%	9.98% <sup>5</sup>	

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 The portfolio turnover rate is calculated on the Fund as a whole without distinguishing between classes of shares issued.

4 Institutional Class commenced operations on October 29, 2010.

5 Not annualized.

6 Annualized.

See accompanying notes to financial statements.

## Matthews India Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Year Ended Dec. 31				
	2013	2012	2011	2010	2009
Net Asset Value, beginning of year	\$17.51	\$13.59	\$21.49	\$16.29	\$8.37
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>	0.08	0.11	0.11	0.05	0.07
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	(1.13)	4.17	(7.96)	5.22	8.06
Total from investment operations	(1.05)	4.28	(7.85)	5.27	8.13
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.18)	(0.09)	(0.07)	(0.09)	(0.10)
Net realized gains on investments	(0.01)	(0.27)	—	—	(0.12)
Total distributions	(0.19)	(0.36)	(0.07)	(0.09)	(0.22)
Paid-in capital from redemption fees (Note 4)	0.01	— <sup>2</sup>	0.02	0.02	0.01
Net Asset Value, end of year	\$16.28	\$17.51	\$13.59	\$21.49	\$16.29
<b>TOTAL RETURN</b>	<b>(5.90%)</b>	<b>31.54%</b>	<b>(36.48%)</b>	<b>32.53%</b>	<b>97.25%</b>
<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of year (in 000's)	\$427,861	\$607,800	\$559,337	\$1,388,892	\$720,925
Ratio of expenses to average net assets	1.13%	1.18%	1.18%	1.18%	1.27%
Ratio of net investment income (loss) to average net assets	0.48%	0.65%	0.58%	0.25%	0.59%
Portfolio turnover	8.70% <sup>3</sup>	7.03% <sup>3</sup>	3.51% <sup>3</sup>	6.14% <sup>3</sup>	18.09%
<b>INSTITUTIONAL CLASS</b>					
	Year Ended Dec. 31			Period Ended	
	2013	2012	2011	Dec. 31, 2010 <sup>4</sup>	
Net Asset Value, beginning of period	\$17.53	\$13.61	\$21.48	\$22.03	
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>	0.10	0.14	0.16	(0.02)	
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	(1.11)	4.17	(7.96)	(0.43)	
Total from investment operations	(1.01)	4.31	(7.80)	(0.45)	
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.21)	(0.12)	(0.07)	(0.10)	
Net realized gains on investments	(0.01)	(0.27)	—	—	
Total distributions	(0.22)	(0.39)	(0.07)	(0.10)	
Paid-in capital from redemption fees (Note 4)	0.01	— <sup>2</sup>	— <sup>2</sup>	—	
Net Asset Value, end of period	\$16.31	\$17.53	\$13.61	\$21.48	
<b>TOTAL RETURN</b>	<b>(5.67%)</b>	<b>31.74%</b>	<b>(36.35%)</b>	<b>(2.01%)<sup>5</sup></b>	
<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of period (in 000's)	\$3,234	\$36,166	\$26,920	\$48,119	
Ratio of expenses to average net assets	0.95%	0.98%	0.99%	0.99% <sup>6</sup>	
Ratio of net investment income (loss) to average net assets	0.61%	0.87%	0.86%	(0.51%) <sup>6</sup>	
Portfolio turnover <sup>3</sup>	8.70%	7.03%	3.51%	6.14% <sup>5</sup>	

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 The portfolio turnover rate is calculated on the Fund as a whole without distinguishing between classes of shares issued.

4 Institutional Class commenced operations on October 29, 2010.

5 Not annualized.

6 Annualized.

See accompanying notes to financial statements.

# Financial Highlights *(continued)*

## Matthews Japan Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Year Ended Dec. 31				
	2013	2012	2011	2010	2009
Net Asset Value, beginning of year	\$12.27	\$11.34	\$12.53	\$10.91	\$10.19
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>	0.03	0.10	0.07	0.02	0.10
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	4.12	0.84	(1.06)	2.09	0.92
Total from investment operations	4.15	0.94	(0.99)	2.11	1.02
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.24)	(0.01)	(0.22)	(0.49)	(0.31)
Total distributions	(0.24)	(0.01)	(0.22)	(0.49)	(0.31)
Paid-in capital from redemption fees (Note 4)	0.02	— <sup>2</sup>	0.02	— <sup>2</sup>	0.01
Net Asset Value, end of year	\$16.20	\$12.27	\$11.34	\$12.53	\$10.91
<b>TOTAL RETURN</b>	<b>34.03%</b>	<b>8.32%</b>	<b>(7.72%)</b>	<b>19.58%</b>	<b>10.06%</b>
<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of year (in 000's)	\$312,988	\$82,463	\$101,369	\$67,805	\$88,334
Ratio of expenses to average net assets	1.10%	1.20%	1.22%	1.30%	1.31%
Ratio of net investment income (loss) to average net assets	0.19%	0.81%	0.54%	0.13%	0.97%
Portfolio turnover	22.72% <sup>3</sup>	48.58% <sup>3</sup>	34.94% <sup>3</sup>	46.29% <sup>3</sup>	126.75%
<b>INSTITUTIONAL CLASS</b>					
	Year Ended Dec. 31			Period Ended	
	2013	2012	2011	Dec. 31, 2010 <sup>4</sup>	
Net Asset Value, beginning of period	\$12.26	\$11.34	\$12.53	\$11.73	
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>	0.06	0.12	0.06	(0.01)	
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	4.12	0.84	(1.04)	1.30	
Total from investment operations	4.18	0.96	(0.98)	1.29	
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.26)	(0.04)	(0.22)	(0.49)	
Total distributions	(0.26)	(0.04)	(0.22)	(0.49)	
Paid-in capital from redemption fees (Note 4)	0.02	— <sup>2</sup>	0.01	—	
Net Asset Value, end of period	\$16.20	\$12.26	\$11.34	\$12.53	
<b>TOTAL RETURN</b>	<b>34.27%</b>	<b>8.47%</b>	<b>(7.72%)</b>	<b>11.22%</b> <sup>5</sup>	
<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of period (in 000's)	\$59,702	\$22,233	\$30,302	\$4	
Ratio of expenses to average net assets	0.96%	1.04%	1.07%	1.08% <sup>6</sup>	
Ratio of net investment income (loss) to average net assets	0.41%	0.99%	0.46%	(0.51)% <sup>6</sup>	
Portfolio turnover <sup>3</sup>	22.72%	48.58%	34.94%	46.29% <sup>5</sup>	

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 The portfolio turnover rate is calculated on the Fund as a whole without distinguishing between classes of shares issued.

4 Institutional Class commenced operations on October 29, 2010.

5 Not annualized.

6 Annualized.

See accompanying notes to financial statements.

## Matthews Korea Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Year Ended Dec. 31				
	2013	2012	2011	2010	2009
Net Asset Value, beginning of year	\$5.64	\$4.59	\$5.14	\$4.31	\$2.75
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>	— <sup>2</sup>	— <sup>2</sup>	(0.01)	0.01	(0.01)
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	0.57	1.10	(0.31)	0.93	1.74
Total from investment operations	0.57	1.10	(0.32)	0.94	1.73
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.02)	—	(0.01)	—	—
Net realized gains on investments	(0.24)	(0.05)	(0.22)	(0.11)	(0.17)
Total distributions	(0.26)	(0.05)	(0.23)	(0.11)	(0.17)
Paid-in capital from redemption fees (Note 4) <sup>2</sup>	—	—	—	—	—
Net Asset Value, end of year	\$5.95	\$5.64	\$4.59	\$5.14	\$4.31
<b>TOTAL RETURN</b>	<b>10.11%</b>	<b>24.05%</b>	<b>(6.45%)</b>	<b>21.86%</b>	<b>62.92%</b>

<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of year (in 000's)	\$138,830	\$141,247	\$141,590	\$166,990	\$138,371
Ratio of expenses to average net assets	1.13%	1.16%	1.18%	1.21%	1.30%
Ratio of net investment income (loss) to average net assets	0.02%	0.01%	(0.18%)	0.16%	(0.36%)
Portfolio turnover	46.20% <sup>3</sup>	34.84% <sup>3</sup>	30.13% <sup>3</sup>	39.05% <sup>3</sup>	52.47%

INSTITUTIONAL CLASS	Year Ended Dec. 31			Period Ended Dec. 31, 2010 <sup>4</sup>
	2013	2012	2011	
Net Asset Value, beginning of period	\$5.67	\$4.61	\$5.14	\$4.84
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>				
Net investment income (loss) <sup>1</sup>	— <sup>2</sup>	— <sup>2</sup>	0.17	0.03
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	0.56	1.11	(0.47)	0.38
Total from investment operations	0.56	1.11	(0.30)	0.41
<b>LESS DISTRIBUTIONS FROM:</b>				
Net investment income	(0.03)	—	(0.01)	—
Net realized gains on investments	(0.24)	(0.05)	(0.22)	(0.11)
Total distributions	(0.27)	(0.05)	(0.23)	(0.11)
Paid-in capital from redemption fees (Note 4)	— <sup>2</sup>	— <sup>2</sup>	— <sup>2</sup>	—
Net Asset Value, end of period	\$5.96	\$5.67	\$4.61	\$5.14
<b>TOTAL RETURN</b>	<b>9.87%</b>	<b>24.16%</b>	<b>(6.05%)</b>	<b>8.51%</b> <sup>5</sup>

<b>RATIOS/SUPPLEMENTAL DATA</b>				
Net assets, end of period (in 000's)	\$12,283	\$8,597	\$15,109	\$4
Ratio of expenses to average net assets	0.97%	1.00%	1.07%	0.91% <sup>6</sup>
Ratio of net investment income (loss) to average net assets	(0.03%)	(0.07%)	3.37%	3.74% <sup>6</sup>
Portfolio turnover <sup>3</sup>	46.20%	34.84%	30.13%	39.05% <sup>5</sup>

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 The portfolio turnover rate is calculated on the Fund as a whole without distinguishing between classes of shares issued.

4 Institutional Class commenced operations on October 29, 2010.

5 Not annualized.

6 Annualized.

See accompanying notes to financial statements.

# Financial Highlights *(continued)*

## Matthews Asia Small Companies Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Year Ended Dec. 31				
	2013	2012	2011	2010	2009
Net Asset Value, beginning of year	\$18.13	\$14.77	\$21.16	\$15.79	\$7.89
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>	0.11	0.17	0.15	0.04	0.02
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	1.19	3.36	(4.35)	5.55	8.04
Total from investment operations	1.30	3.53	(4.20)	5.59	8.06
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.09)	(0.09)	(0.17)	(0.09)	(0.05)
Net realized gains on investments	—	(0.08)	(2.04)	(0.15)	(0.15)
Total distributions	(0.09)	(0.17)	(2.21)	(0.24)	(0.20)
Paid-in capital from redemption fees (Note 4)	— <sup>2</sup>	— <sup>2</sup>	0.02	0.02	0.04
Net Asset Value, end of year	\$19.34	\$18.13	\$14.77	\$21.16	\$15.79
<b>TOTAL RETURN</b>	<b>7.19%</b>	<b>23.92%</b>	<b>(20.03%)</b>	<b>35.54%</b>	<b>103.00%</b>
<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of year (in 000's)	\$407,352	\$366,753	\$258,944	\$547,094	\$109,726
Ratio of expenses to average net assets before any reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 5)	1.47%	1.50%	1.52%	1.59%	2.90%
Ratio of expenses to average net assets after any reimbursement, waiver or recapture of expenses by Advisor and Administrator	1.47%	1.50%	1.52%	1.63%	2.00%
Ratio of net investment income (loss) to average net assets	0.58%	1.06%	0.76%	0.24%	0.13%
Portfolio turnover <sup>3</sup>	37.01%	27.95%	19.97%	23.99%	21.39%
<b>INSTITUTIONAL CLASS</b>					
					Period Ended Dec. 31, 2013 <sup>4</sup>
Net Asset Value, beginning of period					\$19.44
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>					0.18
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency					(0.16)
Total from investment operations					0.02
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income					(0.13)
Net realized gains on investments					—
Total distributions					(0.13)
Paid-in capital from redemption fees (Note 4)					— <sup>2</sup>
Net Asset Value, end of period					\$19.33
<b>TOTAL RETURN</b>					<b>0.13%</b> <sup>5</sup>
<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of period (in 000's)					\$44,769
Ratio of expenses to average net assets					1.25% <sup>6</sup>
Ratio of net investment income (loss) to average net assets					1.39% <sup>6</sup>
Portfolio turnover					37.01% <sup>3</sup>

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 The portfolio turnover rate is calculated on the Fund as a whole for the entire year without distinguishing between classes of shares issued.

4 Institutional Class commenced operations on April 30, 2013.

5 Not annualized.

6 Annualized.

See accompanying notes to financial statements.

## Matthews China Small Companies Fund

The table below sets forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Year Ended Dec. 31		Period Ended
	2013	2012	Dec. 31, 2011 <sup>1</sup>
Net Asset Value, beginning of period	\$7.76	\$7.04	\$10.00
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>			
Net investment income (loss) <sup>2</sup>	0.02	0.03	(0.02)
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	2.22	0.68	(2.96)
Total from investment operations	2.24	0.71	(2.98)
<b>LESS DISTRIBUTIONS FROM:</b>			
Net investment income	(0.11)	(0.02)	(0.01)
Total distributions	(0.11)	(0.02)	(0.01)
Paid-in capital from redemption fees (Note 4)	— <sup>3</sup>	0.03	0.03
Net Asset Value, end of period	\$9.89	\$7.76	\$7.04
<b>TOTAL RETURN</b>	<b>28.85%</b>	<b>10.53%</b>	<b>(29.51%)<sup>4</sup></b>
<b>RATIOS/SUPPLEMENTAL DATA</b>			
Net assets, end of period (in 000's)	\$26,674	\$10,266	\$4,493
Ratio of expenses to average net assets before any reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 5)	2.04%	3.26%	5.32% <sup>5</sup>
Ratio of expenses to average net assets after any reimbursement, waiver or recapture of expenses by Advisor and Administrator	2.00%	2.00%	2.00% <sup>5</sup>
Ratio of net investment income (loss) to average net assets	0.17%	0.40%	(0.53%) <sup>5</sup>
Portfolio turnover	10.28%	34.01%	6.08% <sup>4</sup>

1 Investor Class commenced operations on May 31, 2011.

2 Calculated using the average daily shares method.

3 Less than \$0.01 per share.

4 Not annualized.

5 Annualized.

See accompanying notes to financial statements.

