

Matthews Asia Funds | Semi-Annual Report

June 30, 2010 | matthewsasiasia.com

ASIA GROWTH AND INCOME STRATEGIES

Matthews Asian Growth and Income Fund

Matthews Asia Dividend Fund

Matthews China Dividend Fund

ASIA GROWTH STRATEGIES

Matthews Asia Pacific Fund

Matthews Pacific Tiger Fund

Matthews China Fund

Matthews India Fund

Matthews Japan Fund

Matthews Korea Fund

ASIA SMALL COMPANY STRATEGY

Matthews Asia Small Companies Fund

ASIA SPECIALTY STRATEGY

Matthews Asia Science and Technology Fund



Matthews Asia

Performance and Expenses

Through June 30, 2010

| | Average Annual Total Returns | | | | Inception Date | Total Annual Operating Expenses ¹ |
|--|------------------------------|---------|----------|--------------------|----------------|--|
| | 1 year | 5 years | 10 years | Since Inception | | |
| ASIA GROWTH AND INCOME STRATEGIES | | | | | | |
| Matthews Asian Growth and Income Fund | 20.50% | 10.04% | 13.38% | 10.91% | 9/12/94 | 1.17% |
| Matthews Asia Dividend Fund | 31.31% | n.a. | n.a. | 10.86% | 10/31/06 | 1.27% |
| After Fee Waiver, Reimbursement and Recoupment | | | | | | 1.30% ² |
| Matthews China Dividend Fund | n.a. | n.a. | n.a. | 3.39% ³ | 11/30/09 | 10.10% |
| After Fee Waiver, Reimbursement and Recoupment | | | | | | 1.50% ⁴ |
| ASIA GROWTH STRATEGIES | | | | | | |
| Matthews Asia Pacific Fund | 22.06% | 7.39% | n.a. | 9.43% | 10/31/03 | 1.27% |
| Matthews Pacific Tiger Fund | 27.16% | 13.74% | 11.13% | 8.81% | 9/12/94 | 1.13% |
| Matthews China Fund | 24.95% | 21.41% | 16.52% | 12.72% | 2/19/98 | 1.21% |
| Matthews India Fund | 49.31% | n.a. | n.a. | 17.25% | 10/31/05 | 1.27% |
| Matthews Japan Fund | 3.70% | -5.51% | -5.15% | 2.55% | 12/31/98 | 1.29% |
| Matthews Korea Fund | 31.69% | 7.17% | 11.48% | 4.37% | 1/3/95 | 1.30% |
| ASIA SMALL COMPANY STRATEGY | | | | | | |
| Matthews Asia Small Companies Fund | 42.44% | n.a. | n.a. | 32.57% | 9/15/08 | 2.10% |
| After Fee Waiver, Reimbursement and Recoupment | | | | | | 2.00% ⁵ |
| ASIA SPECIALTY STRATEGIES | | | | | | |
| Matthews Asia Science and Technology Fund | 30.17% | 7.38% | -0.33% | -1.81% | 12/27/99 | 1.39% |

¹ These figures are from the Funds' current prospectus and may differ from the actual expense ratios for the preceding fiscal year, as shown in the Financial Highlights section of this report.

² The Advisor has contractually agreed to waive Matthews Asia Dividend Fund's fees and reimburse expenses until at least August 31, 2010 to the extent needed to limit total annual operating expenses to 1.50%.

³ Actual return, not annualized.

⁴ The Advisor has contractually agreed to waive Matthews China Dividend Fund's fees and reimburse expenses until at least November 30, 2012 to the extent needed to limit total annual operating expenses to 1.50%.

⁵ The Advisor has contractually agreed to waive Matthews Asia Small Companies Fund's fees and reimburse expenses until at least April 30, 2012 to the extent needed to limit total annual operating expenses to 2.00%.

Investor Disclosure

Past Performance: All performance quoted in this report is past performance and is no guarantee of future results. Relatively high performance due to market conditions may not be sustainable or repeated in the future. 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 matthewsasia.com.

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 markets may involve additional risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. 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.

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 market timing 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.

Cover photo: Huc Bridge, Hanoi, Vietnam
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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 may be obtained at matthewsasia.com. Please read the prospectus carefully before you invest or send money.

The views and opinions in this report were current as of June 30, 2010. 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.

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.

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“The region faces great changes in the years ahead and it is, after all, comforting to think that the region may be flying on more than just one engine.”

Message to Shareholders from the Investment Advisor

Dear Fellow Shareholders,

In recent months, there has been a sharp divergence of performance among Asian markets. In the first half of this year, the Asia Pacific stock markets fell on average by about 7% in U.S. dollar terms. Most of this decline was accounted for by China (–16.5%), Taiwan (–10.5%), Australia (–16.8%) and New Zealand (–14.1%). That the regional index as a whole was not down by more is due largely to India (+2.1%) and ASEAN: Indonesia (+28.1%), Philippines (+14.0%), Thailand (+11.4%) and Malaysia (+9.8%). Much of this discrepancy is accounted for by concerns over excessive fixed asset investment in China in an environment of strong domestic demand in Asia overall.

Challenges for China

Caution was certainly warranted at the beginning of the year when the Asian growth story was perhaps being accepted too uncritically by the markets. That attitude appears to have given way to more skepticism. For example, one of Australia’s commodity producers, in comments that appear to be more widely accepted than in the past, argued that China’s economy is more likely to grow at an average rate closer to 6% rather than 9% annually, and that 9% is no longer a sustainable target. Similarly, many investors seem to have accepted the concerns voiced by economic commentators that China’s slowing property market may potentially damage its banking system. All in all, the mood of investors toward Asia has mellowed markedly. What has been surprising to me is the extent to which India has been able to “take up the slack” in terms of the performance of its stock market. The region faces great changes in the years ahead and it is, after all, comforting to think that the region may be flying on more than just one engine.

This skepticism, or perhaps realism, is welcome. While we don’t subscribe to the view that China’s past decade of growth was a debt-fueled bubble, China certainly faces challenges in the near term. Its demographic profile starts to age in a few years’ time. The country is facing a slowdown in demand in its important external markets at the same time that domestic wage pressures are on the rise. The answer seems simple—change economic policy to favor domestic demand. But the implications of this are far from simple. Higher consumption spending means lower savings and investment—that change alone should lower the overall growth rate of GDP. Raising consumption’s share of GDP probably means higher government spending, too. I believe this to be the case for two reasons: first, higher consumption shares of GDP in wealthier countries have also been achieved by means of higher government spending; second, instituting welfare reform, such as unemployment benefits and a national health plan would liberate some precautionary savings (i.e., savings for a rainy day like job loss or illness). All of these changes are being managed in an international atmosphere that is demanding a swifter response—allow appreciation of the currency or suffer possible protectionist retaliation. And these changes are encompassed in the phrase “rebalancing of the global economy” as if the answer was as simple as watching a child’s see-saw move back to equilibrium. However, the reality entails a multitude of frictions that are likely

to impede a smooth transition. Not least is trying to bring greater market discipline to China's property markets without causing all the benefits to accrue to a wealthy minority of the population amid a speculative fervor. China's desire to dampen speculation was partly responsible for the recent decision to allow the renminbi to appreciate and to implement strict controls on buying investment properties.

India's Resilience

Into the vacuum created by the increased nervousness over China has stepped India. For many years, India was treated as an afterthought in Asia investment. Since the reforms of the 1990s, the country has gained prominence and there are reasons to be optimistic. India does not face some of China's demographic challenges—it has one of the youngest profiles of any Asian nation. India's underdevelopment in infrastructure—to support both agriculture and manufacturing—is one of the issues its government, which for so long seemed to procrastinate, has more recently tackled with renewed vigor. The low growth rates of the 1980s (approximately 5%) have been replaced by growth in excess of 7%; this growth has been based on higher savings rates than in the past, probably making it more sustainable. In addition, the government remains committed to further reform. These advantages are, however, as always, not missed by the markets which accord a higher valuation to profits, cash flow and book value in India than they do in China.

Does this mean that the rose-tinted view of China has simply been replaced by over-optimism about India? Perhaps not. India certainly faces its own problems—its politics seem less stable than China's and its economy more prone to bursts of inflation, possibly due to an agricultural sector that is both a large share of the economy and which has arguably not received the investment that would make its output less vulnerable to seasonal monsoons. The private sector remains starved of capital by a government that siphons off bank deposits to support its debt issuance. The private sector, thus deprived, has perhaps been too ready to embrace foreign capital without proper evaluation of the risks. On the other hand, maybe I shouldn't have been surprised by India's resilience. Given the laundry list of requirements for the next round of Asia's growth story identified by institutions like the International Monetary Fund—stronger social safety nets, better infrastructure, financial sector deepening and more flexibility in exchange rates—India, where domestic demand accounts for a larger share of GDP than in China, seems as well-placed as any to take advantage of the new opportunities for growth.

What must never be too far from investors' minds, however, is that although some of these changes may happen "naturally," as the Western world has set a precedent for the evolution of market economies, these changes will also be supported, encouraged or challenged by government policy. One key risk is that as market optimism grows over the evolution of the region, economies like India may be pushed to change faster than their policy-makers feel is prudent—a risk akin to undeveloped capital markets trying to deal with a surge in portfolio investment. India has always been more reliant on external financing than China. ASEAN, in particular, with its smaller, more open economies may react to the optimistic demands of speculative foreign capital with tighter controls on that capital.

All of this—the transformation from one economic model to another—will take time and require new government policies. Waiting for new policies creates uncertainty, which in turn is generally bad for valuations. Markets have fallen back from the start of this year, from what were somewhat expensive levels in terms of the price of both earnings and book value, to what appear to be much more reasonable, if not marginally cheap. But some kinds of uncertainty should also be good for profits in the sense that profits are the reward to the entrepreneur for creating new markets. The degree to which a country has to reshape itself or its businesses to refocus should give rise to unexploited profitable opportunities. So we are mindful of the uncertainty surrounding Asia's future growth but also aware that uncertainty and profit are just two sides of the same coin. The key, as always, will be to try to keep looking at the long term and to invest as prudently as we can.

As always, it is a privilege to serve as your investment advisor for Asia.



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

ASIA GROWTH AND INCOME STRATEGIES



PORTFOLIO MANAGERS

Andrew Foster

Lead Manager

Robert J. Horrocks, PhD

Co-Manager

FUND FACTS

| | |
|----------------------|---------------|
| Ticker | MACSX |
| Inception Date | 9/12/94 |
| Assets | \$2.8 billion |
| NAV | \$15.82 |
| Total # of Positions | 86 |

Ratios

| | |
|---------------------|---------------------|
| Portfolio Turnover | 17.51% ¹ |
| Gross Expense Ratio | 1.17% ² |

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 equity securities and the convertible securities, of any duration or quality, of companies located in Asia.

Matthews Asian Growth and Income Fund

Portfolio Manager Commentary

For the first half of 2010, the Matthews Asian Growth and Income Fund gained 1.51%, outperforming its benchmark, the MSCI All Country Asia ex Japan Index, which fell -3.60%. For the quarter ended June 30, the Fund declined -2.51%, while its benchmark fell -4.86%.

The volatility that characterized markets during the early months of 2010 grew only more pronounced as the year wore on. During the second quarter, equities around the world retreated as fears grew that high levels of indebtedness would swamp the recent recovery in global economic activity. Though Europe and the U.S. were at the epicenter of such concerns, fear also spread to China, where investors worried that the beneficial impact of recent stimulus projects was beginning to fade.

Having toured China recently, it was indeed clear to me that the economy is undergoing a broad transition. It was evident that the country's past reliance on major capital investments to fuel growth (e.g., construction of infrastructure and property development) is waning. Likewise, the country has also utilized an export-centric growth model, where domestically manufactured products were shipped overseas for consumption. This model's ability to generate additional growth also appears compromised. China's already substantial level of development in its urban centers means that it cannot indefinitely sustain its rapid economic gains by undertaking ever more construction; nor can the country hope to export its way to ever greater levels of prosperity.

To be sure, China will shift away from these two economic models only gradually—in the years ahead, there will undoubtedly be more investment in poorer, inland areas. Meanwhile, other modes of growth are untested. Consequently I do not expect an abrupt shift, where policymakers abandon familiar investment-led and export-driven growth models. Yet my observations suggest a transition is nonetheless underway: China is beginning to shift its focus from external to domestic consumption, from manufacturing to services, from incremental capital investment to boosting human productivity. This change is most notable in individual companies, where we are beginning to see business models modified toward a greater service orientation. Examples include companies placing new strategic emphasis on software procurement. Other businesses, traditionally focused on equipment installation, have begun providing outsourced services for the ongoing operation and maintenance of that same equipment.

For this reason, the Fund has begun to emphasize investment in industries in which the economic potential is derived either from rising consumption, or from new, service-driven business models. Such industries are generally nascent within emerging Asia. If they prove successful, they have the potential to generate sustained,

(continued)

¹ The lesser of fiscal year 2009 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

² Matthews Asia Funds does not charge 12b-1 fees.

PERFORMANCE AS OF JUNE 30, 2010

| | Average Annual Total Returns | | | | | Inception 9/12/94 |
|---|------------------------------|--------|---------|---------|----------|----------------------|
| | 3 Months | 1 Year | 3 Years | 5 Years | 10 Years | |
| Matthews Asian Growth and Income Fund | -2.51% | 20.50% | 2.04% | 10.04% | 13.38% | 10.91% |
| MSCI AC Asia ex Japan Index ³ | -4.86% | 22.42% | -1.63% | 11.65% | 7.64% | 3.27% ⁴ |
| Lipper Pacific ex Japan Funds Category Average ⁵ | -6.05% | 22.03% | -2.58% | 10.93% | 7.77% | 4.45% ⁴ |

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.

INCOME DISTRIBUTION HISTORY

| | June | December | Total |
|-----------|--------|----------|--------|
| 2010 | \$0.19 | N/A | N/A |
| 2009 | \$0.22 | \$0.22 | \$0.44 |
| 2008 | \$0.25 | \$0.17 | \$0.42 |
| 2007 | \$0.22 | \$0.69 | \$0.91 |
| 1994–2006 | \$2.10 | \$2.47 | \$4.57 |

Note: This table does not include capital gains distributions.

30-DAY YIELD: 1.86%

The 30-Day Yield represents net investment income earned by the Fund over the 30-day period ended 6/30/10, 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.

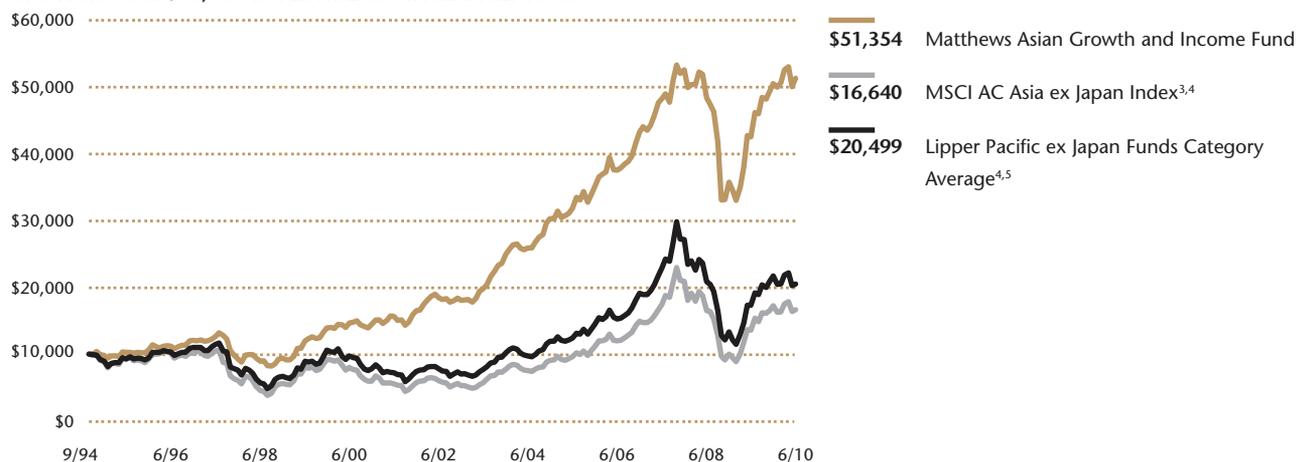
Source: BNY Mellon Investment Servicing (US) Inc.

DIVIDEND YIELD: 3.51%

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 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

GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION



Plotted monthly. The performance data and graph do 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\$.

³ 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 59 for index definitions.

⁴ Calculated from 8/31/94.

⁵ 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 HOLDINGS⁶

| | Country | % of Net Assets |
|--|-----------------|-----------------|
| Singapore Technologies Engineering, Ltd. | Singapore | 3.2% |
| CLP Holdings, Ltd. | China/Hong Kong | 2.9% |
| Taiwan Semiconductor Manufacturing Co., Ltd. | Taiwan | 2.6% |
| Hisamitsu Pharmaceutical Co., Inc. | Japan | 2.5% |
| China Petroleum & Chemical Corp. (Sinopec), Cnv., 0.000%, 04/24/2014 | China/Hong Kong | 2.4% |
| Hongkong Land CB 2005, Ltd., Cnv., 2.750%, 12/21/2012 | China/Hong Kong | 2.4% |
| Keppel Corp., Ltd. | Singapore | 2.2% |
| HSBC Holdings PLC | United Kingdom | 2.1% |
| Rafflesia Capital, Ltd., Cnv., 0.000%, 10/04/2011 | Malaysia | 2.1% |
| Hang Seng Bank, Ltd. | China/Hong Kong | 2.0% |
| % OF ASSETS IN TOP TEN | | 24.4% |

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

COUNTRY ALLOCATION (%)⁷

| | |
|--|------|
| China/Hong Kong | 29.8 |
| Singapore | 15.5 |
| Japan | 10.5 |
| India | 10.3 |
| South Korea | 7.9 |
| Taiwan | 6.0 |
| Malaysia | 5.4 |
| Thailand | 3.9 |
| United Kingdom | 2.1 |
| Vietnam | 2.0 |
| Australia | 1.4 |
| Indonesia | 1.3 |
| Philippines | 1.2 |
| Cash and Other Assets, Less Liabilities | 2.7 |

SECTOR ALLOCATION (%)

| | |
|--|------|
| Financials | 27.8 |
| Industrials | 17.0 |
| Information Technology | 11.3 |
| Telecommunication Services | 11.0 |
| Consumer Discretionary | 8.7 |
| Consumer Staples | 6.6 |
| Utilities | 5.9 |
| Health Care | 5.0 |
| Energy | 2.4 |
| Non Classified | 1.0 |
| Materials | 0.6 |
| Cash and Other Assets, Less Liabilities | 2.7 |

MARKET CAP EXPOSURE (%)⁸

| | |
|--|------|
| Large Cap (Over \$5B) | 51.8 |
| Mid Cap (\$1B-\$5B) | 34.4 |
| Small Cap (Under \$1B) | 10.2 |
| Non Classified | 1.0 |
| Cash and Other Assets, Less Liabilities | 2.7 |

BREAKDOWN BY SECURITY TYPE (%)⁸

| | |
|--|------|
| Common Equities | 65.2 |
| Convertible Bonds ⁹ | 25.6 |
| Preferred Equities | 3.1 |
| Corporate Bonds | 2.1 |
| Government Bonds | 1.0 |
| Warrants | 0.3 |
| Cash and Other Assets, Less Liabilities | 2.7 |

⁷ Australia, United Kingdom and Japan are not included in the MSCI All Country Asia ex Japan Index.

⁸ 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.

⁹ Convertible bonds are not included in the MSCI All Country Asia ex Japan Index.

Matthews Asian Growth and Income Fund

Portfolio Manager Commentary (continued)

long-term growth. Furthermore, such industries are typically under-represented or even absent from typical benchmark indices, as well as investor portfolios. The Fund thus strives to present a relatively unique set of economic exposures to its shareholders.

The Fund's focus can be illustrated by a common-stock position that was substantially augmented during the first half of this year: China Pacific Insurance Company (CPIC). Once a privately held insurance company, CPIC was launched as a subsidiary of one of Shanghai's leading commercial banks. Later, under Communist rule, CPIC was spun out of that bank and its ownership transferred to the municipality of Shanghai. Like many state-controlled financial institutions in China, CPIC sought a public listing via an IPO. The company first listed its shares in the local A-share market, accessible only to domestic investors. However, late last year, CPIC also successfully listed on the Hong Kong H-share market, accessible to foreigners. While the Fund does not invest in A shares, it participated in the Hong Kong IPO, and has grown its position steadily since.

The Fund's investment decision was motivated by the desire to build exposure to a fledgling set of financial services in China: namely insurance, pension services, and wealth planning and management. Insurance markets, while not new to China, are still relatively underpenetrated. As household wealth grows, so too should the demand for better insurance coverage and diversified products. Meanwhile, wealth planning and pension services are wholly new to the landscape. CPIC is an emerging leader in what are admittedly still very small markets. It has entered the trust and wealth management industries via acquisition, and it will likely be one of the companies engaged in a pilot program for a tax-deferred, defined contribution-style savings program akin to some U.S. long-term savings plans.

As we enter the latter half of the year, we do so with more reasonable valuations. We have been cautious over valuations in the last three quarters, which seemed excessive given the potential for sub-par growth, as well as the possibility of accelerating inflation. Valuations are now approachable for steady, long-term investors, but near-term risks remain: expectations for profits in the latter half of 2010 are still elevated, especially given inflation in materials and wages. Revisions in earnings forecasts may follow, which could well create volatility in stocks in the coming months. Meanwhile, as we have previously commented, inflationary pressures have surfaced, with wages and food prices undergoing sharp increases in some of the region's major economies. Happily, policymakers in Asia have finally begun to address this problem, though their response may ultimately invoke unwelcome measures such as credit rationing, or even capital controls. Amid this environment, the Fund continues to pursue a defensive approach while still seeking exposure to Asia's emerging growth industries.