# Financial Highlights *(continued)*

## Matthews Asia Science and Technology Fund

The tables below set forth financial data for a share of beneficial interest outstanding throughout each period presented.

INVESTOR CLASS	Year Ended Dec. 31				
	2013	2012	2011	2010	2009
Net Asset Value, beginning of year	\$9.29	\$8.16	\$9.89	\$8.02	\$4.71
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>					
Net investment income (loss) <sup>1</sup>	0.01	0.03	0.02	0.03	— <sup>2</sup>
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	3.30	1.12	(1.74)	1.86	3.31
Total from investment operations	3.31	1.15	(1.72)	1.89	3.31
<b>LESS DISTRIBUTIONS FROM:</b>					
Net investment income	(0.01)	(0.02)	(0.02)	(0.02)	—
Total distributions	(0.01)	(0.02)	(0.02)	(0.02)	—
Paid-in capital from redemption fees (Note 4)	— <sup>2</sup>	— <sup>2</sup>	0.01	— <sup>2</sup>	— <sup>2</sup>
Net Asset Value, end of year	\$12.59	\$9.29	\$8.16	\$9.89	\$8.02
<b>TOTAL RETURN</b>	<b>35.61%</b>	<b>14.11%</b>	<b>(17.26%)</b>	<b>23.58%</b>	<b>70.28%</b>

<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net assets, end of year (in 000's)	\$111,751	\$131,629	\$153,349	\$190,436	\$130,367
Ratio of expenses to average net assets	1.18%	1.18%	1.21%	1.26%	1.40%
Ratio of net investment income (loss) to average net assets	0.07%	0.30%	0.23%	0.35%	0.30%
Portfolio turnover	62.04% <sup>3</sup>	45.76%	65.47%	61.61%	83.27%

INSTITUTIONAL CLASS	Period Ended Dec. 31, 2013 <sup>4</sup>
Net Asset Value, beginning of period	\$10.09
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS:</b>	
Net investment income (loss) <sup>1</sup>	0.04
Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency	2.48
Total from investment operations	2.52
<b>LESS DISTRIBUTIONS FROM:</b>	
Net investment income	(0.03)
Total distributions	(0.03)
Paid-in capital from redemption fees (Note 4) <sup>2</sup>	—
Net Asset Value, end of period	\$12.58
<b>TOTAL RETURN</b>	<b>24.99%<sup>5</sup></b>

<b>RATIOS/SUPPLEMENTAL DATA</b>	
Net assets, end of period (in 000's)	\$49,236
Ratio of expenses to average net assets	1.00% <sup>6</sup>
Ratio of net investment income (loss) to average net assets	0.56% <sup>6</sup>
Portfolio turnover	62.04% <sup>3</sup>

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 The portfolio turnover rate is calculated on the Fund as a whole for the entire year without distinguishing between classes of share issues.

4 Institutional Class commenced operations on April 30, 2013.

5 Not annualized.

6 Annualized.

See accompanying notes to financial statements.

# Notes to Financial Statements

## 1. ORGANIZATION

Matthews Asia Funds (the "Trust") is an open-end management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Trust currently issues fifteen separate series of shares (each a "Fund" and collectively, the "Funds"): Matthews Asia Strategic Income Fund, Matthews Asian Growth and Income Fund, Matthews Asia Dividend Fund, Matthews China Dividend Fund, Matthews Asia Focus Fund, Matthews Asia Growth Fund, Matthews Pacific Tiger Fund, Matthews Emerging Asia Fund, Matthews China Fund, Matthews India Fund, Matthews Japan Fund, Matthews Korea Fund, Matthews Asia Small Companies Fund, Matthews China Small Companies Fund and Matthews Asia Science and Technology Fund. Each Fund except for Matthews China Small Companies Fund currently offers two classes of shares: Investor Class and Institutional Class. Matthews China Small Companies Fund currently offers only Investor Class shares. Each class of shares has identical voting, dividend, liquidation and other rights and the same terms and conditions, except each class may be subject to different class expenses as outlined in the relevant prospectus and each class has exclusive voting rights with respect to matters solely affecting such class. Effective June 14, 2013 and October 25, 2013, the Matthews Asia Dividend Fund and Matthews Pacific Tiger Fund, respectively were closed to new investors, but will continue to accept investments from existing shareholders.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Funds in preparation of their financial statements.

**A. SECURITY VALUATION:** The value of the Funds' securities is based on market quotations for those securities, or on their fair value determined by the valuation policies approved by the Funds' Board of Trustees (the "Board"). Market quotations and valuation information are provided by commercial pricing services or securities dealers that are independent of the Funds and Matthews International Capital Management, LLC ("Matthews"), in accordance with procedures established by the Funds' Board. Foreign exchange-traded securities are valued as of the close of trading on the primary exchange on which they trade. Securities that trade in over-the-counter markets, including most debt securities (bonds), may be valued by other third-party vendors or by using indicative bid quotations from dealers or market makers, or other available market information. Market values for securities are determined based on quotations, market data or other information from the principal (or most advantageous) market on which the security is traded. Market quotations for equity securities used by the Funds include last reported sale prices, or, if such prices are not reported or available, bid and ask prices. Financial futures contracts traded on exchanges are valued at their settlement price. Foreign currency exchange contracts are valued at the mean between the bid and ask prices and are determined at the close of business on the New York Stock Exchange ("NYSE"). Interpolated values are derived when the settlement date of the contract is an interim date for which quotations are not available. The Funds may also utilize independent pricing services to assist them in determining a current market value for each security based on sources believed to be reliable.

The Board has delegated the responsibility of making fair value determinations to the Funds' Valuation Committee (the "Valuation Committee") subject to the Funds' Pricing Policies. When fair value pricing is employed, the prices of securities used by a Fund to calculate its Net Asset Value ("NAV") may differ from any quoted or published prices for the same securities for that day. All fair value determinations are made subject to the Board's oversight. Events affecting the value of foreign investments may occur between the time at which they are determined and when the Funds calculate their NAV, which is normally the close of trading on the NYSE. If such events render market quotations unreliable, and the impact of such events can be reasonably determined, the investments will be valued at their fair value in accordance with pricing policies. The fair value of a security held by the Funds may be determined using the services of third-party pricing services to assist in this process.

The books and records of the Funds are maintained in U.S. dollars. Transactions, portfolio securities, and assets and liabilities denominated in a foreign currency are translated and recorded in U.S. dollars at the prevailing exchange rate as of the close of trading on the NYSE. Translation gains or losses resulting from changes in the exchange rate during the reporting period and realized gains and losses on the settlement of foreign currency transactions are reported in the results of operations for the current period. The Funds do not isolate that portion of gains and losses on investments in equity securities that is due to changes in foreign exchange rate from that which is due to changes in market prices of securities.

Foreign securities held by the Funds may be traded on days and at times when the NYSE is closed. Accordingly, the NAV of the Funds may be significantly affected on days when shareholders have no access to the Funds.

**B. FAIR VALUE MEASUREMENTS:** In accordance with the guidance on fair value measurements and disclosures under generally accepted accounting principles in the United States ("U.S. GAAP"), the Funds disclose the fair value of their investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (Level 3 measurements). Various inputs are used in determining the fair value of investments, which are as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3: Significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments).

Level 3 securities consist of equities that, as of December 31, 2013, were suspended from trading. As described in Note 2-A, these securities are valued based on their fair value as determined under the direction of the Board. The significant unobservable inputs, the methodology used for valuing such securities, and the characterization of such securities as Level 3 securities are not necessarily an indication of liquidity, or the risk associated with investing in these securities. A significant change in the unobservable inputs could result in a significantly lower or higher value in such Level 3 securities. Level 2 equity securities consist primarily of securities that have been fair valued by third-party pricing services (see Note 2-A).

## Notes to Financial Statements *(continued)*

The summary of inputs used to determine the fair valuation of the Fund's investments and derivative financial instruments as of December 31, 2013 is as follows:

	Matthews Asia Strategic Income Fund	Matthews Asian Growth and Income Fund	Matthews Asia Dividend Fund	Matthews Asia Focus Fund	Matthews Asia Growth Fund
<b>Assets:</b>					
<b>Investment:</b>					
Level 1: Quoted Prices					
Common Equities:					
Australia	\$—	\$304,823,331	\$508,175,714	\$945,727	\$19,616,723
China/Hong Kong	—	299,583,314	743,236,821	1,226,629	52,592,713
India	—	—	107,220,362	260,617	39,468,631
Indonesia	—	55,352,400	28,530,649	—	5,380,332
Malaysia	421,310	322,883,907	128,089,757	939,132	19,542,264
New Zealand	—	64,009,393	—	—	—
Singapore	1,039,819	628,264,552	438,124,712	800,305	10,343,840
Sri Lanka	—	—	—	—	35,155,777
Taiwan	—	174,796,358	331,454,835	315,047	32,425,675
Thailand	—	—	88,803,994	—	—
United Kingdom	—	80,109,924	—	215,751	—
United States	—	—	—	323,984	—
Vietnam	—	58,196,884	47,507,649	—	17,167,923
Preferred Equities:					
South Korea	—	26,464,984	—	—	—
Warrants:					
Sri Lanka	—	—	—	—	653,834
Level 2: Other Significant Observable Inputs					
Foreign Government Obligations <sup>a</sup>	11,583,472	—	—	—	—
Non-Convertible Corporate Bonds <sup>a</sup>	28,102,982	—	—	—	—
Convertible Corporate Bonds <sup>a</sup>	2,922,500	507,123,255	—	—	—
Common Equities:					
China/Hong Kong	436,053	674,878,208	1,166,297,978	1,429,012	49,562,235
Indonesia	—	58,735,871	288,799,721	627,759	45,492,571
Japan	—	342,195,414	1,450,849,908	—	391,872,393
Philippines	—	76,467,848	55,673,358	—	19,139,025
South Korea	—	221,007,255	121,198,837	441,448	—
Switzerland	—	—	—	345,046	—
Taiwan	—	—	—	—	26,666,009
Thailand	515,375	170,634,169	—	509,084	—
Preferred Equities:					
South Korea	—	226,574,825	138,156,493	—	—
<b>Total Market Value of Investments</b>	<b>\$45,021,511</b>	<b>\$4,292,101,892</b>	<b>\$5,642,120,788</b>	<b>\$8,379,541</b>	<b>\$765,079,945</b>

<sup>a</sup> Industry, countries, or security types are disclosed on the Schedule of Investments.

Matthews Asia  
Strategic Income  
Fund

### Derivative Financial Instruments<sup>1</sup>

#### Assets:

##### Level 1: Quoted Prices

Interest Rate Futures Contracts \$64,922

##### Level 2: Other Significant Observable Inputs

Foreign Currency Exchange Contracts 37,595

**Total Market Value of Derivative Financial Instruments \$102,517**

<sup>1</sup> Derivative financial instruments are financial futures contracts and foreign currency exchange contracts. Financial futures contracts and foreign currency exchange contracts are valued at the unrealized appreciation/depreciation on the instrument.

	Matthews China Dividend Fund	Matthews China Fund	Matthews India Fund	Matthews Japan Fund	Matthews Korea Fund	Matthews China Small Companies Fund
<b>Assets:</b>						
<b>Investments:</b>						
Level 1: Quoted Prices						
Common Equities:						
Consumer Discretionary	\$15,870,470	\$49,652,231	\$45,501,025	\$—	\$3,205,721	\$2,597,450
Consumer Staples	3,765,533	—	90,217,120	—	—	—
Financials	8,602,477	7,673,400	93,713,953	—	649,220	1,038,810
Health Care	11,333,915	36,293,388	16,802,492	951,657	—	2,639,741
Industrials	12,871,574	9,467,747	90,157,973	—	—	2,962,341
Information Technology	2,617,759	78,498,777	27,768,039	—	—	843,305
Materials	—	—	53,605,665	—	2,423,699	—
Telecommunication Services	7,416,136	18,855,774	—	—	5,352,388	—
Utilities	—	—	13,888,736	—	—	—
Level 2: Other Significant Observable Inputs						
Common Equities:						
Consumer Discretionary	32,547,761	183,017,112	—	58,861,998	38,174,203	3,084,428
Consumer Staples	4,230,978	161,651,271	—	33,955,138	18,298,465	222,498
Energy	4,823,099	87,148,873	—	—	3,454,400	560,827
Financials	11,213,597	284,829,802	—	83,216,799	24,795,209	2,489,208
Health Care	—	51,893,429	—	35,924,001	3,510,254	2,466,222
Industrials	13,852,192	130,762,581	—	77,821,053	5,109,931	2,638,590
Information Technology	3,908,848	172,044,590	—	50,958,363	16,331,585	1,548,378
Materials	4,302,343	—	—	8,916,645	2,632,985	1,020,140
Telecommunication Services	—	51,396,352	—	13,276,691	—	—
Utilities	5,284,768	77,575,162	—	—	—	1,488,487
Preferred Equities:						
Consumer Discretionary	—	—	—	—	8,154,868	—
Consumer Staples	—	—	—	—	934,637	—
Energy	—	—	—	—	1,222,965	—
Financials	—	—	—	—	6,543,151	—
Information Technology	—	—	—	—	4,684,112	—
Materials	—	—	—	—	3,445,907	—
Level 3: Significant Unobservable Inputs						
Common Equities:						
Information Technology	—	—	—	—	—	7,544
<b>Total Market Value of Investments</b>	<b>\$142,641,450</b>	<b>\$1,400,760,489</b>	<b>\$431,655,003</b>	<b>\$363,882,345</b>	<b>\$148,923,700</b>	<b>\$25,607,969</b>