Matthews Asian Growth and Income Fund

June 30, 2010

Schedule of Investments^a (unaudited)

COMMON EQUITIES: 65.2%

| | Shares | Value | | Shares | Value |
|---|-------------|--------------------|--|-------------|----------------------|
| CHINA/HONG KONG: 20.0% | | | SOUTH KOREA: 4.2% | | |
| CLP Holdings, Ltd. | 11,390,200 | \$82,443,334 | S1 Corp. | 953,615 | \$40,595,357 |
| Hang Seng Bank, Ltd. | 4,207,000 | 56,248,899 | GS Home Shopping, Inc.† | 432,419 | 27,022,032 |
| China Pacific Insurance Group Co., Ltd. H Shares | 14,063,000 | 55,639,584 | SK Telecom Co., Ltd. ADR | 1,646,333 | 24,250,485 |
| Hang Lung Properties, Ltd. | 14,509,920 | 55,499,673 | SK Telecom Co., Ltd. | 145,310 | 19,043,503 |
| Shandong Weigao Group Medical Polymer Co., Ltd. H Shares | 12,684,000 | 55,253,334 | Daehan City Gas Co., Ltd. | 342,790 | 7,980,896 |
| China Mobile, Ltd. ADR | 911,000 | 45,012,510 | Total South Korea | | 118,892,273 |
| Television Broadcasts, Ltd. | 9,447,000 | 43,807,114 | THAILAND: 3.9% | | |
| Vitasoy International Holdings, Ltd.† | 51,673,000 | 39,354,435 | BEC World Public Co., Ltd. | 41,573,400 | 35,079,484 |
| VTech Holdings, Ltd. | 3,217,300 | 34,408,343 | Land & Houses Public Co., Ltd. NVDR | 139,945,900 | 22,646,366 |
| I-CABLE Communications, Ltd.‡ | 128,079,000 | 19,418,552 | Glow Energy Public Co., Ltd. | 17,176,600 | 19,626,983 |
| Cafe' de Coral Holdings, Ltd. | 7,577,100 | 19,404,474 | Advanced Info Service Public Co., Ltd. | 6,590,700 | 17,571,055 |
| Hang Lung Group, Ltd. | 3,211,000 | 17,304,611 | Home Product Center Public Co., Ltd. | 38,777,000 | 8,455,537 |
| Inspur International, Ltd. | 182,450,000 | 16,162,133 | Thai Reinsurance Public Co., Ltd. NVDR | 39,261,300 | 7,138,173 |
| ASM Pacific Technology, Ltd. | 1,187,300 | 9,223,794 | Total Thailand | | 110,517,598 |
| China Green Holdings, Ltd. | 7,317,000 | 7,341,683 | UNITED KINGDOM: 2.1% | | |
| SinoCom Software Group, Ltd. | 45,482,000 | 6,590,372 | HSBC Holdings PLC ADR | 1,307,333 | 59,601,311 |
| China Communications Services Corp., Ltd. H Shares | 5,264,000 | 2,550,922 | Total United Kingdom | | 59,601,311 |
| Total China/Hong Kong | | 565,663,767 | INDIA: 1.4% | | |
| SINGAPORE: 11.6% | | | Oriental Bank of Commerce | 4,289,484 | 29,948,174 |
| Singapore Technologies Engineering, Ltd. | 38,613,125 | 90,267,514 | Housing Development Finance Corp. | 160,984 | 10,145,185 |
| Keppel Corp., Ltd. | 10,374,000 | 62,633,650 | Total India | | 40,093,359 |
| Ascendas REIT | 35,913,000 | 46,378,972 | AUSTRALIA: 1.4% | | |
| Hong Leong Finance, Ltd. | 13,651,000 | 29,178,878 | AXA Asia Pacific Holdings, Ltd. | 8,717,854 | 39,883,918 |
| Singapore Post, Ltd. | 32,915,000 | 26,551,135 | Total Australia | | 39,883,918 |
| Fraser and Neave, Ltd. | 6,699,100 | 24,496,827 | INDONESIA: 1.3% | | |
| Cerebos Pacific, Ltd. | 7,740,000 | 22,542,085 | PT Telekomunikasi Indonesia ADR | 1,073,900 | 36,759,597 |
| Parkway Holdings, Ltd. | 5,787,093 | 14,645,886 | Total Indonesia | | 36,759,597 |
| ARA Asset Management, Ltd. ^c | 11,652,000 | 8,960,457 | PHILIPPINES: 1.2% | | |
| K-Green Trust ^b | 2,074,800 | 1,556,879 | Globe Telecom, Inc. | 1,742,610 | 33,224,246 |
| Total Singapore | | 327,212,283 | Total Philippines | | 33,224,246 |
| JAPAN: 10.5% | | | VIETNAM: 1.0% | | |
| Hisamitsu Pharmaceutical Co., Inc. | 1,793,700 | 71,148,218 | Baoviet Holdings | 6,459,350 | 15,240,248 |
| Hamamatsu Photonics, K.K. | 2,000,000 | 55,560,075 | Vietnam Dairy Products JSC | 2,754,650 | 12,746,841 |
| Japan Real Estate Investment Corp., REIT | 6,209 | 50,576,027 | Total Vietnam | | 27,987,089 |
| Trend Micro, Inc. | 1,677,500 | 45,333,924 | MALAYSIA: 0.6% | | |
| Nippon Building Fund, Inc., REIT | 5,533 | 43,901,752 | YTL Power International BHD | 25,567,418 | 17,415,427 |
| Nintendo Co., Ltd. | 101,900 | 29,918,779 | Total Malaysia | | 17,415,427 |
| Total Japan | | 296,438,775 | TOTAL COMMON EQUITIES | | |
| TAIWAN: 6.0% | | | | | 1,843,180,637 |
| Taiwan Semiconductor Manufacturing Co., Ltd. | 25,520,187 | 47,698,348 | (Cost \$1,642,012,313) | | |
| Cathay Financial Holding Co., Ltd. ^b | 28,098,240 | 41,567,928 | | | |
| Chunghwa Telecom Co., Ltd. ADR | 1,596,907 | 31,443,099 | | | |
| Taiwan Semiconductor Manufacturing Co., Ltd. ADR | 2,679,324 | 26,150,202 | | | |
| CyberLink Corp. | 5,642,938 | 22,631,417 | | | |
| Total Taiwan | | 169,490,994 | | | |

Matthews Asian Growth and Income Fund

June 30, 2010

Schedule of Investments^a (unaudited) (continued)

PREFERRED EQUITIES: 3.1%

| | Shares | Value | | Face Amount | Value |
|---|---------|-------------------|---|------------------|--------------------|
| SOUTH KOREA: 3.1% | | | INDIA: 8.6% | | |
| Samsung Fire & Marine Insurance Co., Ltd., Pfd. | 474,811 | \$34,737,756 | Reliance Communication, Cnv. 0.000%, 05/10/2011 | \$35,915,000 | \$42,952,544 |
| Hyundai Motor Co., Ltd., Pfd. | 566,280 | 23,146,519 | Housing Development Finance Corp. 0.000%, 08/24/2012 | INR1,800,000,000 | 41,766,046 |
| LG Household & Health Care, Ltd., Pfd. | 210,290 | 17,407,965 | Tata Power Co., Ltd., Cnv. 1.750%, 11/21/2014 | 36,800,000 | 39,008,000 |
| Hyundai Motor Co., Ltd., 2nd Pfd. | 305,760 | 12,895,980 | Larsen & Toubro, Ltd., Cnv. 3.500%, 10/22/2014 | 27,000,000 | 31,964,220 |
| Total South Korea | | 88,188,220 | Tata Motors, Ltd., Cnv. 1.000%, 04/27/2011 | 25,149,000 | 31,341,941 |
| | | | Sintex Industries, Ltd., Cnv. 0.000%, 03/13/2013 | 28,400,000 | 28,968,000 |
| TOTAL PREFERRED EQUITIES | | 88,188,220 | Financial Technologies India, Ltd., Cnv. 0.000%, 12/21/2011 | 20,114,000 | 26,550,480 |
| (Cost \$47,130,700) | | | Total India | | 242,551,231 |

WARRANTS: 0.3%

| | | Value |
|---|---------|------------------|
| INDIA: 0.3% | | |
| Housing Development Finance Corp., expires 08/23/2012 | 778,480 | 8,682,369 |
| Total India | | 8,682,369 |
| TOTAL WARRANTS | | 8,682,369 |
| (Cost \$6,862,505) | | |

INTERNATIONAL BONDS: 28.7%

| | Face Amount | Value | | Face Amount | Value |
|--|----------------|--------------------|---|---------------|--------------------|
| CHINA/HONG KONG: 9.8% | | | SINGAPORE: 3.9% | | |
| China Petroleum & Chemical Corp. (Sinopec), Cnv. 0.000%, 04/24/2014 | HKD485,260,000 | 68,331,119 | Wilmar International, Ltd., Cnv. 0.000%, 12/18/2012 | 34,600,000 | 42,990,500 |
| Hongkong Land CB 2005, Ltd., Cnv. 2.750%, 12/21/2012 | 50,700,000 | 68,064,750 | Capitaland, Ltd., Cnv. 3.125%, 03/05/2018 | SGD58,500,000 | 41,336,293 |
| China High Speed Transmission Equipment Group Co., Ltd., Cnv. 0.000%, 05/14/2011 | CNY229,000,000 | 38,298,928 | Olam International, Ltd., Cnv. 6.000%, 10/15/2016 | 24,300,000 | 26,508,870 |
| Yue Yuen Industrial Holdings, Ltd., Cnv. 0.000%, 11/17/2011 | HKD246,300,000 | 36,342,922 | Total Singapore | | 110,835,663 |
| Power Regal Group, Ltd., Cnv. 2.250%, 06/02/2014 | HKD174,640,000 | 29,884,524 | VIETNAM: 1.0% | | |
| China Green Holdings, Ltd., Cnv. 0.000%, 10/29/2010 | CNY115,000,000 | 17,339,709 | Socialist Republic of Vietnam 6.875%, 01/15/2016 | 25,811,000 | 27,488,715 |
| PB Issuer, Ltd., Cnv. 3.300%, 02/01/2013 | 11,880,000 | 11,894,850 | Total Vietnam | | 27,488,715 |
| PB Issuer No. 2, Ltd., Cnv. 1.750%, 04/12/2016 | 7,870,000 | 7,334,840 | | | |
| Total China/Hong Kong | | 277,491,642 | | | |

Schedule of Investments^a (unaudited) (continued)

INTERNATIONAL BONDS (continued)

| | Face Amount | Value |
|--|--------------|------------------------|
| SOUTH KOREA: 0.6% | | |
| POSCO | | |
| 8.750%, 03/26/2014 | \$14,500,000 | \$17,197,000 |
| Total South Korea | | 17,197,000 |
| <hr/> | | |
| TOTAL INTERNATIONAL BONDS | | 811,576,001 |
| (Cost \$775,033,758) | | |
| <hr/> | | |
| TOTAL INVESTMENTS: 97.3% | | 2,751,627,227 |
| (Cost \$2,471,039,276 ^e) | | |
| <hr/> | | |
| CASH AND OTHER ASSETS, LESS LIABILITIES: 2.7% | | 75,802,387 |
| <hr/> | | |
| NET ASSETS: 100.0% | | \$2,827,429,614 |

- a Certain securities were fair valued under the discretion of the Board of Trustees (Note 1-A).
 - b Non-income producing security.
 - c 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.
 - d Variable rate security. The rate represents the rate in effect at June 30, 2010.
 - e Cost for federal income tax purposes is \$2,475,184,864 and net unrealized appreciation consists of:

| | |
|-------------------------------|----------------------|
| Gross unrealized appreciation | \$359,446,684 |
| Gross unrealized depreciation | (83,004,321) |
| Net unrealized appreciation | <u>\$276,442,363</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
 CNY Chinese Renminbi (Yuan)
 Cnv. Convertible
 HKD Hong Kong Dollar
 INR Indian Rupee
 JSC Joint Stock Co.
 NVDR Non-voting Depositary Receipt
 Pfd. Preferred
 REIT Real Estate Investment Trust
 SGD Singapore Dollar

See accompanying notes to financial statements.



PORTFOLIO MANAGERS

Jesper O. Madsen, CFA
Lead Manager

Andrew Foster
Co-Manager

FUND FACTS

| | |
|----------------------|-----------------|
| Ticker | MAPIX |
| Inception Date | 10/31/06 |
| Assets | \$835.5 million |
| NAV | \$12.51 |
| Total # of Positions | 68 |

Ratios

| | |
|--|---------------------|
| Portfolio Turnover | 32.41% ¹ |
| Gross Expense Ratio | 1.27% |
| After Fee Waiver, Reimbursement and Recoupment | 1.30% ² |

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 income-paying equity securities of companies located in the Asia region.

¹ The lesser of fiscal year 2009 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

² The Advisor has contractually agreed to waive certain fees and reimburse certain expenses for Matthews Asia Dividend Fund. Please see page 90 for additional information. Matthews Asia Funds does not charge 12b-1 fees.

Matthews Asia Dividend Fund

Portfolio Manager Commentary

For the first half of 2010, the Matthews Asia Dividend Fund gained 4.82%, outperforming its benchmark, the MSCI All Country Asia Pacific Index, which declined -5.18%. For the quarter ended June 30, the Fund fell -4.27% while its benchmark declined -9.35%. In June, the Fund distributed 7.96 cents per share, bringing its total year-to-date income distribution to 13.36 cents per share.

The second quarter proved to be yet another roller-coaster ride for investors. During the first quarter, the economies of the developed world were perceived to be on the mend with Asian economies continuing to post strong economic data. However, worries over sovereign risk came to the fore as questions were raised regarding the sustainability of debt levels of some European Union countries. As the second quarter came to a close, markets had forgotten about previous indications of recovery, and instead began pricing in the risk of a double-dip recession in developed economies and a “hard landing” in China. Asia was not immune to the fallout from Europe as equity markets declined globally and some currencies, such as Korea’s won, weakened. Some portfolio holdings with exposure to Europe were particularly weak in the second quarter—most notably, Hong Kong-based fashion retailer Esprit Holdings, which derives 85% of its sales from Europe. The position was added to the portfolio late last year after the company took full ownership of its joint venture in China, making Asia a greater focus for the company going forward.

Japanese companies continue to be the main contributor to Fund performance year-to-date, supported in part by the 5.2% appreciation of Japan’s yen. Our all-capitalization investment approach helped performance during the first six months of 2010 as companies with market capitalizations under US\$5 billion were the main contributors to performance. We continue to allocate to small- and mid-sized companies to enhance the Fund’s overall dividend growth profile. Portfolio holdings were consolidated as more attractive replacements were found for positions that had experienced strong appreciation since our initial investment. At the end of June, the Fund had 60 holdings* compared to 66 at the end of March.

During the second quarter, ARA Asset Management, a real estate asset manager with US\$10.4 billion under management, was added to the Fund. We have long followed the evolution of Asia’s real estate investment trust (REIT) market, but, to date, participated as investors only in listed REITs across the region. ARA Asset Management derives its earnings from the management fee paid by investors in its REITs and private funds. The company’s private funds have attracted high-profile international investors. The company is predominantly compensated based on the book value of the real estate under management. We believe ARA should benefit from

(continued)

* Holdings may combine more than one security from same issuer and related depositary receipts.

PERFORMANCE AS OF JUNE 30, 2010

| | Average Annual Total Returns | | | |
|---|------------------------------|--------|--------|--------------------|
| | 3 Months | 1 Year | 3 Year | Inception 10/31/06 |
| Matthews Asia Dividend Fund | -4.27% | 31.31% | 6.86% | 10.86% |
| MSCI AC Asia Pacific Index ³ | -9.35% | 11.89% | -7.33% | -1.92% |
| Lipper Pacific Region Funds Category Average ⁴ | -10.70% | 11.61% | -9.30% | -2.50% |

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.

INCOME DISTRIBUTION HISTORY

| | Q1 | Q2 | Q3 | Q4 | Total |
|---------------------------------|--------|--------|--------|--------|--------|
| 2010 | \$0.05 | \$0.08 | N/A | N/A | N/A |
| 2009 | \$0.10 | \$0.14 | \$0.13 | \$0.18 | \$0.55 |
| 2008 | \$0.06 | \$0.08 | \$0.11 | \$0.06 | \$0.31 |
| 2007 | — | \$0.10 | — | \$0.17 | \$0.27 |
| 2006 (Fund inception: 10/31/06) | — | — | — | \$0.02 | \$0.02 |

Note: This table does not include capital gains distributions. In March 2008, the Fund began to distribute investment income dividends on a quarterly rather than semi-annual basis. For additional details regarding Fund distributions, visit matthewsasiasia.com.

30-DAY YIELD: 2.93%

The 30-Day Yield represents net investment income earned by the Fund over the 30-day period ended 6/30/10, 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.

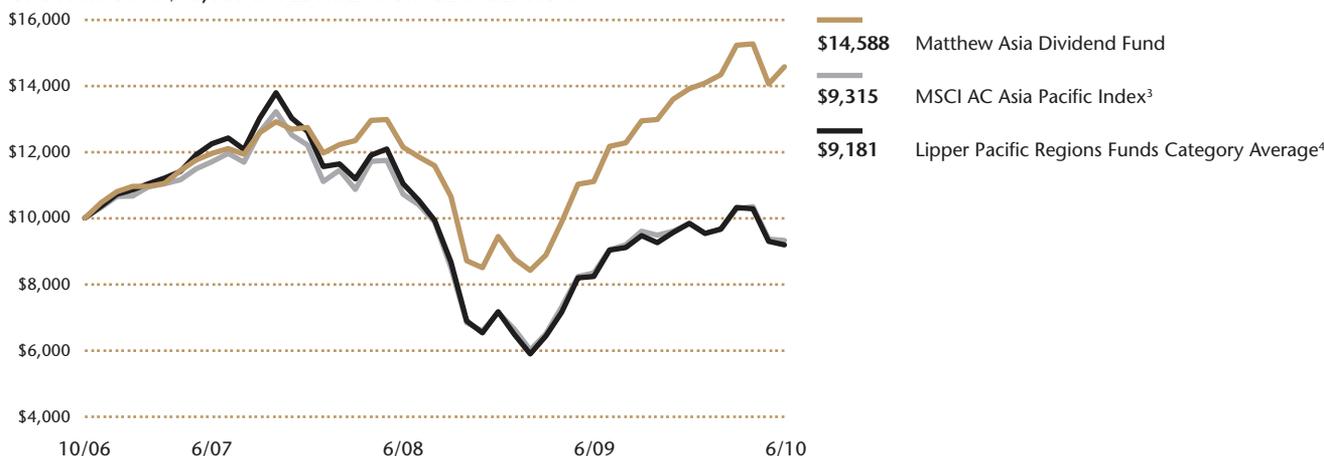
Source: BNY Mellon Investment Servicing (US) Inc.

DIVIDEND YIELD: 3.77%

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 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.

GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION



Plotted monthly. The performance data and graph do 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\$.

³ 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 59 for index definition.

⁴ 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 HOLDINGS⁵

| | Country | % of Net Assets |
|--|-----------------|-----------------|
| Cheung Kong Infrastructure Holdings, Ltd. | China/Hong Kong | 3.4% |
| China Mobile, Ltd. | China/Hong Kong | 3.2% |
| Taiwan Semiconductor Manufacturing Co., Ltd. | Taiwan | 3.1% |
| PT Telekomunikasi Indonesia | Indonesia | 2.9% |
| HSBC Holdings PLC | United Kingdom | 2.8% |
| Chunghwa Telecom Co., Ltd. | Taiwan | 2.8% |
| SK Telecom Co., Ltd. | South Korea | 2.7% |
| Hisamitsu Pharmaceutical Co., Inc. | Japan | 2.6% |
| PT Perusahaan Gas Negara | Indonesia | 2.5% |
| Globe Telecom, Inc. | Philippines | 2.5% |
| % OF ASSETS IN TOP TEN | | 28.5% |

⁵ Holdings may combine more than one security from same issuer and related depository receipts.

COUNTRY ALLOCATION (%)⁶

| | |
|--|------|
| Japan | 24.2 |
| China/Hong Kong | 23.1 |
| South Korea | 10.5 |
| Taiwan | 9.9 |
| Indonesia | 6.6 |
| Thailand | 6.1 |
| Australia | 5.1 |
| Singapore | 3.8 |
| United Kingdom | 2.8 |
| Philippines | 2.5 |
| Malaysia | 1.6 |
| Cash and Other Assets, Less Liabilities | 3.8 |

SECTOR ALLOCATION (%)

| | |
|--|------|
| Telecommunication Services | 16.1 |
| Financials | 15.9 |
| Consumer Staples | 14.4 |
| Consumer Discretionary | 14.4 |
| Information Technology | 11.6 |
| Utilities | 7.6 |
| Health Care | 7.4 |
| Industrials | 5.5 |
| Energy | 1.9 |
| Materials | 1.4 |
| Cash and Other Assets, Less Liabilities | 3.8 |

MARKET CAP EXPOSURE (%)⁷

| | |
|--|------|
| Large Cap (Over \$5B) | 41.4 |
| Mid Cap (\$1B-\$5B) | 36.6 |
| Small Cap (Under \$1B) | 18.2 |
| Cash and Other Assets, Less Liabilities | 3.8 |

⁶ The United Kingdom is not included in the MSCI All Country Asia Pacific Index.

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.

Matthews Asia Dividend Fund

Portfolio Manager Commentary (continued)

the ongoing expansion of both listed and privately held real estate investment vehicles in Asia, making the company a good supplement to the Fund's REIT holdings.

The main factor behind the lower dividend distribution for the Fund year-to-date, compared to the same period last year, was mainly due to higher equity valuations. The Fund's investment objective is total return, of which, dividends constitute one essential component alongside capital appreciation. Since the inception of the Fund, approximately one-third of the total return has been derived from dividends, with the remainder from capital appreciation. The benefit of being a dividend-focused investor is not only the tangible benefit of the dividends received. The ability to pay consistent and growing dividends often signals companies that exhibit solid market positions, sustainable business models and better management teams. Dividend payments can indicate to minority investors that the earnings generated are real since money has to be earned before it can be paid out. From a corporate governance standpoint, minority investors have greater assurance that they will partake fully in the growth of such companies since they are paid in accordance with their ownership, thereby lowering the risk of cash being siphoned off by majority shareholders. While our investment strategy and method of identifying attractive companies remain unchanged, the dividend yields available today have compressed compared to a year ago.

Market gyrations often prompt investors into a short-term mode of trying to time the markets. This often means trading based on the "noise" of the market instead of on the longer-term fundamentals. For those who can look beyond the noise, Asian companies continue to offer long-term investors the potential for dividend growth at attractive yields.