## Notes to Financial Statements (continued)

	Matthews Pacific Tiger Fund	Matthews Emerging Asia Fund	Matthews Asia Small Companies Fund	Matthews Asia Science and Technology Fund
<b>Assets:</b>				
<b>Investments:</b>				
Level 1: Quoted Prices				
Common Equities:				
Australia	\$—	\$574,286	\$—	\$—
Bangladesh	—	2,664,095	—	—
China/Hong Kong	404,333,650	1,783,672	26,062,384	40,362,445
India	1,198,388,618	6,444,202	68,732,411	11,918,148
Indonesia	13,468,845	—	7,278,299	—
Malaysia	391,127,802	1,486,737	33,447,343	—
Singapore	151,076,261	1,193,359	33,676,524	—
Sri Lanka	—	5,902,339	—	—
South Korea	—	—	—	3,971,206
Taiwan	722,440,342	1,257,270	54,717,705	21,603,885
Vietnam	125,578,523	2,898,000	—	—
United States	—	—	—	4,122,210
Rights:				
Malaysia	—	—	130,747	—
Warrants:				
Malaysia	11,709,549	—	—	—
Sri Lanka	—	32,968	—	—
Level 2: Other Significant Observable Inputs				
Common Equities:				
Bangladesh	—	1,415,322	—	—
Cambodia	—	1,428,145	—	—
China/Hong Kong	1,762,985,252	5,220,985	93,960,760	16,174,218
Indonesia	547,963,160	1,659,966	31,683,737	1,569,157
Japan	—	—	—	35,907,164
Philippines	156,313,603	3,253,050	23,687,604	—
South Korea	1,325,945,517	—	28,911,631	16,202,899
Switzerland	136,810,514	—	—	—
Thailand	416,493,594	1,723,465	31,449,410	—
Preferred Equities:				
South Korea	—	—	—	4,562,296
Level 3: Significant Unobservable Inputs				
Common Equities:				
China/Hong Kong	—	—	514	—
<b>Total Market Value of Investments</b>	<b>\$7,364,635,230</b>	<b>\$38,937,861</b>	<b>\$433,739,069</b>	<b>\$156,393,628</b>

Foreign securities that are valued based on market quotations are categorized as Level 1 in the fair value hierarchy (see Note 2-B). Certain foreign securities may be fair valued by external pricing services when the Funds determine that events affecting the value of foreign securities which occur between the time at which they are determined and the close of trading on the NYSE render market quotations unreliable. Such fair valuations are typically categorized as Level 2 in the fair value hierarchy. The Funds' policy is to recognize transfers in and transfers out as of the beginning of the reporting period. At December 31, 2013, the Funds utilized third party pricing services to fair value certain markets which were different than markets which utilized third party pricing services at December 31, 2012. As a result, certain securities held by the Funds were transferred from Level 2 into Level 1 and certain securities held by the Funds were transferred from Level 1 into Level 2 with beginning of period values as follows:

	Transfer to Level 1 from Level 2	Transfer to Level 2 from Level 1
Matthews Asia Strategic Income Fund	\$944,940	\$—
Matthews Asian Growth and Income Fund	1,073,841,927	—
Matthews Asia Dividend Fund	827,986,845	—
Matthews China Dividend Fund	11,611,486	1,503,892
Matthews Asia Growth Fund	132,237,072	—
Matthews Pacific Tiger Fund	2,255,274,040	94,394,016
Matthews India Fund	414,091,420	—
Matthews Japan Fund	—	3,951,636
Matthews Korea Fund	2,198,901	5,150,775
Matthews Asia Small Companies Fund	106,089,449	7,992,257
Matthews China Small Companies Fund	1,129,750	—
Matthews Asia Science and Technology Fund	19,370,670	2,625,036

A reconciliation of Level 3 investments for which significant unobservable inputs were used to determine value are as follows:

	Matthews Asia Strategic Income Fund	Matthews Asia Small Companies Fund	Matthews China Small Companies Fund
	Non-Convertible Corporate Bonds	Common Equities — China	Common Equities — Information Technology
Balance as of 12/31/12 (market value)	\$212,844	\$190,601	\$10,064
Accrued discounts/premiums	—	—	—
Realized gain/(loss)	—	—	—
Change in unrealized (depreciation)	—	(190,087)	(2,520)
Purchases	—	—	—
Sales	—	—	—
Transfers in to Level 3*	—	—	—
Transfers out of Level 3*	(212,844)	—	—
Balance as of 12/31/13 (market value)	\$—	\$514	\$7,544
Net change in unrealized appreciation/depreciation on Level 3 investments held as of 12/31/13**	\$—	(\$190,087)	(\$2,520)

\* The Fund's policy is to recognize transfers in and transfer out as of the beginning of the reporting period.

\*\* Included in the related amounts on the Statements of Operations.

Certain foreign securities, for which market quotations are not readily available, may be fair valued and classified as either Level 2 or Level 3. When the underlying inputs include significant observable inputs obtained from sources independent of the Funds, the securities are classified as Level 2. When the underlying inputs include significant unobservable inputs and reflect assumptions of market participants, the securities are classified as Level 3. As of December 31, 2013, the Funds utilized significant observable inputs including evaluated prices from the Funds' pricing vendors, day-on-day price changes, primary and ancillary pricing sources, and other available independent market indicators of value as well as significant unobservable inputs. As a result, certain securities held by the Funds that were previously classified as Level 3 were transferred to Level 2.

**C. RISKS ASSOCIATED WITH NON-U.S. COMPANIES:** Investments by the Funds in the securities of non-U.S. companies may involve investment risks not typically associated with investments in U.S. issuers. These risks include possible political, economic, social and religious instability, inadequate investor protection; changes in laws or regulations of countries within the Asia Pacific region (including both in countries where you invest, as well as in the broader region); international relations with other nations; natural disasters; corruption; and military activity. Foreign securities may be subject to greater fluctuations in price than securities of domestic corporations or the U.S. government. Foreign investing may also include the risk of expropriation or confiscatory taxation, limitation on the removal of funds or other assets, currency crises and exchange controls, the imposition of foreign withholding tax on the interest income payable on such instruments, the possible seizure or nationalization of foreign deposits or assets, or the adoption of other foreign government restrictions that might adversely affect the foreign securities held by the Funds. Additionally, Asia Pacific countries may utilize formal or informal currency exchange controls or "capital controls" that may limit the ability to repatriate investments or income or adversely affect the value of portfolio investments. The economies of many Asia Pacific countries differ from the economies of more developed countries in many respects, such as their rate of growth, inflation, capital reinvestment, resource self-sufficiency and dependence on other economies, financial system stability, the national balance of payments position and sensitivity to changes in global trade. Certain Asia Pacific countries are highly dependent upon and may be affected by developments in the economies of other countries. Non-U.S. companies are subject to different accounting, auditing, and financial reporting standards, practices, and requirements than U.S. companies. There is generally less government regulation of stock exchanges, brokers, and listed companies abroad than in the United States, which may result in less transparency with respect to a company's operations, and make obtaining information about them more difficult (or such information may be unavailable).

Foreign stock markets may not be as developed or efficient as those in the United States, and the absence of negotiated brokerage commissions in certain countries may result in higher brokerage fees. The time between the trade and settlement dates of securities transactions on foreign exchanges ranges from one day to four weeks or longer and may result in higher custody charges. Custodial arrangements may be less well developed than in the United States. Foreign securities are generally denominated and pay distributions in foreign currencies, exposing the Funds to changes in foreign currency exchange rates. Investing in any country in the Asia Pacific region will also entail risks specific and unique to that country, and these risks can be significant and change rapidly.

**D. INCOME AND WITHHOLDING TAXES:** It is the policy of the Funds to comply with all requirements of the Internal Revenue Code of 1986, as amended ("the Code"), applicable to regulated investment companies and to distribute substantially all of their taxable income to their shareholders. The Funds have met the requirements of the Code applicable to regulated investment companies for year ended December 31, 2013. Therefore, no federal income tax provision is required.

Management has analyzed the Funds' tax positions taken on federal income tax returns for all open tax years (current and prior three tax years), and has concluded that no provision for federal income tax is required in the Funds' financial statements. The Funds' federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

The Funds may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which they invest. Foreign taxes, if any, are recorded based on the tax regulations and rates that

## Notes to Financial Statements *(continued)*

exist in the foreign markets in which the Funds invest. When a capital gain tax is determined to apply the Funds record an estimated deferred tax liability in an amount that may be payable if the securities were disposed of on the valuation date.

**E. OFFERING COSTS:** Offering costs are amortized on a straight-line basis over one year from each Fund's respective commencement of operations. In the event that any of the initial shares are redeemed during the period of amortization of the Fund's offering costs, the redemption proceeds will be reduced by any such unamortized offering costs in the same proportion as the number of shares being redeemed bears to the number of those shares outstanding at the time of redemption.

**F. DISTRIBUTIONS TO SHAREHOLDERS:** It is the policy of Matthews Asian Growth and Income Fund and Matthews China Dividend Fund to distribute net investment income on a semi-annual basis and capital gains, if any, annually. It is the policy of Matthews Asia Dividend Fund and Matthews Asia Strategic Income Fund to distribute net investment income on a quarterly basis and capital gains, if any, annually. Each of the other Funds distribute net investment income and capital gains, if any, annually. Distributions to shareholders are recorded on the ex-dividend date. Income and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. GAAP.

The tax character of distributions paid for the fiscal years ended December 31, 2013 and December 31, 2012 were as follows:

YEAR ENDED DECEMBER 31, 2013	Ordinary Income	Net Long-Term Capital Gains	Return of Capital	Total Taxable Distributions
Matthews Asia Strategic Income Fund	\$1,861,692	\$29,972	\$—	\$1,891,664
Matthews Asian Growth and Income Fund	110,108,786	27,369,456	—	137,478,242
Matthews Asia Dividend Fund	212,274,517	—	—	212,274,517
Matthews China Dividend Fund	2,377,974	—	—	2,377,974
Matthews Asia Focus Fund	69,741	—	—	69,741
Matthews Asia Growth Fund	12,349,014	—	—	12,349,014
Matthews Pacific Tiger Fund	56,207,775	48,148,449	—	104,356,224
Matthews Emerging Asia Fund	2,126	—	35,732	37,858
Matthews China Fund	15,661,208	113,790,581	—	129,451,789
Matthews India Fund	4,882,634	372,297	—	5,254,931
Matthews Japan Fund	5,469,366	—	—	5,469,366
Matthews Korea Fund	462,570	5,865,278	—	6,327,848
Matthews Asia Small Companies Fund	2,154,826	—	—	2,154,826
Matthews China Small Companies Fund	278,033	—	—	278,033
Matthews Asia Science and Technology Fund	187,291	—	—	187,291

YEAR ENDED DECEMBER 31, 2012	Ordinary Income	Net Long-Term Capital Gains	Total Taxable Distributions
Matthews Asia Strategic Income Fund	\$1,071,273	\$—	\$1,071,273
Matthews Asian Growth and Income Fund	98,152,492	—	98,152,492
Matthews Asia Dividend Fund	126,711,755	—	126,711,755
Matthews China Dividend Fund	1,507,751	—	1,507,751
Matthews Pacific Tiger Fund	48,170,065	5,452,552	53,622,617
Matthews China Fund	29,496,720	20,769,147	50,265,867
Matthews India Fund	3,397,479	9,900,700	13,298,179
Matthews Japan Fund	151,272	—	151,272
Matthews Korea Fund	—	1,400,563	1,400,563
Matthews Asia Small Companies Fund	1,711,579	1,439,816	3,151,395
Matthews China Small Companies Fund	24,817	—	24,817
Matthews Asia Science and Technology Fund	297,871	—	297,871

**G. INVESTMENT TRANSACTIONS AND INCOME:** Securities transactions are accounted for on the date the securities are purchased or sold. Gains or losses on the sale of securities are determined on the identified cost basis. Interest income is recorded on the accrual basis. Dividend income is generally recorded on the ex-dividend date. Dividend income for certain issuers headquartered in countries which the Funds invest may not be recorded until approved by the shareholders (which may occur after the ex-dividend date) if, in the judgment of management, such dividends are not reasonably determined as of the ex-dividend date. Income and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

**H. FUND EXPENSE ALLOCATIONS:** The Funds account separately for the assets, liabilities and operations of each Fund. Direct expenses of each Fund or class are charged to that Fund or class while general expenses are allocated pro-rata among the Funds based on net assets or other appropriate methods.

**I. CASH OVERDRAFTS:** When cash balances are overdrawn, a Fund is charged an overdraft fee by the custodian of 1.00% above the 30-day LIBOR rate on outstanding balances. These amounts, if any, are included in "Other expenses" on the Statements of Operations.

**J. USE OF ESTIMATES:** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**3. DERIVATIVE FINANCIAL INSTRUMENTS**

Matthews Asia Strategic Income Fund engages in derivative transactions for a variety of purposes, including managing interest rate, currency and credit exposure. In particular, the Fund may seek to take on currency exposure by using derivatives such as currency forwards, and the Fund may also employ a currency overlay strategy in an effort to enhance returns and moderate volatility. Derivative financial instruments and transactions in which the Fund may engage include financial futures contracts and forward foreign currency exchange contracts. The currency overlay strategy involves long and short positions on one or more currencies. As a result, the Fund's exposure to a currency could exceed the value of the Fund's assets and could be exposed to currency risk whether or not it holds a bond or other instrument denominated in that currency. The gross notional value of derivative financial instruments and transactions could exceed the value of the Fund's net assets, although the net market value of these instruments and transactions, on a marked-to-market basis, at most times, is expected to be substantially lower. The primary risks associated with the use of derivative financial instruments are: (i) Matthews may not correctly predict the direction of currency exchange rates, interest rates, security prices, or other economic factors; (ii) Matthews may not correctly predict changes in the value of derivative financial instruments and related underlying instruments or assets, which may result in disproportionately increased losses and/or reduced opportunities for gains; (iii) imperfect correlation between the change in market value of the securities held by the Fund and the price of financial futures contracts; (iv) the lack of, or a reduction in the liquidity of, any secondary market for the instrument, and the resulting inability to close position (or exit the position) when desired; (v) losses, which are potentially unlimited, due to unanticipated market movements; (vi) the value of the instrument may change unfavorably due to movements in the value of the referenced foreign currencies; (vii) the Fund may suffer disproportionately heavy losses relative to the amount invested; (viii) changes in the value of the derivatives may not match or fully offset changes in the value of hedged or related portfolio securities, thereby failing to achieve the hedging or investment purpose for the derivative transaction; and (ix) the other party to the instrument may fail to fulfill its obligation.

**Financial Futures Contracts:** Financial futures contracts are agreements between the Fund and a counterparty to buy or sell a specific quantity of an underlying instrument at a specified price and at a specified date. Depending on the terms of the particular contract, futures contracts are settled either through physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on settlement date. Pursuant to the contract, the Fund agrees to receive from or pay an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized appreciation or depreciation. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

**Forward Foreign Currency Exchange Contracts:** A forward foreign currency exchange contract is an agreement between two parties to buy and sell a currency at a set exchange rate on a future date. The contract is marked-to-market daily and the change in market value is recorded by the Fund as an unrealized gain or loss. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value at the time it was opened and the value at the time it was closed.

Derivative Financial Instruments Categorized by Risk Exposure:

As of December 31, 2013, the fair values of derivative financial instruments were as follows:

Statement of Assets and Liabilities Location		Matthews Asia Strategic Income Fund
<b>Asset Derivatives</b>		
Interest rate contracts	Unrealized appreciation on financial futures contracts*	\$64,922
Forward foreign currency exchange contracts	Unrealized appreciation on forward foreign currency exchange contracts	37,595
<b>Total</b>		<b>\$102,517</b>

\* Includes cumulative appreciation/depreciation of financial futures contracts as reported in the Schedule of Investments. Only current day's margin variation is reported within the Statement of Assets and Liabilities.

For the year ended December 31, 2013, the effect of derivative financial instruments on the Statements of Operations were as follows:

Derivative type	Statement of Operations Location	Matthews Asia Strategic Income Fund
<b>Net Realized Gain (Loss)</b>		
Interest rate contracts:		
Financial futures contracts	Net realized gain (loss) on financial futures contracts	\$21,000
Foreign currency contracts:		
Foreign currency exchange contracts	Net realized gain (loss) on foreign currency related transactions	(\$581,675)
<b>Net Change in Unrealized Appreciation (Depreciation)</b>		
Interest rate contracts:		
Financial futures contracts	Net change in unrealized appreciation/depreciation on financial futures contracts	\$64,922
Foreign currency contracts:		
Foreign currency exchange contracts	Net change in unrealized appreciation/depreciation on foreign currency related translations	\$37,595

## Notes to Financial Statements *(continued)*

For the year ended December 31, 2013, the end of quarter average balances of outstanding derivative financial instruments were as follows:

	Matthews Asia Strategic Income Fund
Financial Futures Contracts (Interest Rate Risk):	
Average number of contracts sold	18
Average total notional value of contracts sold	\$2,201,172
Forward Foreign Currency Exchange Contracts (Foreign Currency Exchange Risk):	
Average number of contracts—U.S. dollars purchased	6
Average total U.S. dollar amounts purchased	\$6,499,152
Average number of contracts—U.S. dollars sold	7
Average total U.S. dollar amounts sold	\$6,801,223

#### 4. CAPITAL SHARE TRANSACTIONS

Each Fund is authorized to issue an unlimited number of shares of beneficial interest with a par value of \$0.001 per share.

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Shares	Amount	Shares	Amount
<b>MATTHEWS ASIA STRATEGIC INCOME FUND</b>				
<b>Investor Class</b>				
Shares sold	3,745,840	\$40,829,249	2,220,740	\$23,251,177
Shares issued through reinvestment of distributions	150,938	1,585,049	76,233	804,134
Shares redeemed	(2,967,175)	(30,908,607)	(356,564)	(3,708,303)
Net increase (decrease)	929,603	\$11,505,691	1,940,409	\$20,347,008
<b>Institutional Class</b>				
Shares sold	152,518	\$1,666,843	23,391	\$243,178
Shares issued through reinvestment of distributions	25,259	264,495	23,315	244,478
Shares redeemed	(15,229)	(160,251)	(4,068)	(42,389)
Net increase (decrease)	162,548	\$1,771,087	42,638	\$445,267
<b>MATTHEWS ASIAN GROWTH AND INCOME FUND</b>				
<b>Investor Class</b>				
Shares sold	50,910,142	\$975,445,062	48,595,863	\$838,808,054
Shares issued through reinvestment of distributions	5,201,327	95,757,860	4,151,037	71,385,411
Shares redeemed	(55,522,506)	(1,058,702,543)	(35,314,194)	(596,940,180)
Net increase (decrease)	588,963	\$12,500,379	17,432,706	\$313,253,285
<b>Institutional Class</b>				
Shares sold	24,431,571	\$465,841,409	17,034,591	\$287,562,186
Shares issued through reinvestment of distributions	1,836,588	33,834,591	1,181,732	20,331,566
Shares redeemed	(13,055,475)	(248,454,495)	(7,436,624)	(126,769,784)
Net increase (decrease)	13,212,684	\$251,221,505	10,779,699	\$181,123,968
<b>MATTHEWS ASIA DIVIDEND FUND</b>				
<b>Investor Class</b>				
Shares sold	99,621,023	\$1,546,841,400	77,762,477	\$1,065,544,525
Shares issued through reinvestment of distributions	8,220,277	125,957,575	6,181,131	85,229,647
Shares redeemed	(63,387,585)	(985,525,489)	(47,838,310)	(650,928,607)
Net increase (decrease)	44,453,715	\$687,273,486	36,105,298	\$499,845,565
<b>Institutional Class</b>				
Shares sold	85,294,760	\$1,322,202,668	41,658,452	\$570,550,284
Shares issued through reinvestment of distributions	2,778,193	42,599,649	1,317,635	18,233,019
Shares redeemed	(15,174,466)	(236,397,745)	(7,254,225)	(100,020,697)
Net increase (decrease)	72,898,487	\$1,128,404,572	35,721,862	\$488,762,606

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Shares	Amount	Shares	Amount
<b>MATTHEWS CHINA DIVIDEND FUND</b>				
<b>Investor Class</b>				
Shares sold	8,605,528	\$110,622,425	3,176,426	\$37,085,392
Shares issued through reinvestment of distributions	151,856	1,870,520	122,584	1,396,131
Shares redeemed	(4,410,569)	(55,811,935)	(1,107,850)	(12,362,523)
Net increase (decrease)	4,346,815	\$56,681,010	2,191,160	\$26,119,000
<b>Institutional Class</b>				
Shares sold	1,904,137	\$24,649,821	16,213	\$189,562
Shares issued through reinvestment of distributions	30,796	381,714	387	4,528
Shares redeemed	(146,558)	(1,921,676)	(1,474)	(17,286)
Net increase (decrease)	1,788,375	\$23,109,859	15,126	\$176,804
<b>MATTHEWS ASIA FOCUS FUND*</b>				
<b>Investor Class</b>				
Shares sold	846,121	\$8,348,637		
Shares issued through reinvestment of distributions	5,290	49,775		
Shares redeemed	(203,646)	(1,913,944)		
Net increase (decrease)	647,765	\$6,484,468		
<b>Institutional Class</b>				
Shares sold	244,995	\$2,335,477		
Shares issued through reinvestment of distributions	2,092	19,683		
Shares redeemed	(27,857)	(266,324)		
Net increase (decrease)	219,230	\$2,088,836		
<b>MATTHEWS ASIA GROWTH FUND</b>				
<b>Investor Class</b>				
Shares sold	14,878,768	\$299,712,557	3,721,046	\$63,331,425
Shares issued through reinvestment of distributions	295,056	6,163,723	—	—
Shares redeemed	(4,166,027)	(84,404,359)	(5,248,807)	(88,329,897)
Net increase (decrease)	11,007,797	\$221,471,921	(1,527,761)	(\$24,998,472)
<b>Institutional Class</b>				
Shares sold	3,098,066	\$63,221,456	4,863,307	\$83,083,414
Shares issued through reinvestment of distributions	182,774	3,832,779	—	—
Shares redeemed	(698,970)	(14,388,918)	(2,211,230)	(37,298,229)
Net increase (decrease)	2,581,870	\$52,665,317	2,652,077	\$45,785,185
<b>MATTHEWS PACIFIC TIGER FUND</b>				
<b>Investor Class</b>				
Shares sold	27,012,739	\$672,355,297	27,777,515	\$621,796,389
Shares issued through reinvestment of distributions	1,385,477	34,498,321	811,853	19,598,132
Shares redeemed	(32,772,349)	(809,094,334)	(42,748,798)	(959,086,345)
Net increase (decrease)	(4,374,133)	(\$102,240,716)	(14,159,430)	(\$317,691,824)
<b>Institutional Class</b>				
Shares sold	64,636,522	\$1,596,651,346	79,998,608	\$1,801,060,227
Shares issued through reinvestment of distributions	1,387,312	34,516,325	597,916	14,421,744
Shares redeemed	(33,128,054)	(820,516,878)	(25,944,049)	(589,366,627)
Net increase (decrease)	32,895,780	\$810,650,793	54,652,475	\$1,226,115,344

## Notes to Financial Statements *(continued)*

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Shares	Amount	Shares	Amount
<b>MATTHEWS EMERGING ASIA FUND*</b>				
<b>Investor Class</b>				
Shares sold	4,251,615	\$41,780,099		
Shares issued through reinvestment of distributions	3,360	32,761		
Shares redeemed	(426,089)	(4,022,586)		
Net increase (decrease)	3,828,886	\$37,790,274		
<b>Institutional Class</b>				
Shares sold	214,207	\$2,140,969		
Shares issued through reinvestment of distributions	517	5,040		
Shares redeemed	(11,439)	(109,811)		
Net increase (decrease)	203,285	\$2,036,198		
<b>MATTHEWS CHINA FUND</b>				
<b>Investor Class</b>				
Shares sold	9,603,494	\$227,616,931	13,170,343	\$300,777,524
Shares issued through reinvestment of distributions	5,068,913	114,658,721	1,706,904	38,849,124
Shares redeemed	(28,310,189)	(648,793,241)	(30,279,030)	(679,455,872)
Net increase (decrease)	(13,637,782)	(\$306,517,589)	(15,401,783)	(\$339,829,224)
<b>Institutional Class</b>				
Shares sold	2,060,633	\$48,716,752	11,827,474	\$270,914,455
Shares issued through reinvestment of distributions	407,596	9,211,677	89,313	2,030,100
Shares redeemed	(13,975,418)	(319,349,884)	(8,663,672)	(193,876,060)
Net increase (decrease)	(11,507,189)	(\$261,421,455)	3,253,115	\$79,068,495
<b>MATTHEWS INDIA FUND</b>				
<b>Investor Class</b>				
Shares sold	4,172,828	\$68,392,848	5,201,385	\$85,925,731
Shares issued through reinvestment of distributions	309,531	4,998,780	681,987	11,818,835
Shares redeemed	(12,908,744)	(209,732,996)	(12,325,063)	(198,687,083)
Net increase (decrease)	(8,426,385)	(\$136,341,368)	(6,441,691)	(\$100,942,517)
<b>Institutional Class</b>				
Shares sold	40,050	\$699,162	93,829	\$1,552,011
Shares issued through reinvestment of distributions	2,746	44,395	46,125	799,816
Shares redeemed	(1,907,618)	(24,781,929)	(55,380)	(949,348)
Net increase (decrease)	(1,864,822)	(\$24,038,372)	84,574	\$1,402,479
<b>MATTHEWS JAPAN FUND</b>				
<b>Investor Class</b>				
Shares sold	18,828,332	\$287,144,412	2,552,518	\$30,321,153
Shares issued through reinvestment of distributions	254,335	4,076,983	6,087	72,984
Shares redeemed	(6,485,310)	(97,714,790)	(4,778,502)	(56,073,619)
Net increase (decrease)	12,597,357	\$193,506,605	(2,219,897)	(\$25,679,482)
<b>Institutional Class</b>				
Shares sold	1,963,683	\$28,804,131	490,430	\$5,822,798
Shares issued through reinvestment of distributions	44,482	713,048	3,074	36,828
Shares redeemed	(136,248)	(2,132,289)	(1,352,621)	(16,016,970)
Net increase (decrease)	1,871,917	\$27,384,890	(859,117)	(\$10,157,344)
<b>MATTHEWS KOREA FUND</b>				
<b>Investor Class</b>				
Shares sold	3,278,133	\$18,476,568	3,004,174	\$15,405,145
Shares issued through reinvestment of distributions	958,600	5,569,465	227,370	1,261,906
Shares redeemed	(5,922,961)	(32,598,761)	(9,016,025)	(45,221,382)
Net increase (decrease)	(1,686,228)	(\$8,552,728)	(5,784,481)	(\$28,554,331)

\* Investor Class and Institutional Class commencement of operations on April 30, 2013.

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Shares	Amount	Shares	Amount
<b>Institutional Class</b>				
Shares sold	7,577,356	\$41,070,000	8,618,940	\$42,519,900
Shares redeemed	(7,034,105)	(38,579,275)	(10,380,179)	(48,255,856)
Net increase (decrease)	543,251	\$2,490,725	(1,761,239)	(\$5,735,956)
<b>MATTHEWS ASIA SMALL COMPANIES FUND</b>				
<b>Investor Class</b>				
Shares sold	8,112,960	\$153,340,855	9,095,379	\$152,711,909
Shares issued through reinvestment of distributions	95,242	1,826,741	161,312	2,845,544
Shares redeemed	(7,380,126)	(140,788,302)	(6,558,137)	(106,965,033)
Net increase (decrease)	828,076	\$14,379,294	2,698,554	\$48,592,420
<b>Institutional Class*</b>				
Shares sold	2,625,749	\$51,018,053		
Shares issued through reinvestment of distributions	4,794	91,895		
Shares redeemed	(314,881)	(5,822,176)		
Net increase (decrease)	2,315,662	\$45,287,772		
<b>MATTHEWS CHINA SMALL COMPANIES FUND</b>				
<b>Investor Class</b>				
Shares sold	1,988,275	\$17,263,500	1,094,940	\$8,135,914
Shares issued through reinvestment of distributions	28,896	277,117	3,294	24,605
Shares redeemed	(643,558)	(5,589,693)	(413,179)	(3,008,148)
Net increase (decrease)	1,373,613	\$11,950,924	685,055	\$5,152,371
<b>MATTHEWS ASIA SCIENCE AND TECHNOLOGY FUND</b>				
<b>Investor Class</b>				
Shares sold	979,122	\$10,756,975	667,622	\$5,929,115
Shares issued through reinvestment of distributions	5,373	65,713	29,966	274,795
Shares redeemed	(6,280,700)	(64,340,033)	(5,327,248)	(46,483,548)
Net increase (decrease)	(5,296,205)	(\$53,517,345)	(4,629,660)	(\$40,279,638)
<b>Institutional Class*</b>				
Shares sold	3,902,817	\$40,192,941		
Shares issued through reinvestment of distributions	9,751	119,153		
Net increase (decrease)	3,912,568	\$40,312,094		

\* Institutional Class commenced operations on April 30, 2013.

The Funds generally assess a redemption fee of 2.00% of the total redemption proceeds if shareholders sell or exchange their shares within 90 calendar days after purchasing them. The redemption fee is paid directly to the Funds and is designed to offset transaction costs associated with short-term trading of Fund shares. For purposes of determining whether the redemption fee applies, the shares that have been held the longest will be redeemed first. The Funds may grant an exemption from the redemption fee when the Funds have previously received assurances that transactions do not involve a substantial risk of the type of harm that the policy is designed to avoid. The Funds may also waive the imposition of redemption fees in certain circumstances. For more information on this policy, please see the Funds' prospectuses. The redemption fees returned to the assets of the Funds are stated in the Statements of Changes in Net Assets.