Schedule of Investments^a (unaudited)

COMMON EQUITIES: 95.7%

| | Shares | Value | | Shares | Value |
|--|------------|--------------------|--|------------|-------------------|
| JAPAN: 23.7% | | | TAIWAN: 9.9% | | |
| Hisamitsu Pharmaceutical Co., Inc. | 557,200 | \$22,101,682 | Chunghwa Telecom Co., Ltd. ADR | 1,038,070 | \$20,439,598 |
| Monex Group, Inc. | 47,419 | 19,442,534 | Taiwan Semiconductor Manufacturing Co., Ltd. ADR | 1,600,040 | 15,616,390 |
| Hamamatsu Photonics, K.K. | 687,700 | 19,104,332 | St. Shine Optical Co., Ltd. | 1,611,000 | 12,831,832 |
| ITOCHU Corp. | 2,055,000 | 16,064,890 | CyberLink Corp. | 2,767,860 | 11,100,706 |
| Shinko Plantech Co., Ltd. | 1,802,700 | 15,961,739 | Taiwan Semiconductor Manufacturing Co., Ltd. | 5,346,469 | 9,992,785 |
| Pigeon Corp. | 404,500 | 14,922,988 | HTC Corp. | 728,000 | 9,667,918 |
| ORIX Corp. | 203,000 | 14,706,294 | Chunghwa Telecom Co., Ltd. | 1,403,705 | 2,779,435 |
| Point, Inc. | 261,000 | 14,315,590 | Total Taiwan | | 82,428,664 |
| EPS Co., Ltd. | 4,680 | 11,832,660 | INDONESIA: 6.6% | | |
| Lawson, Inc. | 268,200 | 11,730,481 | PT Perusahaan Gas Negara | 50,085,000 | 21,232,055 |
| United Urban Investment Corp., REIT | 1,850 | 11,042,527 | PT Telekomunikasi Indonesia ADR | 485,102 | 16,605,042 |
| Nintendo Co., Ltd. | 30,900 | 9,072,525 | PT Ramayana Lestari Sentosa | 89,013,000 | 9,355,853 |
| Shiseido Co., Ltd. | 312,000 | 6,876,883 | PT Telekomunikasi Indonesia | 9,336,500 | 7,913,745 |
| Fanuc, Ltd. | 56,100 | 6,334,956 | Total Indonesia | | 55,106,695 |
| Sysmex Corp. | 85,000 | 4,827,487 | THAILAND: 6.1% | | |
| Total Japan | | 198,337,568 | Thai Beverage Public Co., Ltd. | 68,610,000 | 13,726,756 |
| CHINA/HONG KONG: 23.1% | | | Siam Makro Public Co., Ltd. | 2,130,000 | 7,220,176 |
| Cheung Kong Infrastructure Holdings, Ltd. | 7,715,000 | 28,579,095 | Glow Energy Public Co., Ltd. | 6,110,400 | 6,982,099 |
| China Mobile, Ltd. ADR | 536,000 | 26,483,760 | LPN Development Public Co., Ltd. | 25,126,300 | 6,565,017 |
| Television Broadcasts, Ltd. | 3,839,000 | 17,802,002 | Major Cineplex Group Public Co., Ltd. | 22,100,900 | 6,371,097 |
| The Link REIT | 6,830,000 | 16,947,751 | Land & Houses Public Co., Ltd. NVDR | 38,358,200 | 6,207,212 |
| China Communications Services Corp., Ltd. H Shares | 34,660,000 | 16,748,023 | LPN Development Public Co., Ltd. NVDR | 8,000,000 | 2,090,245 |
| Jiangsu Expressway Co., Ltd. H Shares | 14,674,000 | 13,271,653 | Land & Houses Public Co., Ltd. | 10,267,400 | 1,757,706 |
| Esprit Holdings, Ltd. | 2,300,000 | 12,354,133 | Total Thailand | | 50,920,308 |
| China Fishery Group, Ltd. | 8,462,000 | 11,700,050 | AUSTRALIA: 5.1% | | |
| Kingboard Laminates Holdings, Ltd. | 13,710,500 | 11,528,708 | Metcash, Ltd | 5,934,624 | 20,858,584 |
| Yip's Chemical Holdings, Ltd. | 11,278,000 | 11,384,486 | Coca-Cola Amatil, Ltd. | 1,389,730 | 13,915,136 |
| Cafe' de Coral Holdings, Ltd. | 3,094,000 | 7,923,538 | Billabong International, Ltd. | 1,032,413 | 7,497,486 |
| CLP Holdings, Ltd. | 929,500 | 6,727,808 | Total Australia | | 42,271,206 |
| VTech Holdings, Ltd. | 557,000 | 5,956,997 | SINGAPORE: 3.8% | | |
| Minth Group, Ltd. | 4,933,000 | 5,828,526 | CapitaRetail China Trust, REIT | 14,415,000 | 12,695,017 |
| Total China/Hong Kong | | 193,236,530 | ARA Asset Management, Ltd. ^b | 12,809,000 | 9,850,197 |
| SOUTH KOREA: 10.5% | | | Venture Corp., Ltd. | 767,000 | 4,867,631 |
| KT&G Corp. | 395,500 | 19,443,124 | Parkway Life REIT | 4,695,868 | 4,545,720 |
| Grand Korea Leisure Co., Ltd. | 940,000 | 18,362,989 | Total Singapore | | 31,958,565 |
| SK Telecom Co., Ltd. ADR | 959,350 | 14,131,226 | UNITED KINGDOM: 2.8% | | |
| MegaStudy Co., Ltd. | 93,000 | 12,288,027 | HSBC Holdings PLC ADR | 462,791 | 21,098,642 |
| S1 Corp. | 233,880 | 9,956,263 | HSBC Holdings PLC | 256,133 | 2,348,314 |
| SK Telecom Co., Ltd. | 64,316 | 8,428,889 | Total United Kingdom | | 23,446,956 |
| Cheil Worldwide, Inc. | 441,450 | 4,617,604 | PHILIPPINES: 2.5% | | |
| Total South Korea | | 87,228,122 | Globe Telecom, Inc. | 1,110,820 | 21,178,667 |
| | | | Total Philippines | | 21,178,667 |

Schedule of Investments^a (unaudited) (continued)

COMMON EQUITIES (continued)

| | Shares | Value |
|------------------------------|-----------|--------------------|
| MALAYSIA: 1.6% | | |
| Top Glove Corp. BHD | 2,445,700 | \$10,336,668 |
| Media Prima BHD | 4,931,200 | 3,202,005 |
| Total Malaysia | | 13,538,673 |
| TOTAL COMMON EQUITIES | | 799,651,954 |
| (Cost \$765,154,348) | | |

INTERNATIONAL BONDS: 0.5%

| | Face Amount | |
|--|----------------|--------------------|
| JAPAN: 0.5% | | |
| ORIX Corp., Cnv. 1.000%, 03/31/2014 | JPY310,000,000 | 3,865,577 |
| Total Japan | | 3,865,577 |
| TOTAL INTERNATIONAL BONDS | | 3,865,577 |
| (Cost \$3,375,315) | | |
| TOTAL INVESTMENTS: 96.2% | | 803,517,531 |
| (Cost \$768,529,663 ^c) | | |

| | |
|--|----------------------|
| CASH AND OTHER ASSETS, LESS LIABILITIES: 3.8% | 32,029,441 |
| NET ASSETS: 100.0% | \$835,546,972 |

- a Certain securities were fair valued under the discretion of the Board of Trustees (Note 1-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 Cost for federal income tax purposes is \$769,736,751 and net unrealized appreciation consists of:

| | |
|-------------------------------|---------------------|
| Gross unrealized appreciation | \$67,171,654 |
| Gross unrealized depreciation | (33,390,874) |
| Net unrealized appreciation | <u>\$33,780,780</u> |

ADR American Depositary Receipt
 BHD Berhad
 Cnv. Convertible
 JPY Japanese Yen
 NVDR Non-voting Depositary Receipt
 REIT Real Estate Investment Trust

See accompanying notes to financial statements.



PORTFOLIO MANAGERS

Jesper O. Madsen, CFA
Lead Manager

Richard H. Gao
Co-Manager

FUND FACTS

| | |
|----------------------|----------------|
| Ticker | MCDFX |
| Inception Date | 11/30/09 |
| Assets | \$14.4 million |
| NAV | \$10.22 |
| Total # of Positions | 39 |

Ratios

| | |
|--|--------------------|
| Portfolio Turnover | 0.00% ¹ |
| Gross Expense Ratio | 10.10% |
| After Fee Waiver, Reimbursement and Recoupment | 1.50% ² |

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 income-paying equity securities of companies located in China and Taiwan. China includes its administrative and other districts, such as Hong Kong.

- 1 The lesser of fiscal year 2009 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.
- 2 The Advisor has contractually agreed to waive certain fees and reimburse certain expenses for Matthews China Dividend Fund. Please see page 90 for additional information. Matthews Asia Funds does not charge 12b-1 fees.

Matthews China Dividend Fund

Portfolio Manager Commentary

For the first half of 2010, the Matthews China Dividend Fund gained 1.56%, while its benchmark, the MSCI China Index, declined -5.98%. For the quarter ended June 30, the Fund fell -1.06% and the benchmark declined -4.48%. In June, the Fund made its inaugural semi-annual distribution of 12.07 cents per share.

Chinese equity markets were volatile during the first half of 2010 as investors found reason to fret about the potential impact of a bubble bursting within the real estate sector, rising inflationary pressures and the potential for a “hard landing” in terms of slowing GDP growth. The Chinese government is facing the difficult balancing act of maintaining sufficient fiscal and monetary stimulus to ensure ongoing economic growth, without having it result in inflation within both the general economy and asset prices. This balancing act became apparent during the first six months of the year as the government tried to put the brakes on the real estate sector in which rising prices in larger cities increasingly made affordability an issue. The government imposed directives in quick succession in an attempt to dampen speculative activity, both by banks, developers and property buyers. For buyers, minimum down payment requirements were increased from 20% to 30% for second homes, and in some localities, loans for third homes were no longer available. The real estate sector is important to the Chinese economy, as it provides jobs, generates tax revenues and constitutes an important part of the banking sector’s loan book. It is also a cornerstone in the creation of a consuming middle class.

A needed upgrade of China’s housing stock combined with ongoing urbanization underpins the structural demand for housing. To attract capital to the sector, asset values will likely have to appreciate over time. However, appreciation in excess of household purchasing power creates affordability issues. Given the scale of the structural shortage of housing in China and the above-mentioned balancing act, the volatility surrounding the real estate sector is likely to continue for years to come. The Fund is currently achieving exposure to this structurally important sector via holdings in Hong Kong and Singapore due to the greater degree of transparency compared to that of mainland banks and developers.

During the second quarter, the “de-pegging” of the renminbi (RMB) and rising wages in China’s manufacturing industries underscored the rationale for the Fund’s focus on investing in companies that cater to the domestic household. In effect, these developments amount to a transfer of wealth and purchasing power to Chinese workers from consumers in countries that import Chinese goods. With currency appreciation, Chinese companies with dollar-denominated input costs can purchase greater quantities of raw materials for the same amount of RMB. The Fund will continue to focus on domestically oriented companies.