##### 5. INVESTMENT ADVISORY FEES AND OTHER TRANSACTIONS WITH AFFILIATES

Matthews, a registered investment advisor under the 1940 Act, provides the Funds with investment management services. Pursuant to an Investment Advisory Agreement dated August 13, 2004, as amended (the "Advisory Agreement"), the Funds pay Matthews (i) for management and advisory services; and (ii) for certain administrative services, an annual fee as a percentage of average daily net assets. Under the Advisory Agreement each of the Funds, other than Matthews Asia Strategic Income Fund, Matthews Emerging Asia Fund, Matthews Asia Small Companies Fund and Matthews China Small Companies Fund pays Matthews 0.75% of their annual aggregate average daily net assets up to \$2 billion, 0.6834% of the annual aggregate average daily net assets between \$2 billion and \$5 billion, and 0.65% of the annual aggregate average daily net assets between \$5 billion and \$25 billion, and 0.64% of the annual aggregate average daily net assets over \$25 billion. Matthews Asia Strategic Income Fund pays Matthews an annual fee of 0.65% of its annual average daily net assets pursuant to the Advisory Agreement. Each of the Matthews Emerging Asia Fund, Matthews Asia Small Companies Fund and Matthews China Small Companies Fund pays Matthews an annual fee of 1.00% of their annual average daily net assets pursuant to the Advisory Agreement. Each Fund pays Matthews a monthly fee of one-twelfth (1/12) of the management fee of the Fund's average daily net asset value.

Under a written agreement between the Funds and Matthews, Matthews agrees to waive fees and reimburse expenses to a Fund if its expense ratio exceeds a certain percentage level. For Matthews China Fund, Matthews India Fund, Matthews Japan Fund, Matthews Korea Fund, Matthews Asia Small Companies Fund, Matthews China Small Companies Fund and Matthews Asia Science and Technology Fund, this level is 2.00%. For Matthews Asian Growth and Income Fund, Matthews Asia Growth Fund and Matthews Pacific Tiger Fund, this level

## Notes to Financial Statements *(continued)*

is 1.90%. For Matthews Asia Dividend Fund and Matthews China Dividend Fund, this level is 1.50%. For Matthews Asia Strategic Income Fund, Matthews Asia Focus Fund and Matthews Emerging Asia Fund, Matthews agrees to waive fees and reimburse expenses to each Fund if its expense ratio exceeds 1.25%, 1.75%, 2.00%, respectively, for the Institutional Class and agrees to reduce the expense ratio by an equal amount for the Investor Class. Because certain expenses of the Investor Class for Matthews Asia Strategic Income Fund, Matthews Asia Focus Fund and Matthews Emerging Asia Fund may be higher than the Institutional Class, the expense ratio of the Investor Class may exceed 1.25%, 1.75%, or 2.00%, respectively. In turn, if a Fund's expenses fall below the level noted within three years after Matthews has made such a reimbursement, the Fund may reimburse Matthews up to an amount of the recoupment available not to exceed its expense limitation. For each Fund other than Matthews Asia Focus Fund and Matthews Emerging Asia Fund, this agreement will continue through at least August 31, 2014. For Matthews Asia Focus Fund and Matthews Emerging Asia Fund, this agreement will continue through at least August 31, 2015. These agreements may be extended for additional periods for each of the Funds.

On December 31, 2013, the amounts subject to possible future recoupment under the expense limitation agreement are as follows:

	Expiring December 31,		
	2014	2015	2016
Matthews Asia Strategic Income Fund	\$22,795	\$161,965	\$41,268
Matthews Asia Focus Fund	—	—	87,951
Matthews Emerging Asia Fund	—	—	85,829
Matthews China Small Companies Fund	76,945	76,425	7,801

Matthews Asian Growth and Income Fund, Matthews Asia Dividend Fund, Matthews China Dividend Fund, Matthews Asia Growth Fund, Matthews Pacific Tiger Fund, Matthews China Fund, Matthews India Fund, Matthews Japan Fund, Matthews Korea Fund, Matthews Asia Small Companies Fund, Matthews Asia Science and Technology Fund had no amounts available for recoupment and no amounts recouped during the year ended December 31, 2013.

Matthews has also agreed to waive fees and reimburse additional expenses for the Institutional Class of Matthews Asia Strategic Income Fund, Matthews Asia Focus Fund and Matthews Emerging Asia Fund on a voluntary basis if its expense ratio exceeds 1.00%, 1.50%, 1.75%, respectively. Furthermore, any amounts voluntarily waived by Matthews with respect to the Institutional Class of Matthews Asia Strategic Income Fund, Matthews Asia Focus Fund and Matthews Emerging Asia Fund, excluding any voluntary waiver of class-specific shareholder servicing fees, may also be waived for the Investor Class of Matthews Asia Strategic Income Fund, Matthews Asia Focus Fund and Matthews Emerging Asia Fund. These voluntary waivers and/or reimbursements may be terminated at any time in the sole and absolute discretion of Matthews, subject to prior notice to the Board of Trustees.

Investment advisory fees charged, waived, reimbursed and recaptured for the year ended December 31, 2013, were as follows:

	Gross Advisory Fees	Advisory Fees Waived and Reimbursed in Excess of the Expense Limitation	Recapture of Previously Waived Fees	Net Advisory Fee/Reimbursement
Matthews Asia Strategic Income Fund	\$342,529	(\$41,268)	\$—	\$301,261
Matthews Asian Growth and Income Fund	29,911,798	—	—	29,911,798
Matthews Asia Dividend Fund	34,737,711	—	—	34,737,711
Matthews China Dividend Fund	793,795	—	104,529	898,324
Matthews Asia Focus Fund	32,399	(87,951)	—	(55,552)
Matthews Asia Growth Fund	4,225,929	—	—	4,225,929
Matthews Pacific Tiger Fund	48,602,934	—	—	48,602,934
Matthews Emerging Asia Fund	205,456	(85,829)	—	119,627
Matthews China Fund	10,995,785	—	—	10,995,785
Matthews India Fund	3,511,555	—	—	3,511,555
Matthews Japan Fund	1,649,630	—	—	1,649,630
Matthews Korea Fund	949,149	—	—	949,149
Matthews Asia Small Companies Fund	4,112,567	—	—	4,112,567
Matthews China Small Companies Fund	192,536	(7,801)	—	184,735
Matthews Asia Science and Technology Fund	908,992	—	—	908,992

Certain officers and Trustees of the Funds are also officers and directors of Matthews. All officers serve without compensation from the Funds. The Funds paid the Independent Trustees \$739,000 in aggregate for regular compensation during the year ended December 31, 2013.

The Funds have a Shareholder Services Agreement, in which the Funds pay an annual administration and shareholder servicing fee to Matthews, as a percentage of the average daily net assets of each Fund in aggregate, computed and prorated on a daily basis. Under the Shareholder Services Agreement, the Funds pay 0.25% of their aggregate average daily net assets between \$0 and \$2 billion, 0.1834% of their aggregate average daily net assets between \$2 billion and \$5 billion, 0.15% of their aggregate average daily net assets between \$5 billion and \$7.5 billion, 0.125% of their aggregate average daily net assets between \$7.5 billion and \$15 billion and 0.11% of their aggregate average daily net assets between \$15 billion and \$22.5 billion, and 0.10% of their aggregate average daily net assets over \$22.5 billion.

Administration and shareholder servicing fees charged, for the year ended December 31, 2013, were as follows:

	Administration and Shareholder Servicing Fees
Matthews Asia Strategic Income Fund	\$75,848
Matthews Asian Growth and Income Fund	6,478,164
Matthews Asia Dividend Fund	7,517,452
Matthews China Dividend Fund	171,733
Matthews Asia Focus Fund	6,987
Matthews Asia Growth Fund	914,193
Matthews Pacific Tiger Fund	10,524,900
Matthews Emerging Asia Fund	29,438
Matthews China Fund	2,384,174
Matthews India Fund	761,349
Matthews Japan Fund	356,445
Matthews Korea Fund	205,601
Matthews Asia Small Companies Fund	591,947
Matthews China Small Companies Fund	27,674
Matthews Asia Science and Technology Fund	196,828

The Funds bear a portion of the fees paid to certain service providers (exclusive of the Funds' transfer agent) which provide transfer agency and shareholder servicing to certain shareholders. Additional information concerning these services and fees is contained in the Funds' prospectuses. Fees accrued to pay to such service providers for the year ended December 31, 2013 are a component of Transfer Agent fees and Administration and shareholder servicing fees in the Statements of Operations as follows:

	Transfer Agent Fees	Administration and Shareholder Servicing Fees	Total
Matthews Asia Strategic Income Fund	\$61,721	\$30,860	\$92,581
Matthews Asian Growth and Income Fund	5,518,649	2,759,324	8,277,973
Matthews Asia Dividend Fund	5,140,423	2,570,212	7,710,635
Matthews China Dividend Fund	149,851	74,926	224,777
Matthews Asia Focus Fund	5,839	2,920	8,759
Matthews Asia Growth Fund	654,685	327,343	982,028
Matthews Pacific Tiger Fund	5,491,001	2,745,500	8,236,501
Matthews Emerging Asia Fund	29,789	14,895	44,684
Matthews China Fund	2,045,961	1,022,981	3,068,942
Matthews India Fund	657,913	328,956	986,869
Matthews Japan Fund	266,932	133,466	400,398
Matthews Korea Fund	146,691	73,345	220,036
Matthews Asia Small Companies Fund	573,844	286,922	860,766
Matthews China Small Companies Fund	28,603	14,301	42,904
Matthews Asia Science and Technology Fund	133,525	66,763	200,288

## Notes to Financial Statements *(continued)*

BNY Mellon Investment Servicing (US) Inc. (“BNY Mellon”), an indirect wholly owned subsidiary of The Bank of New York Mellon Corporation, serves as the Funds’ administrator, and in that capacity, performs various administrative and accounting services for each Fund. BNY Mellon also serves as the Funds’ transfer agent, dividend disbursing agent and registrar. An officer of BNY Mellon serves as Assistant Treasurer to the Funds. Total fees accrued by the Funds for administration and accounting services for the year ended December 31, 2013 were as follows:

	Administration and Accounting Fees
Matthews Asia Strategic Income Fund	\$4,215
Matthews Asian Growth and Income Fund	360,046
Matthews Asia Dividend Fund	418,555
Matthews China Dividend Fund	9,562
Matthews Asia Focus Fund	393
Matthews Asia Growth Fund	50,952
Matthews Pacific Tiger Fund	585,149
Matthews Emerging Asia Fund	1,654
Matthews China Fund	132,144
Matthews India Fund	42,215
Matthews Japan Fund	19,923
Matthews Korea Fund	11,426
Matthews Asia Small Companies Fund	32,908
Matthews China Small Companies Fund	1,543
Matthews Asia Science and Technology Fund	10,946

Brown Brothers Harriman & Co. serves as the Funds’ custodian. Foreside Funds Distributors LLC, serves as the Funds’ distributor in the United States pursuant to an Underwriting Agreement. Matthews Asia Funds are distributed in Latin America by HMC Partners.

On November 30, 2011, Matthews invested \$10 million in Matthews Asia Strategic Income Fund to provide the Fund with its initial investment assets. As of December 31, 2013, the Fund’s net assets were \$45,712,884 of which 1,081,610 shares held by Matthews represented 25%.

The Funds entered into transactions with J.P. Morgan Chase Bank, N.A., including its subsidiaries and affiliates (“J.P. Morgan”) acting as a broker-dealer in the purchase and sale of portfolio investments on an agency basis. The aggregate value of such transactions with J.P. Morgan by the Funds in 2013 was \$461,121. In addition, pursuant to an Administrative Fee Agreement dated July 1, 2009, the Funds received certain shareholder, administrative and sub-transfer agency services from J.P. Morgan (including transmission of purchase and redemption orders in accordance with the Funds’ prospectuses; maintenance of separate records for its clients; mailing of shareholder confirmations and periodic statements; processing dividend payments; and shareholder information and support). Pursuant to the agreement with J.P. Morgan, the Funds paid J.P. Morgan \$1,604,632 for such services.

### 6. INVESTMENTS

The value of investment transactions made for affiliated and unaffiliated holdings for the year ended December 31, 2013 were as follows:

	Affiliated Purchases	Proceeds from Affiliates Sales	Unaffiliated Purchases	Proceeds from Unaffiliated Sales
Matthews Asia Strategic Income Fund	\$—	\$—	\$37,943,279	\$24,455,336
Matthews Asian Growth and Income Fund	13,575,060	—	934,784,488	666,695,424
Matthews Asia Dividend Fund	478,774,781	9,041,779	1,908,834,036	699,812,924
Matthews China Dividend Fund	—	—	98,994,314	23,608,723
Matthews Asia Focus Fund	—	—	9,731,810	1,203,134
Matthews Asia Growth Fund	—	—	314,860,979	66,278,239
Matthews Pacific Tiger Fund	171,499,731	—	949,592,424	549,656,016
Matthews Emerging Asia Fund	—	—	39,024,042	536,064
Matthews China Fund	—	8,940,840	103,709,015	755,215,361
Matthews India Fund	—	—	45,667,550	199,605,382
Matthews Japan Fund	—	—	264,150,391	54,738,722
Matthews Korea Fund	—	—	65,071,470	77,558,660
Matthews Asia Small Companies Fund	—	—	200,885,508	147,906,704
Matthews China Small Companies Fund	—	—	13,032,345	1,905,960
Matthews Asia Science and Technology Fund	—	—	83,130,749	99,785,952

## 7. HOLDINGS OF 5% VOTING SHARES OF PORTFOLIO COMPANIES

The 1940 Act defines “affiliated companies” to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting shares. During the year ended December 31, 2013, the Funds below held 5% or more of the outstanding voting shares of the noted portfolio companies. During this period, other Funds in the Trust may also have held voting shares of the issuers at levels below 5%.

### Investments in affiliates:

A summary of transactions in securities of issuers affiliated with a Fund for the year ended December 31, 2013 is as follows:

Name of Issuer:	Shares Held at Dec. 31, 2012	Shares Purchased	Shares Sold	Shares Held at Dec. 31, 2013	Value at Dec. 31, 2013	Dividend Income Jan. 1, 2013– Dec. 31, 2013	Net Realized Gain Jan. 1, 2013– Dec. 31, 2013
<b>MATTHEWS ASIAN GROWTH AND INCOME FUND</b>							
CITIC Telecom International Holdings, Ltd.	139,126,000	52,172,250	—	191,298,250	\$61,589,634	\$1,882,461	\$—
Vitasoy International Holdings, Ltd.	51,771,000	—	—	51,771,000	79,825,797	1,321,908	—
Total Affiliates					\$141,415,431	\$3,204,369	\$—
<b>MATTHEWS ASIA DIVIDEND FUND</b>							
Ansell, Ltd.	—	9,815,000	—	9,815,000	\$181,147,416	\$1,680,204	\$—
Ascendas India Trust	55,065,000	—	—	55,065,000	29,671,699	1,950,741	—
Breville Group, Ltd.	—	8,427,453	—	8,427,453	67,196,888	934,688	—
CapitaRetail China Trust, REIT	47,540,000	2,852,400	—	50,392,400	53,109,784	2,330,262	—
EPS Corp.	14,592	14,592†	—	29,184	38,281,342	542,323	—
Greatview Aseptic Packaging Co., Ltd.	—	107,945,000	—	107,945,000	63,810,998	925,430	—
Jiangsu Expressway Co., Ltd. H Shares	65,104,000	11,978,000	1,300,000	75,782,000	93,135,739	4,487,081	362,351
Johnson Health Tech Co., Ltd.	16,429,890	584,649††	—	17,014,539	44,415,291	847,229	—
Minth Group, Ltd.	56,685,000	3,122,000	—	59,807,000	124,452,171	2,965,872	—
Pigeon Corp.	1,501,800	1,501,800†	—	3,003,600	145,673,254	2,187,933	—
Primary Health Care, Ltd.	—	31,495,465	—	31,495,465	139,204,921	3,899,810	—
Shinko Plantech Co., Ltd.†††	3,760,200	—	3,760,200	—	—	—	—
Sichuan Expressway Co., Ltd. H Shares†††	74,946,000	—	74,946,000	—	—	—	—
TXC Corp.†††	21,549,524	—	7,310,000	14,239,524	—	—	—
Woongjin Thinkbig Co., Ltd.†††	2,079,870	—	2,079,870	—	—	—	—
Xingda International Holdings, Ltd. H Shares	109,164,000	9,000,000	13,460,000	104,704,000	62,653,697	2,282,818	1,630,798
Yuexiu Transport Infrastructure, Ltd.	97,210,000	13,280,000	—	110,490,000	57,917,162	2,784,792	—
Total Affiliates					\$1,100,670,362	\$27,819,183	\$1,993,149
<b>MATTHEWS PACIFIC TIGER FUND</b>							
Cheil Worldwide, Inc.	5,510,440	1,051,440	—	6,561,880	\$172,198,037	\$—	\$—
Digital China Holdings, Ltd.	55,828,000	5,594,000	—	61,422,000	72,537,177	2,993,464	—
Dongbu Insurance Co., Ltd.	3,505,500	445,000	—	3,950,500	211,599,788	4,388,392	—
Green Cross Corp.	838,869	128,631††	1	967,499	114,899,678	1,147,196	—
Hyflux, Ltd.	65,284,280	—	—	65,284,280	60,527,444	1,685,115	—
MegaStudy Co., Ltd.	396,412	—	—	396,412	29,449,926	1,128,093	—
Sinopharm Group Co., Ltd. H Shares†††	43,788,000	—	—	43,788,000	—	—	—
Synnex Technology International Corp.	50,022,354	34,000,000	—	84,022,354	133,348,679	3,342,511	—
Tata Power Co., Ltd.	89,491,554	36,668,956	—	126,160,510	186,319,014	2,295,135	—
Yuhan Corp.†††	584,138	—	42,000	542,138	—	—	—
Total Affiliates					\$980,879,743	\$16,979,906	\$—
<b>MATTHEWS CHINA FUND</b>							
Lianhua Supermarket Holdings Co., Ltd. H Shares	31,193,800	—	10,995,000	20,198,800	\$15,641,386	\$354,669	\$2,226,393
Total Affiliates					\$15,641,386	\$354,669	\$2,226,393

† Includes stock split during the period.

†† Includes stock dividend during the period.

††† Issuer was not an affiliated company as of December 31, 2013.

## Notes to Financial Statements *(continued)*

### 8. FEDERAL INCOME TAX INFORMATION

As of December 31, 2013, the components of accumulated earnings/deficit) on tax basis were as follows:

	Undistributed Ordinary Income	Undistributed Long-Term Capital Gains	Capital Loss Carryforwards
Matthews Asia Strategic Income Fund	\$62,649	\$—	(\$591,822)
Matthews Asian Growth and Income Fund	3,929,540	17,277,275	—
Matthews Asia Dividend Fund	12,377,076	—	(214,225,000)
Matthews China Dividend Fund	45,539	—	(1,304,904)
Matthews Asia Focus Fund	—	—	(41,670)
Matthews Asia Growth Fund	15,440,257	—	(42,179,332)
Matthews Pacific Tiger Fund	1,127,416	95,514,490	—
Matthews Emerging Asia Fund	—	—	(113,563)
Matthews China Fund	211,504	—	—
Matthews India Fund	1,848,471	2,253,472	—
Matthews Japan Fund	3,325,396	—	(64,206,520)
Matthews Korea Fund	—	9,796,478	—
Matthews Asia Small Companies Fund	1,680,820	—	(8,263,629)
Matthews China Small Companies Fund	22,734	—	(1,325,635)
Matthews Asia Science and Technology Fund	929,241	—	(4,165,322)

	Late Year Losses*	Other Temporary Differences	Unrealized Appreciation (Depreciation)**	Total Accumulated Earnings/Deficit
Matthews Asia Strategic Income Fund	\$—	\$—	(\$930,707)	(\$1,459,880)
Matthews Asian Growth and Income Fund	(11,672,091)	—	845,978,000	855,512,724
Matthews Asia Dividend Fund	(7,621,098)	(36,248)	770,242,455	560,737,185
Matthews China Dividend Fund	(111,857)	—	16,320,096	14,948,874
Matthews Asia Focus Fund	(298)	—	(116,905)	(158,873)
Matthews Asia Growth Fund	—	—	155,925,470	129,186,395
Matthews Pacific Tiger Fund	(293,175)	—	1,985,567,989	2,081,916,720
Matthews Emerging Asia Fund	(1,820)	—	389,184	273,801
Matthews China Fund	(1,650)	—	277,451,484	277,661,338
Matthews India Fund	(18,353)	(16,837)	6,574,252	10,641,005
Matthews Japan Fund	(125,910)	—	41,874,235	(19,132,799)
Matthews Korea Fund	(6,628)	—	63,953,091	73,742,941
Matthews Asia Small Companies Fund	(17,537)	—	54,767,158	48,166,812
Matthews China Small Companies Fund	—	—	4,997,451	3,694,550
Matthews Asia Science and Technology Fund	(843,478)	—	56,222,967	52,143,408

\* The Funds have elected to defer certain qualified late-year losses and recognize such losses in the next fiscal year.

\*\* The differences between book-basis and tax-basis unrealized appreciation/depreciation is attributable primarily to the tax deferral of losses on wash sales and passive foreign investment company (PFIC) mark to market adjustments.

As of December 31, 2013, the Funds have capital loss carryforwards available to offset future realized capital gains through the indicated expiration dates as follows:

LOSSES DEFERRED EXPIRING IN:	2016	2017	2018	Amount With No Expiration*		Total
				Short-term Losses	Long-term Losses	
Matthews Asia Strategic Income Fund	\$—	\$—	\$—	\$580,659	\$11,163	\$591,822
Matthews Asia Dividend Fund	—	—	—	65,194,157	149,030,843	214,225,000
Matthews China Dividend Fund	—	—	—	1,304,904	—	1,304,904
Matthews Asia Focus Fund	—	—	—	41,670	—	41,670
Matthews Asia Growth Fund	—	42,179,332	—	—	—	42,179,332
Matthews Emerging Asia Fund	—	—	—	113,563	—	113,563
Matthews Japan Fund	20,174,094	44,032,426	—	—	—	64,206,520
Matthews Asia Small Companies Fund	—	—	—	5,977,959	2,285,670	8,263,629
Matthews China Small Companies Fund	—	—	—	912,595	413,040	1,325,635
Matthews Asia Science and Technology Fund	—	4,165,322	—	—	—	4,165,322

\* Post-Enactment Losses: Must be utilized prior to losses subject to expiration.

Matthews China Dividend Fund, Matthews Asia Growth Fund, Matthews Japan Fund, Matthews Asia Small Companies Fund and Matthews Asia Science and Technology Fund utilized capital loss carryforwards of \$587,893, \$5,149,809, \$9,106,336, \$8,768,932 and \$7,578,727, respectively.

Under the Regulated Investment Company Modernization Act of 2010, the Funds are permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to any losses incurred in pre-enactment taxable years, which generally expire after eight years from when they are incurred. Additionally, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law.

U.S. GAAP requires that certain components of net assets be reclassified between financial and tax reporting. These reclassifications have no effect on net assets or NAV. The permanent differences are primarily attributable to net realized gains on PFICs, non-deductible expenses, foreign currency reclassification, the utilization of accumulated earnings and profits distributed to shareholders on redemptions of shares as part of the dividends paid deduction for income tax purposes, and recharacterization of distributions. For the year ended December 31, 2013, permanent differences in book and tax accounting have been reclassified to paid-in capital, undistributed net investment income (loss) and accumulated realized gain (loss) as follows:

	Increase/ (Decrease) Paid-in-Capital	Increase/(Decrease) Undistributed Net Investment Income/(Loss)	Increase/ (Decrease) Accumulated Realized Gain/(Loss)
Matthews Asia Strategic Income Fund	\$—	(\$29,561)	\$29,561
Matthews Asian Growth and Income Fund	—	11,970,197	(11,970,197)
Matthews Asia Dividend Fund	—	1,830,008	(1,830,008)
Matthews China Dividend Fund	—	274,286	(274,286)
Matthews Asia Focus Fund	(40,614)	36,629	3,985
Matthews Asia Growth Fund	—	901,209	(901,209)
Matthews Pacific Tiger Fund	—	(1,970,569)	1,970,569
Matthews Emerging Asia Fund	(38,828)	14,443	24,385
Matthews China Fund	28,291,199	(1,819,545)	(26,471,654)
Matthews India Fund	—	533,680	(533,680)
Matthews Japan Fund	—	425,325	(425,325)
Matthews Korea Fund	1,481,433	78,381	(1,559,814)
Matthews Asia Small Companies Fund	(108)	(234,776)	234,884
Matthews China Small Companies Fund	(601)	(115)	716
Matthews Asia Science and Technology Fund	(1,752)	(86,389)	88,141

## 9. SUBSEQUENT EVENTS

Management has evaluated the impact of all subsequent events on the Funds through the date the financial statements were issued, and has determined that there no additional subsequent events that require recognition or disclosure in the financial statements.

# Report of Independent Registered Public Accounting Firm

## *To the Board of Trustees and Shareholders of Matthews Asia Funds:*

In our opinion, the accompanying statements of assets and liabilities, including the schedules of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Matthews Asia Strategic Income Fund, Matthews Asian Growth and Income Fund, Matthews Asia Dividend Fund, Matthews China Dividend Fund, Matthews Asia Focus Fund, Matthews Asia Growth Fund, Matthews Pacific Tiger Fund, Matthews Emerging Asia Fund, Matthews China Fund, Matthews India Fund, Matthews Japan Fund, Matthews Korea Fund, Matthews Asia Small Companies Fund, Matthews China Small Companies Fund, and Matthews Asia Science and Technology Fund (hereinafter referred as the “Funds”) at December 31, 2013, and the results of each of their operations, the changes in each of their net assets and the financial highlights for the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereinafter referred to as “financial statements”) are the responsibility of the Funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2013 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

**PricewaterhouseCoopers, LLP**  
San Francisco, California  
February 24, 2014

## Tax Information *(Unaudited)*

For shareholders who do not have a December 31, 2013 tax year-end, this notice is for informational purposes. For the period January 1, 2013 to December 31, 2013, the Funds report the following items with regard to distributions paid during the period. All reportings are based on financial information available as of the date of this annual report and, accordingly, are subject to change. For each item, it is the intention of each Fund to report the maximum amount permitted under the Internal Revenue Code and the regulations thereunder.

### 1. Qualified Dividend Income

The Funds report a portion of the ordinary income distributed during the year ended December 31, 2013 as Qualified Dividend Income ("QDI") as defined in the Internal Revenue code as follows:

	QDI Portion
Matthews Asia Strategic Income Fund	2.67%
Matthews Asian Growth and Income Fund	55.47%
Matthews Asia Dividend Fund	53.20%
Matthews China Dividend Fund	65.80%
Matthews Asia Focus Fund	85.15%
Matthews Asia Growth Fund	46.72%
Matthews Pacific Tiger Fund	99.94%
Matthews Emerging Asia Fund	100.00%
Matthews China Fund	85.96%
Matthews India Fund	100.00%
Matthews Japan Fund	63.08%
Matthews Korea Fund	100.00%
Matthews Asia Small Companies Fund	78.51%
Matthews China Small Companies Fund	14.66%
Matthews Asia Science and Technology Fund	87.83%

### 2. Dividends Received Deduction

The Funds report a Dividend Received Deduction pursuant to Section 854 of the Internal Revenue Code for the year ended December 31, 2013 as follows:

Matthews Asia Strategic Income Fund	0.00%
Matthews Asian Growth and Income Fund	0.00%
Matthews Asia Dividend Fund	0.69%
Matthews China Dividend Fund	2.30%
Matthews Asia Focus Fund	8.65%
Matthews Asia Growth Fund	0.00%
Matthews Pacific Tiger Fund	0.00%
Matthews Emerging Asia Fund	0.00%
Matthews China Fund	0.00%
Matthews India Fund	0.00%
Matthews Japan Fund	0.00%
Matthews Korea Fund	0.00%
Matthews Asia Small Companies Fund	0.00%
Matthews China Small Companies Fund	0.00%
Matthews Asia Science and Technology Fund	0.86%

## Tax Information *(Unaudited) (continued)*

### 3. Long-Term Capital Gain Distributions

The Funds report Long-Term Capital Gain distributions pursuant to Section 852(b)(3) of the Internal Revenue Code for the year ended December 31, 2013 as follows:

	Long-Term Capital Gains
Matthews Asia Strategic Income Fund	\$29,972
Matthews Asian Growth and Income Fund	27,369,456
Matthews Pacific Tiger Fund	48,148,449
Matthews China Fund	140,301,683
Matthews India Fund	372,297
Matthews Korea Fund	7,529,350