(continued)

PERFORMANCE AS OF JUNE 30, 2010

Actual Returns, Not Annualized

| | 3 Month | Inception 11/30/09 |
|--|---------|-----------------------|
| Matthews China Dividend Fund | -1.06% | 3.39% |
| MSCI China Index ³ | -4.48% | -5.55% |
| Lipper China Funds Category Average ⁴ | -8.60% | -6.54% |

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.

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\$.

³ 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 59 for index definition.

⁴ 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 HOLDINGS⁵

| | Sector | % of Net Assets |
|--|----------------------------|-----------------|
| Cheung Kong Infrastructure Holdings, Ltd. | Utilities | 5.3% |
| China Mobile, Ltd. | Telecommunication Services | 4.8% |
| Chunghwa Telecom Co., Ltd. | Telecommunication Services | 4.0% |
| Taiwan Semiconductor Manufacturing Co., Ltd. | Information Technology | 3.8% |
| Television Broadcasts, Ltd. | Consumer Discretionary | 3.6% |
| CapitaRetail China Trust, REIT | Financials | 3.6% |
| Jiangsu Expressway Co., Ltd. | Industrials | 3.4% |
| HSBC Holdings PLC | Financials | 3.4% |
| Cafe' de Coral Holdings, Ltd. | Consumer Discretionary | 3.3% |
| The Link REIT | Financials | 3.2% |
| % OF ASSETS IN TOP TEN | | 38.4% |

⁵ Holdings may combine more than one security from same issuer and related depositary receipts.

Matthews China Dividend Fund

Portfolio Manager Commentary (continued)

The Fund's holdings within the health care sector continued to be the main contributors to performance year-to-date. On a capitalization basis, the Fund's investments in small- and medium-size companies contributed most to performance. The Fund invests extensively in companies with a market capitalization of less than US\$5 billion since such smaller firms often have higher dividend growth potential. The Fund tries to complement this exposure with holdings in larger companies in an effort to balance growth in dividends, with the potential for greater stability and higher yields often offered by larger firms.

We, like other foreign investors who do not invest in Chinese A shares but are trying to achieve liquid exposure to RMB-denominated assets, often must do so via proxies. China Mobile, China's largest telecommunication company and the Fund's second-largest holding is one such proxy. China Mobile encapsulates the scale of the Chinese population and few companies can match its ability to generate RMB-based cash flow. The company has about 550 million subscribers, who pay about US\$11 a month on average in subscription fees. Annually, the company generates US\$31 billion in cash flow from operations, while it has US\$34 billion in net cash on the balance sheet. Even after spending US\$17 billion on capital expenditures and US\$7 billion in dividend payments, it still has an excess of US\$6 billion. The company does, however, face ongoing challenges from downward trending subscription fees. Because China Mobile is a state-controlled enterprise, ultimately, the government's interest takes priority over minority shareholders. The Fund generally tries to steer away from state-controlled companies and instead invest in companies run by entrepreneurs in which rising profits are the main objective. However, with a market capitalization of US\$200 billion, a listing in Hong Kong and an ADR (American Depositary Receipt), the company offers liquid exposure to an asset with the potential to generate growing RMB earnings. Furthermore, the company trades at a dividend yield of 3.5%, making it a prime candidate for the Fund.

The first half of 2010 underscored the longer-term attractiveness of investing in Chinese dividend-paying companies that have a domestic orientation. These companies stand to benefit both from potential currency appreciation as well as the rising purchasing power enjoyed by households as wages increase. These will be important structural factors underpinning both earnings and dividend growth over the long term.

| COUNTRY ALLOCATION (%) | |
|--|------|
| China/Hong Kong | 75.3 |
| Taiwan | 14.2 |
| Singapore | 3.5 |
| United Kingdom | 3.4 |
| Cash and Other Assets, Less Liabilities | 3.6 |

| SECTOR ALLOCATION (%) | |
|--|------|
| Financials | 18.1 |
| Utilities | 13.5 |
| Information Technology | 13.3 |
| Consumer Discretionary | 13.3 |
| Telecommunication Services | 11.8 |
| Industrials | 7.4 |
| Health Care | 5.9 |
| Consumer Staples | 5.6 |
| Energy | 5.0 |
| Materials | 2.5 |
| Cash and Other Assets, Less Liabilities | 3.6 |

| MARKET CAP EXPOSURE (%) ⁶ | |
|--|------|
| Large Cap (Over \$5B) | 43.7 |
| Mid Cap (\$1B-\$5B) | 33.7 |
| Small Cap (Under \$1B) | 19.0 |
| Cash and Other Assets, Less Liabilities | 3.6 |

⁶ 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

June 30, 2010

Schedule of Investments^a (unaudited)

COMMON EQUITIES: 96.4%

| | Shares | Value | | Shares | Value |
|---|-----------|------------------|---|---------|------------------|
| FINANCIALS: 18.1% | | | CONSUMER DISCRETIONARY: 13.3% | | |
| Real Estate Investment Trusts: 6.7% | | | Textiles, Apparel & Luxury Goods: 5.1% | | |
| CapitaRetail China Trust, REIT | 580,000 | \$510,795 | Ports Design, Ltd. | 162,000 | \$412,044 |
| The Link REIT | 184,000 | 456,572 | Shenzhou International Group Holdings, Ltd. | 281,000 | 320,799 |
| | | <u>967,367</u> | | | <u>732,843</u> |
| Commercial Banks: 6.4% | | | Media: 3.6% | | |
| HSBC Holdings PLC ADR | 10,700 | 487,813 | Television Broadcasts, Ltd. | 112,000 | 519,360 |
| Hang Seng Bank, Ltd. | 31,600 | 422,502 | | | |
| | | <u>910,315</u> | Hotels, Restaurants & Leisure: 3.3% | | |
| Real Estate Management & Development: 3.5% | | | Cafe' de Coral Holdings, Ltd. | 186,000 | 476,334 |
| Swire Pacific, Ltd. A Shares | 23,500 | 266,754 | Auto Components: 1.0% | | |
| Hang Lung Properties, Ltd. | 61,000 | 233,322 | Xinyi Glass Holdings Co., Ltd. | 400,000 | 150,310 |
| | | <u>500,076</u> | Multiline Retail: 0.3% | | |
| Capital Markets: 1.1% | | | PCD Stores, Ltd. ^b | 114,100 | 35,417 |
| Yuanta Financial Holding Co., Ltd. | 302,000 | 161,209 | Total Consumer Discretionary | | |
| | | | | | <u>1,914,264</u> |
| Insurance: 0.4% | | | TELECOMMUNICATION SERVICES: 11.8% | | |
| China Pacific Insurance Group Co., Ltd. H Shares | 15,000 | 59,347 | Diversified Telecommunication Services: 7.0% | | |
| Total Financials | | <u>2,598,314</u> | Chunghwa Telecom Co., Ltd. ADR | 28,909 | 569,218 |
| | | | China Communications Services Corp., Ltd. H Shares | 890,000 | 430,056 |
| UTILITIES: 13.5% | | | | | <u>999,274</u> |
| Electric Utilities: 8.2% | | | Wireless Telecommunication Services: 4.8% | | |
| Cheung Kong Infrastructure Holdings, Ltd. | 205,000 | 759,393 | China Mobile, Ltd. ADR | 14,030 | 693,222 |
| CLP Holdings, Ltd. | 58,000 | 419,809 | Total Telecommunication Services | | |
| | | <u>1,179,202</u> | | | <u>1,692,496</u> |
| Water Utilities: 3.0% | | | INDUSTRIALS: 7.4% | | |
| Guangdong Investment, Ltd. | 916,000 | 431,248 | Transportation Infrastructure: 5.8% | | |
| Gas Utilities: 2.3% | | | Jiangsu Expressway Co., Ltd. H Shares | 548,000 | 495,629 |
| Hong Kong & China Gas Co., Ltd. | 134,200 | 331,844 | China Merchants Holdings International Co., Ltd. | 100,000 | 330,125 |
| Total Utilities | | <u>1,942,294</u> | | | <u>825,754</u> |
| INFORMATION TECHNOLOGY: 13.3% | | | Electrical Equipment: 1.6% | | |
| Electronic Equipment, Instruments & Components: 4.1% | | | Hangzhou Steam Turbine Co., Ltd. B Shares | 158,340 | 236,137 |
| Kingboard Laminates Holdings, Ltd. | 457,000 | 384,276 | Total Industrials | | |
| Digital China Holdings, Ltd. | 137,000 | 209,304 | | | <u>1,061,891</u> |
| | | <u>593,580</u> | HEALTH CARE: 5.9% | | |
| Semiconductors & Semiconductor Equipment: 3.8% | | | Health Care Equipment & Supplies: 3.2% | | |
| Taiwan Semiconductor Manufacturing Co., Ltd. | 290,000 | 542,023 | St. Shine Optical Co., Ltd. | 57,000 | 454,013 |
| Software: 3.0% | | | Pharmaceuticals: 2.7% | | |
| CyberLink Corp. | 78,000 | 312,825 | The United Laboratories, Ltd. | 288,000 | 391,875 |
| Kingsoft Corp., Ltd. | 265,000 | 128,048 | Total Health Care | | |
| | | <u>440,873</u> | | | <u>845,888</u> |
| IT Services: 2.4% | | | | | |
| SinoCom Software Group, Ltd. | 2,358,000 | 341,676 | | | |
| Total Information Technology | | <u>1,918,152</u> | | | |

Schedule of Investments^a (unaudited) (continued)

COMMON EQUITIES (continued)

| | Shares | Value |
|--|---------|----------------------------|
| CONSUMER STAPLES: 5.6% | | |
| Food Products: 4.7% | | |
| Vitasoy International Holdings, Ltd. | 496,000 | \$377,756 |
| China Fishery Group, Ltd. | 219,000 | 302,802 |
| | | <u>680,558</u> |
| Beverages: 0.9% | | |
| Yantai Changyu Pioneer Wine Co., B Shares ^b | 12,927 | 121,354 |
| Total Consumer Staples | | <u>801,912</u> |
| ENERGY: 5.0% | | |
| Oil, Gas & Consumable Fuels: 5.0% | | |
| CNOOC, Ltd. ADR | 1,650 | 280,781 |
| China Petroleum & Chemical Corp. ADR | 3,240 | 260,852 |
| China Shenhua Energy Co., Ltd. H Shares | 49,500 | 178,581 |
| Total Energy | | <u>720,214</u> |
| MATERIALS: 2.5% | | |
| Chemicals: 2.5% | | |
| Yip's Chemical Holdings, Ltd. | 364,000 | 367,437 |
| Total Materials | | <u>367,437</u> |
| TOTAL INVESTMENTS: 96.4% | | 13,862,862 |
| (Cost \$13,968,615 ^c) | | |
| CASH AND OTHER ASSETS, LESS LIABILITIES: 3.6% | | <u>512,499</u> |
| NET ASSETS: 100.0% | | <u><u>\$14,375,361</u></u> |

a Certain securities were fair valued under the discretion of the Board of Trustees (Note 1-A).

b Non-income producing security.

c Cost for federal income tax purposes is \$13,968,615 and net unrealized depreciation consists of:

| | |
|-------------------------------|--------------------|
| Gross unrealized appreciation | \$638,858 |
| Gross unrealized depreciation | (744,611) |
| Net unrealized depreciation | <u>(\$105,753)</u> |

ADR American Depositary Receipt

REIT Real Estate Investment Trust

See accompanying notes to financial statements.



PORTFOLIO MANAGERS

Taizo Ishida
Lead Manager

Sharat Shroff, CFA
Co-Manager

FUND FACTS

| | |
|----------------------|-----------------|
| Ticker | MPACX |
| Inception Date | 10/31/03 |
| Assets | \$227.5 million |
| NAV | \$14.59 |
| Total # of Positions | 63 |

Ratios

| | |
|---------------------|---------------------|
| Portfolio Turnover | 58.10% ¹ |
| Gross Expense Ratio | 1.27% ² |

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 the Asia Pacific region. The Fund may also invest in the convertible securities, of any duration or quality, of Asia Pacific companies.

¹ The lesser of fiscal year 2009 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

² Matthews Asia Funds does not charge 12b-1 fees.

Matthews Asia Pacific Fund

Portfolio Manager Commentary

For the first half of 2010, the Matthews Asia Pacific Fund gained 2.10%, surpassing its benchmark, the MSCI All Country Asia Pacific Index, which declined -5.18%. For the quarter ended June 30, the Fund declined -4.89%, while its benchmark fell -9.35%.

Asia's markets started to correct at the end of April. China's H-share market, which trades on the Hong Kong Stock Exchange, was already weak at the start of the year, and declined about 10% during the first six months of 2010. Southeast Asian nations such as Thailand, Malaysia and the Philippines were the best performers, up 10% for the six-month period, followed by India, Japan, South Korea and Taiwan. Australia and New Zealand were the worst performers in the Asia Pacific region.

The Fund maintains a bottom-up investment approach, selecting companies we believe have compelling growth prospects irrespective of their country or sector allocation. The portfolio's overweight in China, Hong Kong and India, and its underweight in Japan and South Korea had little impact on performance, as the Fund benefited primarily from stock selection. Kingdee International Software Group, a Chinese information technology services firm; Astra International, Indonesia's largest auto dealer; and Bank of Rakyat, Indonesia's largest rural bank led Fund performance during the first half of the year. The Fund's two Chinese property names, China Vanke and Hang Lung Group, performed fairly well despite the fact that real estate was at the epicenter of the Chinese market downturn.

As a rising number of mainland Chinese now have more discretionary income for travel, nearby Macau has become a getaway destination. We believe that casino and hotel operator Wynn Macau, a recent addition to the Fund, is among the best beneficiaries of this emerging trend. Wynn Macau has generated annual profits of US\$500 million, before interest, taxes and depreciation, on its US\$1.1 billion investment in the casino resort—the most profitable casino in the world. Before its boutique hotel, Encore, opened in late April, Wynn had only 600 rooms and VIPs complained about capacity shortage. Encore's 414 suites and villas should enhance the needed capacity for both hotel rooms and casino tables. It also caters to luxury shoppers with an esplanade for high-end stores, such as Cartier, that generate some of the highest sales per shop globally. A key risk for the company is that it relies heavily on revenue from high-rolling VIPs. More opportunities may be on the horizon for Wynn Macau as it has announced initial plans to open another casino in Macau's Cotai area that is slated to be several times larger than its current Macau properties.

Since the beginning of the year, we have been finding compelling companies outside of China, including in Japan. We maintain a positive outlook on Japan's telecommunications firm Softbank, which has done well despite a more challenging environment given the arrival of third generation (3G) technologies in the telecom space.

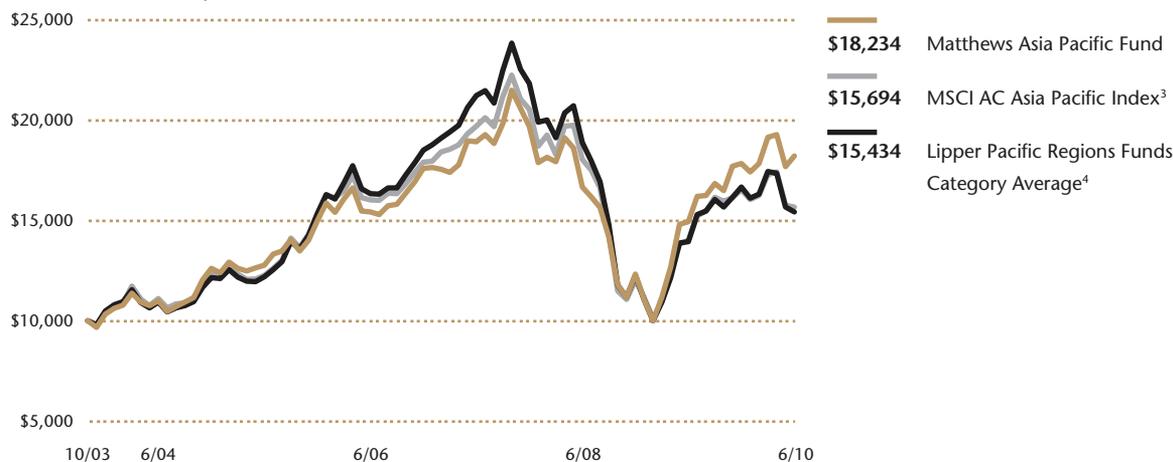
(continued)

PERFORMANCE AS OF JUNE 30, 2010

| | Average Annual Total Returns | | | | |
|---|------------------------------|--------|--------|--------|-----------------------|
| | 3 Month | 1 Year | 3 Year | 5 Year | Inception 10/31/03 |
| Matthews Asia Pacific Fund | -4.89% | 22.06% | -1.29% | 7.39% | 9.43% |
| MSCI AC Asia Pacific Index ³ | -9.35% | 11.89% | -7.33% | 5.04% | 6.99% |
| Lipper Pacific Regions Fund Category Average ⁴ | -10.70% | 11.61% | -9.30% | 4.65% | 6.66% |

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.

GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION



Plotted monthly. The performance data and graph do 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\$.

3 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 59 for index definition.

4 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 HOLDINGS⁵

| | Country | % of Net Assets |
|-------------------------------|-----------------|-----------------|
| Ctrip.com International, Ltd. | China/Hong Kong | 3.0% |
| PT Bank Rakyat Indonesia | Indonesia | 2.9% |
| PT Astra International | Indonesia | 2.8% |
| CSL Australia, Ltd. | Australia | 2.6% |
| The Japan Steel Works, Ltd. | Japan | 2.6% |
| System Corp. | Japan | 2.5% |
| Nintendo Co., Ltd. | Japan | 2.5% |
| Softbank Corp. | Japan | 2.4% |
| HDFC Bank, Ltd. | India | 2.3% |
| ORIX Corp. | Japan | 2.3% |
| % OF ASSETS IN TOP TEN | | 25.9% |

5 Holdings may combine more than one security from same issuer and related depository receipts.

COUNTRY ALLOCATION (%)

| | |
|--|------|
| Japan | 30.2 |
| China/Hong Kong | 28.0 |
| Taiwan | 6.9 |
| India | 6.6 |
| Indonesia | 6.6 |
| Australia | 5.6 |
| South Korea | 5.0 |
| Singapore | 3.9 |
| Thailand | 3.5 |
| Malaysia | 1.6 |
| Vietnam | 1.0 |
| Cash and Other Assets, Less Liabilities | 1.0 |

SECTOR ALLOCATION (%)

| | |
|--|------|
| Financials | 30.2 |
| Consumer Discretionary | 20.2 |
| Information Technology | 11.7 |
| Industrials | 10.9 |
| Health Care | 9.4 |
| Consumer Staples | 8.3 |
| Telecommunication Services | 5.0 |
| Energy | 1.8 |
| Materials | 1.5 |
| Cash and Other Assets, Less Liabilities | 1.0 |

MARKET CAP EXPOSURE (%)⁶

| | |
|--|------|
| Large Cap (Over \$5B) | 55.4 |
| Mid Cap (\$1B-\$5B) | 28.2 |
| Small Cap (Under \$1B) | 15.4 |
| Cash and Other Assets, Less Liabilities | 1.0 |

⁶ 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 Pacific Fund

Portfolio Manager Commentary (continued)

The popularity of smart phones as well as new technology that improves speed and broadens telecom traffic should be good news for carriers, which have long suffered from declining ARPU (Average Revenue Per User). However, the affordability of these to the average user in emerging markets, which may face higher tariff structures, may be an issue. The Fund has become more cautious of wireless carriers operating in emerging Asian countries as these companies grapple with the costs of the new 3G technology to the end user. To this end, we terminated our position in India's Barti Airtel in the second quarter of 2010.

Looking ahead, we believe that Asia should remain one of the most buoyant investment regions in the world today, despite the slow-down in the Chinese property market. Opportunities to invest in a diverse range of sectors and countries in Asia are now greater than they were in the past decade.

Matthews Asia Pacific Fund

June 30, 2010

Schedule of Investments^a (unaudited)