### 4. Foreign Taxes Paid

The Funds have elected to pass through to their shareholders the foreign taxes paid for the year ended December 31, 2013 as follows:

	Foreign Source Income	Foreign Taxes Paid
Matthews Asia Strategic Income Fund	\$2,643,526	\$32,914
Matthews Asian Growth and Income Fund	152,036,899	5,947,996
Matthews Asia Dividend Fund	172,420,183	8,924,773
Matthews China Dividend Fund	4,157,961	128,408
Matthews Asia Focus Fund	116,110	4,722
Matthews Asia Growth Fund	11,384,245	775,677
Matthews Pacific Tiger Fund	140,754,352	11,007,278
Matthews Emerging Asia Fund	420,700	27,652
Matthews China Fund	36,844,865	148,160
Matthews India Fund	8,496,141	49,704
Matthews Japan Fund	3,511,908	254,073
Matthews Korea Fund	1,992,313	377,321
Matthews Asia Small Companies Fund	9,149,855	607,738
Matthews China Small Companies Fund	431,268	11,429
Matthews Asia Science and Technology Fund	1,984,840	192,958

### 5. Qualified Interest Income

The Funds report a portion of the net income dividends distributed during the year ended December 31, 2013, as Qualified Interest Income (QII), as defined in the Internal Revenue Code as follows:

	QII Portion
Matthews Asia Strategic Income Fund	0.01%
Matthews Asian Growth and Income Fund	0.02%
Matthews Asia Dividend Fund	0.02%
Matthews China Dividend Fund	0.09%
Matthews Asia Focus Fund	0.10%
Matthews Asia Growth Fund	0.07%
Matthews Pacific Tiger Fund	0.04%
Matthews Emerging Asia Fund	0.05%
Matthews China Fund	0.01%
Matthews India Fund	0.05%
Matthews Japan Fund	0.02%
Matthews Korea Fund	0.02%
Matthews Asia Small Companies Fund	0.11%
Matthews China Small Companies Fund	0.04%
Matthews Asia Science and Technology Fund	0.03%

## Tax Information *(Unaudited) (continued)*

### 6. Qualified Short-Term Capital Gain Dividends

The Funds report a portion of the short term capital gain dividends distributed during the year ended December 31, 2013, as Qualified Short-Term Gain, as defined in the Internal Revenue Code as follows:

	Short-Term Gains
Matthews Asia Strategic Income Fund	100.00%
Matthews Asian Growth and Income Fund	0.00%
Matthews Asia Dividend Fund	0.00%
Matthews China Dividend Fund	0.00%
Matthews Asia Focus Fund	0.00%
Matthews Asia Growth Fund	0.00%
Matthews Pacific Tiger Fund	100.00%
Matthews Emerging Asia Fund	0.00%
Matthews China Fund	0.00%
Matthews India Fund	0.00%
Matthews Japan Fund	0.00%
Matthews Korea Fund	0.00%
Matthews Asia Small Companies Fund	0.00%
Matthews China Small Companies Fund	0.00%
Matthews Asia Science and Technology Fund	0.00%

# Approval of Investment Advisory Agreement *(Unaudited)*

The Funds, which are series of the Trust, have retained Matthews International Capital Management, LLC (“Matthews”) to manage their assets pursuant to the Advisory Agreement, which has been approved by the Board of Trustees of the Funds, including the Independent Trustees. Following an initial term with respect to each Fund upon its commencement of operations, the Advisory Agreement continues in effect from year-to-year provided that the continuance is specifically approved at least annually by the vote of the holders of at least a majority of the outstanding shares of the Funds, or by the Board of Trustees, and, in either event, by a majority of the Independent Trustees of the Trust casting votes in person at a meeting called for that purpose.

At a meeting held on August 27 and 28, 2013, the Board, including the Independent Trustees of the Trust, approved the continuance of the Advisory Agreement, with respect to each Fund, for an additional one-year period ending August 31, 2014.

Before those meetings, the Independent Trustees had requested detailed information from Matthews about the matters to be considered. This information, together with the information provided to the Independent Trustees throughout the course of year, formed the primary (but not exclusive) basis for the Board’s determinations as summarized below. The Independent Trustees reviewed and discussed the extensive information provided by Matthews at separate executive sessions held on August 5 and 6 (among a smaller working group), and 21, 2013. The Independent Trustees were assisted in their deliberations by their independent legal counsel. Below is a summary of the factors considered by the Board in approving the Advisory Agreement with respect to each Fund.

✿ **The nature, extent and quality of the services provided by Matthews under the Advisory Agreement.** The Trustees considered the experience and qualifications of the personnel at Matthews who are responsible for providing services to the Funds and who are responsible for the daily management of the Funds’ portfolios. The Trustees noted that Matthews has continued to expand its professional staff over the past several years, and has enjoyed relative stability of its senior executive and portfolio management. They also reviewed Matthews’ recent and planned hiring to further strengthen current capabilities and to support future potential growth of assets and the expansion of its business. Among other improved capabilities, the Trustees noted recent and planned enhancements to communications with intermediaries and investors as well as various other marketing and client service efforts. The Trustees noted various initiatives such as accessing the China A-share market, investing in other

emerging or frontier markets and seeking greater access to other investors such as institutional retirement plans in Latin America. The Trustees viewed Matthews as well positioned to provide high quality services to the Funds under various market conditions, as demonstrated by the past volatile and challenging securities markets that have caused either contracting revenues or rapidly expanding assets at different times. The Trustees attributed much of that past stability to Matthews’ emphasis on preserving and enhancing portfolio management team resources, careful business planning and management, as well as its solid financial condition and strong cash reserves. As in past years, the Trustees considered the design and implementation of Matthews’ disaster recovery and business continuity plan. The Trustees also considered the Chief Compliance Officer’s report regarding the compliance resources, risk assessment and other initiatives, programs and structures of Matthews, including its compliance record and its supervision of the Funds’ service providers. The Trustees concluded that Matthews has high-quality compliance and a strong commitment to a culture of compliance. The Trustees have noted the improvements made in the transparency and strength of the process for valuing certain securities and the enhancement of risk-management activities. The Trustees concluded that Matthews had the quality of personnel and other investment resources essential to performing its duties under the Advisory Agreement, and that the nature, overall quality, cost and extent of such management services are fully satisfactory.

✿ **The investment performance of Matthews.** The Trustees reviewed the short-term and long-term performance of each Fund on both an absolute basis and in comparison to peer funds and benchmark indices. The Trustees noted the challenging conditions of various Asian markets in 2012 and through June 30, 2013, but would expect the performance of certain Funds to lag the market averages in some short-term periods because of Matthews’s emphasis on consistent long-term returns from investments in less cyclical companies. The Trustees also emphasized longer-term performance, which they believe is more important than short isolated periods for purposes of evaluating Matthews’s success in meeting Fund and shareholder objectives. To the extent of any concerns about performance with respect to any particular period for a Fund, the Trustees noted that Matthews had provided a satisfactory explanation for the performance and explained its reasons for maintaining a consistent investment philosophy. The Trustees also reviewed both the Lipper peer

## Approval of Investment Advisory Agreement *(Unaudited) (continued)*

comparison measures and Morningstar ratings for each Fund for various periods ending June 30, 2013.

For **Matthews Asia Growth Fund**, the Trustees noted that the Fund's performance compared very favorably against its peers for the one-year, three-year, five-year and since-inception periods. The Fund ranked in the top quintile against its peer group funds for those periods.

For **Matthews Asia Dividend Fund**, the Trustees noted that the Fund had performed well against its peer group during the three-year, five-year and since inception periods, ranking in the first or second quintile for those periods, and above the median for the peer group for the one-year period.

For **Matthews Pacific Tiger Fund**, the Trustees noted that the Fund's performance was favorable in the one-year, three-year, five-year, ten-year and since-inception periods, ranking in the first or second quintiles for those periods against the Lipper peer group.

For **Matthews Asian Growth and Income Fund**, the Trustees noted that the Fund outperformed its peer group during the one-year, three-year, five-year, ten-year and since-inception periods, ranking in the first or second quintile for most of those periods, and above median for the one-year period.

For **Matthews Asia Science and Technology Fund**, the Trustees noted that the Fund's performance was more favorable than the median return of its peer funds over the ten-year and since-inception periods, but less favorable than the average return of its peer funds over the one-year, three-year and five-year periods. The Trustees observed that the funds in the peer group invested globally, rather than being limited to Asia. The Lipper information also showed below average performance against six Asia-focused technology funds in the peer group for the one-year period. The Trustees noted the absence of a directly comparable peer group because some of those Asia-focused funds were limited to China or were index products. The Trustees also acknowledged Matthews' explanation about the very volatile asset class in which the Fund invests, which can produce variable relative results. The Trustees remained satisfied with Matthews' explanation of its investment strategy and process for this Fund.

For **Matthews China Fund**, the Trustees noted that the Fund had outperformed the median of its peer funds over the five-year, ten-year and since-inception periods, ranking in the top quintile for the ten-year and since inception periods. The

Trustees expressed some concern about the shorter-term below-median performance over the one- and three-year periods, but emphasized the greater importance of longer-term periods. The Trustees remained satisfied with Matthews' explanation of its investment strategy and process for this Fund.

For **Matthews India Fund**, the Trustees noted that the Fund had outperformed its peer funds over the three-year, five-year and since inception periods, ranking in the first or second quintile for those periods, but ranking at approximately the median level for its peer group for the one-year period.

For **Matthews Japan Fund**, the Trustees noted that the Fund's performance was favorable compared to its peer funds over the one-year, three-year, five-year, ten-year and since-inception periods, ranking in the first or second quintile.

For **Matthews Korea Fund**, the Trustees noted that the Fund had been the top-performing fund within its narrower Korean-focused peer group over the one-year, three-year, five-year, ten-year and since inception periods. The Trustees also noted that the Fund's performance varied considerably against its broader Lipper peer group for various periods, but they consider the broader peer group, which consists of Pacific-oriented funds excluding Japan, as much too broad to be a useful peer group for a Korea-focused fund. The more limited peer group contains funds with 50% or more of their assets in Korea.

For **Matthews Asia Small Companies Fund**, the Trustees noted that the Fund ranked in the top quintile among its peer groups for the one-year, three-year and since-inception periods. The Trustees noted that one of the peer groups consisted of Pacific-oriented funds excluding Japan, which the Trustees regarded as too broad to be useful because the market capitalization of the peer funds' portfolio investments was not used to select funds.

For **Matthews China Dividend Fund**, the Trustees noted that the Fund had ranked in the first or second quintile of its peer groups one-year, three-year and since inception periods.

For **Matthews China Small Companies Fund**, the Trustees noted that the Fund was the top fund in a very small peer group for the since-inception period and last for the one-year period of that peer group, but the reverse with respect to a broad peer group for those same periods, with top quintile results for the one-year period and below the median for the period since inception. The Trustees recognized that

## Approval of Investment Advisory Agreement *(Unaudited) (continued)*

small capitalization strategies can produce highly variable results and they emphasized the longer-term results, which are not yet available for this Fund. The Trustees regarded the broader peer group as less useful because the market capitalization of the peer funds' portfolio investments was not used to select funds.

For **Matthews Asia Strategic Income Fund**, the Trustees noted that the Fund had ranked below the median peer group performance for the short period since inception, but in the top quintile for the one-year period. The Trustees recognized that the peer groups included mostly broader emerging market debt funds not focused on Asia, meaning the Fund's relative performance could be more dependent on the relative performance of the Asian debt markets than portfolio management activity. The Trustees noted that the Fund's performance was more comparable to the very few funds with a greater focus on Asian debt.

For **Matthews Emerging Asia Fund and Matthews Asia Focus Fund**, the very brief period since inception has not afforded sufficient performance to conduct a meaningful comparison to any peer group. The Trustees believe, however, that the relative past performance of other Funds managed by Matthews' provides additional support for their renewal of the Advisory Agreement with respect to these two new Funds.

The Trustees noted the difficulty of fairly benchmarking certain of the Funds in terms of performance and noted that they were of the view that more weight should be given to Matthews's analysis of relative performance and comparability of the peer groups than to standard data provided by Lipper Inc. and Morningstar, Inc. The Trustees also gave more weight to each Fund's longer-term investment performance given the long-term investment philosophy of each Fund. On that basis, the Trustees concluded that they were satisfied with the Funds' overall performance records. The Trustees also reviewed Matthews's trading policies and efforts to obtain best overall execution for the Funds in the various markets in which the Funds trade securities, including the enhancement of trading of currencies during the period reviewed. The Trustees noted the relatively low turnover rates in the various equity Funds and Matthews's consistent adherence to its long-standing investment approach, which emphasizes fundamental bottom-up driven investment selection in light of its view of regional economic conditions.

\* **The extent to which Matthews realizes economies of scale as the Funds grow larger and whether Fund investors benefit from any economies of scale.** The Trustees discussed Matthews' ongoing investment in its technology, systems, staffing and other aspects of its business that can benefit the Funds, which is an acceptable way for Matthews to share economies of scale with the Funds and their shareholders. The Trustees considered the new personnel hired over the past year, as well as planned hiring, and the extent to which that hiring could be expected to benefit shareholders. The Trustees also recognize that the Funds' total assets have fluctuated over the past few years, especially in certain strategies, which has also affected any economies of scale that could be enjoyed. The Trustees concluded that the current advisory fee structure with breakpoints for the group-priced Funds (other than the two small company focused Funds, the new Emerging Asia Fund and the fixed-income Fund) enhances the ability of the Funds and their shareholders to benefit from past and future potential economies of scale, and continues to be appropriate given the size and objectives of the Funds. In addition, after extensive discussions with the Independent Trustees, Matthews agreed to provide an additional breakpoint reduction of 0.01% under each of its Administration and Shareholder Services Agreement for net assets over \$22.5 billion and under its Advisory Agreement for net assets of the group-priced Funds over \$25 billion, which has the effect of further sharing those economies. The Trustees remain comfortable about the extent to which economies of scale have been and will continue to be shared with the Funds and their shareholders.

\* **The costs of the services provided by Matthews and others.** The Trustees considered the advisory fees and total fees and expenses of each Fund in comparison to the advisory fees and other fees and expenses of other funds in each Fund's relevant peer group. The Trustees considered both the gross advisory fee rates charged by Matthews, as well as the effective advisory fee rates after taking into consideration the expense limitation arrangements and voluntary fee waivers. The Trustees found that the contractual advisory rates (excluding administrative services) for the Funds were very competitive and generally lower than the relevant peer group averages for most of the Funds. Also, the total expense ratios paid by investors in the Funds, which are most representative of an investor's net experience, were also very competitive, with all but the newer Funds ranking below the peer group averages.

For each of **Matthews Pacific Tiger Fund**,  
**Matthews Korea Fund**, **Matthews India Fund**,

## Approval of Investment Advisory Agreement *(Unaudited) (continued)*

**Matthews Japan Fund, Matthews China Fund, Matthews Asia Science and Technology Fund, Matthews Asian Growth and Income Fund, Matthews Asia Dividend Fund and Matthews Asia Growth Fund**, the Trustees noted that, with the limited exceptions noted below, the gross advisory fee rates, the gross management fee (including administration) rates, the total expense ratio, the effective advisory fee rates and the actual nonmanagement fee rates (which include transfer agent and custodian fees) are all lower than or equal to the median of the funds in each Fund's peer group. The total expenses for the **Matthews Asia Science and Technology Fund** are only slightly above the median if Rule 12b-1 expenses are excluded from the peer group.) The gross advisory fee rate for the **Matthews Japan Fund** is slightly higher than the peer group average.

For **Matthews Asia Small Companies Fund**, the Trustees noted that the gross advisory fee rate, actual advisory fees and actual total expenses excluding Rule 12b-1 fees are higher than the peer group median. The Trustees were pleased to note, however, that the actual total expenses and non-management expenses were below the peer group medians. The Trustees expect that the Fund's comparative position should improve as the Fund grows.

For **Matthews China Small Companies Fund**, the Trustees noted that the gross advisory fee rate and actual total and non-management expenses are higher than the peer group median. The Trustees expect that the Fund's comparative position should improve as the Fund grows.

For **Matthews China Dividend Fund**, the Trustees noted that the gross advisory fee rate, actual advisory fees and total expenses are lower than the peer group average. The Trustees expect that the Fund's comparative position should improve further as the Fund grows.

For **Matthews Asia Strategic Income Fund**, the Trustees noted that the gross advisory fee rate and total expenses excluding Rule 12b-1 fees are higher than the peer group median, but the actual total expenses are below the median because of the expense limitation in effect. The Trustees expect that given the Fund's relatively recent inception and limited size, its comparative position should improve further as the Fund grows.

For **Matthews Emerging Asia Fund and Matthews Asia Focus Fund**, the very brief period since inception means that the Funds remain small and subject to subsidies under expense limitation agreements. For that reason there is not sufficient

new expense information to conduct a meaningful comparison to any peer group beyond that done as part of the initial approval for these Funds.

The Trustees also compared Matthews's advisory fees with those of Matthews's separate accounts and other investment products, noting that the Funds' advisory expenses were not disadvantageous (not being substantially higher than the separate accounts' rates). Total expenses appeared to be appropriate in comparison and taking into account the services differences between these products and the Funds, including the differences in the frequency of net asset value calculations. The Trustees considered various specific Fund expenses, including the custody fees and transfer agent fees. The Trustees noted Matthews's efforts in recent years had resulted in, for many of the Funds, reduced expenses in some categories. The Trustees noted, in particular, the new partial subsidy by Matthews of certain intermediary expenses for the Institutional Class shares. The Trustees concluded that Matthews's advisory fee rates and the Funds' expense ratios are reasonable in light of comparative performance and expense and advisory fee information for each of the Funds.

### \* **The profits to be realized by Matthews and its affiliates from the relationships with the Funds.**

The Trustees reviewed the profitability of Matthews on both an absolute basis and in comparison to other investment advisers. The Trustees noted that Matthews's pretax profit margin appeared to be reasonable in relation to other advisers. The Trustees also noted that Matthews appeared to be sufficiently profitable to operate as a viable investment management firm, able to honor its obligations as a sponsor of the Funds, including the Funds that did not generate a profit for Matthews, without earning excessive profits from any particular Fund or from the overall relationship with the Funds. The Trustees noted that, with fluctuations in asset levels in some prior years, volatility in revenues and profitability could be expected from time to time, but also noted the continued expenditures on personnel and other resources. The Trustees noted an increase in profitability recently, but they are aware of the continued volatility of markets and assets that can result in continued fluctuations of profitability. The Trustees further noted that Matthews's continued upgrading of its trading, research, compliance, and other technological systems should increase Matthews's capacity, speed and reliability in providing services to the Funds as they grow, which further supports the long-term viability of the Funds and Matthews. The Trustees also considered that the additional benefits derived by Matthews from its

## Approval of Investment Advisory Agreement *(Unaudited) (continued)*

relationship with the Funds are limited solely to permissible research and brokerage benefits received in exchange for “soft dollars.” After that review, the Trustees determined that the profitability rate to Matthews with respect to the Advisory Agreement is fair and reasonable in consideration of the services it provides to the Funds.

No single factor was determinative of the Board’s decision to approve the Advisory Agreement, but rather the Trustees based their determination on the total mix of information available to them. After considering the factors described above, the Board concluded that the terms of the advisory arrangements are fair and reasonable to each Fund in light of the services that Matthews provides, its costs and reasonably foreseeable Fund asset levels, and that each Fund’s shareholders received and would receive reasonable value in return for the advisory

fees paid. The Board agreed that the continuance of the Advisory Agreement with respect to each Fund would be in the best interests of the Funds and their shareholders. The Independent Trustees concluded separately that continuance of the Advisory Agreement was supported by reasonable and impartial records and information, including the performance of the Funds in relation to their peer groups, the services provided by Matthews, and the competitive expense structure, and that the continuance of the Advisory Agreement with respect to each Fund would be in the best interests of each Fund and its shareholders.

The Advisory Agreement may be terminated by the Trustees on behalf of the Funds or by Matthews upon 60 days’ prior written notice without penalty. The Advisory Agreement will also terminate automatically in the event of its assignment, as defined in the 1940 Act.

## Trustees and Officers of the Funds *(Unaudited)*

The operations of each Fund are under the direction of the Board of Trustees. The Board of Trustees establishes each Fund's policies and oversees and reviews the management of each Fund. The Board meets regularly to review the activities of the officers, who are responsible for the day-to-day operations of the Funds. The Statement of Additional Information, which includes additional information about Fund Trustees, is available without charge by calling 800.789.2742 or by visiting the Funds' website, matthewsasias.com. The Trustees and executive officers of the Funds, their year of birth, business address and principal occupations during the past five years are set forth below:

Name, Year of Birth, Address and Position(s) Held with Trust	Term of Office and Length of Time Served <sup>1</sup>	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Trusteeships/Directorships (number of portfolios) Held by Trustee
<b>INDEPENDENT TRUSTEES</b>				
<b>GEOFFREY H. BOBROFF</b> Born 1944 Four Embarcadero Center Suite 550 San Francisco, CA 94111 Chairman of the Board of Trustees and Trustee	Since 2006	President, Bobroff Consulting, Inc. (since 1993).	15	Director (since February 2013), Matthews A Share Selections Fund, LLC (1 Portfolio).
<b>TOSHI SHIBANO</b> Born 1950 Four Embarcadero Center Suite 550 San Francisco, CA 94111 Trustee	Since 2003	President, Strategic Value Creation, Inc. (since 1995); Faculty, General Electric's John F. Welch Leadership Center (since 2000); Executive Education Lecturer, Center for Executive Education, Haas School of Business, UC Berkeley (since 1995); Adjunct Professor, Columbia Graduate School of Business (2000–2011); Associate Professor, Thunderbird Graduate School of Management (2001–2005), Visiting Assistant Professor, Stanford Graduate School of Business (2000); Assistant Professor, University of Chicago Graduate School of Business (1995–2000); Assistant Professor, Haas School of Business, UC Berkeley (1988–1995).	15	Director (since February 2013), Matthews A Share Selections Fund, LLC (1 Portfolio).
<b>RHODA ROSSMAN</b> Born 1958 Four Embarcadero Center Suite 550 San Francisco, CA 94111 Trustee	Since 2006	Vice President, Corporate Investment Officer (2007–2010); and Senior Vice President and Treasurer (2003–2007), The PMI Group, Inc.	15	Director (since February 2013), Matthews A Share Selections Fund, LLC (1 Portfolio).
<b>JONATHAN F. ZESCHIN</b> Born 1953 Four Embarcadero Center Suite 550 San Francisco, CA 94111 Trustee	Since 2007	Partner, Essential Investment Partners, LLC (since 2009); President, Essential Advisers Inc. (since 2000); Managing Partner, JZ Partners LLC (since 1998).	15	Director (since February 2013), Matthews A Share Selections Fund, LLC (1 Portfolio); Independent Chairman of the Board of Trustees, DCA Total Return Fund (2005–2011) (1 Portfolio) and DCW Total Return Fund (2007–2010) (1 Portfolio); Independent Trustee, ICON Funds (2002–2007) (17 Portfolios); Independent Director, Wasatch Funds (2002–2004) (10 Portfolios).
<b>RICHARD K. LYONS</b> Born 1961 Four Embarcadero Center Suite 550 San Francisco, CA 94111 Trustee	Since 2010	Dean (since 2008), Haas School of Business, UC Berkeley; Chief Learning Officer (2006–2008), Goldman Sachs; Executive Associate Dean (2005–2006), Acting Dean (2004–2005), Professor (2000–2004), Associate Professor (1996–2000), Assistant Professor (1993–1996), Haas School of Business, UC Berkeley.	15	Director (since February 2013), Matthews A Share Selections Fund, LLC (1 Portfolio); Director (2000–2006), iShares Fund Complex, consisting of iShares, Inc. (24 Portfolios) and iShares Trust (over 70 Portfolios) managed by Barclays Global Investors; Trustee (2001–2006), Barclays Global Investor Fund Complex, consisting of Barclays Global Investor Funds and Barclays Master Investment Portfolios (15 Portfolios); Independent Trustee, Matthews Asia Funds (1994–2006) (9 Portfolios).

Name, Year of Birth, Address and Position(s) Held with Trust	Term of Office and Length of Time Served <sup>1</sup>	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Trusteeships/Directorships (number of portfolios) Held by Trustee
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#### INTERESTED TRUSTEES<sup>2</sup>

<b>G. PAUL MATTHEWS</b> Born 1956 Four Embarcadero Center Suite 550 San Francisco, CA 94111 Trustee	Since 2007	Chairman (1996–2009), Managing Member (since 1996), Portfolio Manager (1996–2012), Director (since 2009), Chief Investment Officer (1991–2007), Matthews International Capital Management, LLC; President of the Funds (1994–2007).	15	Director (since February 2013), Matthews A Share Selections Fund, LLC (1 Portfolio); Director, Matthews Asian Selections Funds Plc (1 Portfolio).
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Name, Year of Birth, Address and Position(s) Held with Trust	Term of Office and Length of Time Served <sup>1</sup>	Principal Occupation(s) During Past 5 Years	Other Trusteeships/Directorships (number of portfolios) Held by Officer
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#### OFFICERS WHO ARE NOT TRUSTEES

<b>WILLIAM J. HACKETT</b> Born 1967 Four Embarcadero Center Suite 550 San Francisco, CA 94111 President	Since 2008	Chief Executive Officer (since 2009), President and Secretary (since 2007), Matthews International Capital Management, LLC; Partner (2002–2007), Deloitte & Touche, LLP.	Director, Matthews Asian Selections Funds Plc (1 Portfolio); Director, Matthews Asia Funds S.I.C.A.V. (7 Portfolios).
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<b>ROBERT J. HORROCKS, PHD</b> Born 1968 Four Embarcadero Center Suite 550 San Francisco, CA 94111 Vice President	Since 2009	Chief Investment Officer (Since 2009), Director of Research (2008–2009), Matthews International Capital Management, LLC; Head of Research, Mirae Asset Management (2006–2008); Chief Investment Officer, Everbright Pramerica (2003–2006).	None
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<b>JOHN P. MCGOWAN</b> Born 1964 Four Embarcadero Center Suite 550 San Francisco, CA 94111 Vice President and Secretary	Since 2005	Senior Vice President of Business Administration (since 2009), Chief Administrative Officer (2007–2008), Chief Operating Officer (2004–2007), Matthews International Capital Management, LLC; Chief Operating Officer, Treasurer and Chief Compliance Officer, Forward Management LLC (1998–2004).	Director, Matthews Asian Selections Funds Plc (1 Portfolio); Director, Matthews Asia Funds S.I.C.A.V. (7 Portfolios).
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<b>SHAI A. MALKA</b> Born 1973 Four Embarcadero Center Suite 550 San Francisco, CA 94111 Treasurer	Since 2005	Vice President of Fund Accounting and Operations (since 2010), Senior Manager of Fund Accounting and Operations (2004–2009), Matthews International Capital Management, LLC.	None
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<b>TIMOTHY B. PARKER</b> Born 1958 Four Embarcadero Center Suite 550 San Francisco, CA 94111 Vice President	Since 2008	General Counsel (since 2005), Matthews International Capital Management, LLC; Partner, Kirkpatrick & Lockhart Nicholson Graham LLP (2003–2005); Global Head of Compliance and Risk Management, Allianz Dresdner Asset Management (2001–2003); Managing Director, RCM Global Investors (1993–2001).	Director, Matthews Asia Funds S.I.C.A.V. (7 Portfolios).
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<b>MANOJ K. POMBRA</b> Born 1964 Four Embarcadero Center Suite 550 San Francisco, CA 94111 Chief Compliance Officer	Since 2005	Chief Compliance Officer, Matthews International Capital Management, LLC (since 2005); Senior Manager, Mutual Fund Compliance/Manager Portfolio Compliance, Franklin Templeton Investments (2001–2005).	None
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<sup>1</sup> Each trustee serves for an indefinite term, until retirement age or until his/her successor is elected. Officers serve at the pleasure of the Board of Trustees.

<sup>2</sup> This trustee is considered an "interested person" of the Trust as defined under the 1940 Act because of an ownership interest in the Advisor and an office held with the Advisor.

# Matthews Asia Funds

## INVESTMENT ADVISOR

Matthews International Capital Management, LLC  
Four Embarcadero Center, Suite 550  
San Francisco, CA 94111  
800.789.ASIA

## CUSTODIAN

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## ACCOUNT SERVICES

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## LEGAL COUNSEL

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San Francisco, CA 94105



# Matthews Asia

P.O. Box 9791 | Providence, RI 02940 | [matthewsasia.com](http://matthewsasia.com) | 800.789.ASIA (2742)

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Matthews Asia Funds are distributed in Latin America by HMC Partners



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