COMMON EQUITIES: 97.3%

| | Shares | Value | | Shares | Value |
|--|------------|-------------------|---------------------------------------|------------|-------------------|
| JAPAN: 30.2% | | | INDONESIA: 6.6% | | |
| The Japan Steel Works, Ltd. | 661,000 | \$5,810,130 | PT Bank Rakyat Indonesia | 6,401,500 | \$6,499,178 |
| Sysmex Corp. | 102,100 | 5,798,664 | PT Astra International | 1,212,500 | 6,406,229 |
| Nintendo Co., Ltd. | 19,100 | 5,607,936 | PT Telekomunikasi Indonesia | 2,598,000 | 2,202,100 |
| Softbank Corp. | 204,100 | 5,413,398 | Total Indonesia | | 15,107,507 |
| ORIX Corp. | 70,680 | 5,120,398 | INDIA: 6.6% | | |
| Fanuc, Ltd. | 44,400 | 5,013,762 | HDFC Bank, Ltd. | 126,958 | 5,213,902 |
| Benesse Holdings, Inc. | 100,900 | 4,593,263 | Jain Irrigation Systems, Ltd. | 213,106 | 4,883,067 |
| Pigeon Corp. | 121,500 | 4,482,430 | Sun Pharmaceutical Industries, Ltd. | 83,845 | 3,210,910 |
| Monex Group, Inc. | 9,218 | 3,779,525 | Unitech, Ltd. | 1,106,204 | 1,749,051 |
| Asahi Breweries, Ltd. | 213,100 | 3,610,135 | Total India | | 15,056,930 |
| MID REIT, Inc. | 1,832 | 3,533,254 | AUSTRALIA: 5.6% | | |
| Keyence Corp. | 14,930 | 3,452,449 | CSL Australia, Ltd. | 215,555 | 5,885,400 |
| Komatsu, Ltd. | 188,900 | 3,401,358 | Oil Search, Ltd. | 899,999 | 4,140,836 |
| FamilyMart Co., Ltd. | 88,100 | 2,909,321 | BHP Billiton, Ltd. | 89,007 | 2,768,972 |
| Mori Trust Sogo REIT, Inc. | 364 | 2,712,069 | Total Australia | | 12,795,208 |
| GCA Savvian Group Corp. | 1,785 | 1,791,064 | SINGAPORE: 3.9% | | |
| Mitsubishi UFJ Financial Group, Inc. ADR | 339,700 | 1,549,032 | CapitaCommerical Trust, REIT | 5,456,000 | 4,726,004 |
| Total Japan | | 68,578,188 | Keppel Land, Ltd. | 1,074,000 | 2,963,658 |
| CHINA/HONG KONG: 28.1% | | | Goodpack, Ltd. | 967,000 | 1,154,443 |
| Ctrip.com International, Ltd. ADR ^b | 182,400 | 6,850,944 | Total Singapore | | 8,844,105 |
| Kingdee International Software Group Co., Ltd. | 12,834,000 | 4,835,265 | THAILAND: 3.5% | | |
| Tingyi (Cayman Islands) Holding Corp. | 1,888,000 | 4,628,911 | Major Cineplex Group Public Co., Ltd. | 17,056,000 | 4,916,788 |
| China Life Insurance Co., Ltd. H Shares | 1,049,000 | 4,587,518 | Siam Commercial Bank Public Co., Ltd. | 1,264,400 | 3,144,849 |
| Hang Lung Group, Ltd. | 782,000 | 4,214,328 | Total Thailand | | 8,061,637 |
| China Vanke Co., Ltd. B Shares | 3,789,587 | 3,974,028 | SOUTH KOREA: 3.3% | | |
| Shangri-La Asia, Ltd. | 2,096,000 | 3,868,624 | Kiwoom Securities Co., Ltd. | 89,246 | 2,987,678 |
| China Mobile, Ltd. | 375,000 | 3,726,693 | LG Electronics, Inc. | 33,978 | 2,583,822 |
| Dairy Farm International Holdings, Ltd. | 477,354 | 3,322,384 | NHN Corp. ^b | 13,282 | 1,975,421 |
| Hong Kong Exchanges and Clearing, Ltd. | 189,000 | 2,947,733 | Total South Korea | | 7,546,921 |
| Ports Design, Ltd. | 1,092,500 | 2,778,751 | MALAYSIA: 1.6% | | |
| China Merchants Bank Co., Ltd. H Shares | 1,160,950 | 2,777,341 | Parkson Holdings BHD | 2,107,264 | 3,533,887 |
| Shenzhen International Group Holdings, Ltd. | 2,239,000 | 2,556,119 | Total Malaysia | | 3,533,887 |
| Sany Heavy Equipment International Holdings Co., Ltd. | 2,115,000 | 2,340,669 | VIETNAM: 1.0% | | |
| Wynn Macau, Ltd. ^b | 1,407,200 | 2,294,771 | Saigon Securities, Inc. | 1,276,060 | 2,247,435 |
| Shandong Weigao Group Medical Polymer Co., Ltd. H Shares | 504,000 | 2,195,497 | Total Vietnam | | 2,247,435 |
| Baoye Group Co., Ltd. H Shares | 3,554,000 | 2,086,880 | TOTAL COMMON EQUITIES | | |
| Dongfeng Motor Group Co., Ltd. H Shares | 1,478,000 | 1,714,391 | 221,294,811 | | |
| Byd Co., Ltd. H Shares | 205,500 | 1,511,494 | (Cost \$169,187,799) | | |
| Far East Global Group, Ltd. ^b | 7,410,000 | 596,411 | | | |
| Total China/Hong Kong | | 63,808,752 | | | |
| TAIWAN: 6.9% | | | | | |
| St. Shine Optical Co., Ltd. | 533,000 | 4,245,417 | | | |
| HTC Corp. | 248,000 | 3,293,467 | | | |
| Taiwan Semiconductor Manufacturing Co., Ltd. | 1,697,585 | 3,172,861 | | | |
| Richtek Technology Corp. | 343,350 | 2,875,297 | | | |
| Polaris Securities Co., Ltd. ^b | 4,888,000 | 2,127,199 | | | |
| Total Taiwan | | 15,714,241 | | | |

Schedule of Investments^a (unaudited) (continued)

PREFERRED EQUITIES: 1.7%

| | Shares | Value |
|------------------------------------|--------|--------------------|
| SOUTH KOREA: 1.7% | | |
| Hyundai Motor Co., Ltd., Pfd. | 96,520 | \$3,945,225 |
| Total South Korea | | <u>3,945,225</u> |
| TOTAL PREFERRED EQUITIES | | <u>3,945,225</u> |
| (Cost \$1,069,680) | | |
| TOTAL INVESTMENTS: 99.0% | | <u>225,240,036</u> |
| (Cost \$170,257,479 ^c) | | |

**CASH AND OTHER ASSETS,
LESS LIABILITIES: 1.0%**

2,249,826

NET ASSETS: 100.0%

\$227,489,862

- a Certain securities were fair valued under the discretion of the Board of Trustees (Note 1-A).
- b Non-income producing security.
- c Cost for federal income tax purposes is \$170,415,953 and net unrealized appreciation consists of:

| | |
|---|----------------------------|
| Gross unrealized appreciation | \$65,303,504 |
| Gross unrealized depreciation | <u>(10,479,421)</u> |
| Net unrealized appreciation | <u><u>\$54,824,083</u></u> |

- ADR American Depositary Receipt
- BHD Berhad
- Pfd. Preferred
- REIT Real Estate Investment Trust

See accompanying notes to financial statements.



PORTFOLIO MANAGERS

Richard H. Gao

Lead Manager

Sharat Shroff, CFA

Lead Manager

Mark W. Headley

Co-Manager

FUND FACTS

| | |
|----------------------|---------------|
| Ticker | MAPTX |
| Inception Date | 9/12/94 |
| Assets | \$4.1 billion |
| NAV | \$19.18 |
| Total # of Positions | 76 |

Ratios

| | |
|---------------------|---------------------|
| Portfolio Turnover | 13.22% ¹ |
| Gross Expense Ratio | 1.13% ² |

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, excluding Japan.

Matthews Pacific Tiger Fund

Portfolio Manager Commentary

For the first half of 2010, the Matthews Pacific Tiger Fund was relatively flat, declining -0.26%, while its benchmark, the MSCI All Country Asia ex Japan Index, fell -3.60%. For the quarter ended June 30, the Fund decreased -2.74% and the benchmark lost -4.86%.

Most equity markets in the Asia ex-Japan region were on a roller-coaster ride as the modest gains recorded in the first quarter were erased in the second. Some of the recent slowdown is natural given that 2010 is the second year of a recovery, and, therefore, is starting from a higher base. Besides the cyclical factors, there is growing concern over the outlook for medium- to longer-term GDP growth in China, particularly as labor and capital are priced more appropriately. For a successful transition in China's economy, it is our belief that household wages must expand at a pace faster than corporate profits, unless productivity gains accrue rapidly. This shift is not an easy one, and may take several years during which time the headline statistics coming out of China may be less than flattering.

While India and Indonesia were the biggest contributors to Fund performance, the top 10 stocks in the portfolio came from a diverse range of sectors and countries. Taiwan was among the worst performers in the region as troubles in Europe raised concerns over the outlook for export-oriented technology firms. As the Fund has been underweight in Taiwanese stocks for several years, this helped relative performance.

The focus of the Pacific Tiger portfolio is to identify businesses and management teams that can deliver sustainable earnings accompanied by an appropriate generation of cash flow. In that context, the Fund's China holdings delivered solid results over the past two years. It is also worth highlighting that many of the portfolio companies achieved important milestones, including Hang Lung Group, which recently opened a shopping mall in the northeastern city of Shenyang. The mall had nearly all its retail spaces leased from day one. In fact, Hang Lung's management team is taking advantage of this period of weakness in China's property market to acquire land at reasonable prices. We remain focused on picking stocks that can weather economic cycles and, at the same time, benefit from the transition toward a more consumption- and services-oriented economy.

Korea was the biggest detractor from absolute and relative performance. MegaStudy, one of the long-term holdings of the Fund, was one of the worst performers in the first half of this year. While the company has been successful in providing quality educational services to students across Korea at prices that are more reasonable than those for private tutoring, it has experienced difficulties in the past few months as regulators attempt to bolster public sector alternatives with the aim of controlling costs. In our view, MegaStudy is a good example of an entrepreneurial company in Korea that has

(continued)

¹ The lesser of fiscal year 2009 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

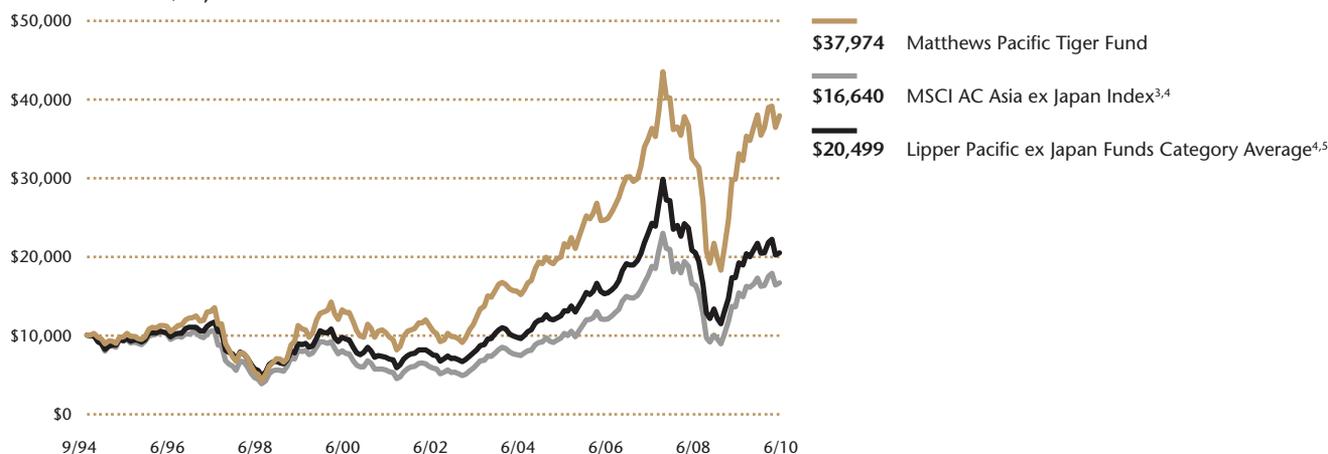
² Matthews Asia Funds does not charge 12b-1 fees.

PERFORMANCE AS OF JUNE 30, 2010

| | Average Annual Total Returns | | | | | Inception 9/12/94 |
|--|------------------------------|--------|---------|---------|----------|----------------------|
| | 3 Months | 1 Year | 3 Years | 5 Years | 10 Years | |
| Matthews Pacific Tiger Fund | -2.74% | 27.16% | 2.83% | 13.74% | 11.13% | 8.81% |
| MSCI AC Asia ex Japan Index ³ | -4.86% | 22.42% | -1.63% | 11.65% | 7.64% | 3.27% ⁴ |
| Lipper Pacific ex Japan Fund Category Average ⁵ | -6.05% | 22.03% | -2.58% | 10.93% | 7.77% | 4.45% ⁴ |

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.

GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION



Plotted monthly. The performance data and graph do 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\$.

3 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 59 for index definitions.

4 Calculated from 8/31/94.

5 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 HOLDINGS⁶

| | Country | % of Net Assets |
|---------------------------------------|-----------------|-----------------|
| Hang Lung Group, Ltd. | China/Hong Kong | 2.7% |
| PT Bank Central Asia | Indonesia | 2.7% |
| China Mobile, Ltd. | China/Hong Kong | 2.5% |
| Hyundai Mobis | South Korea | 2.3% |
| HDFC Bank, Ltd. | India | 2.2% |
| Ctrip.com International, Ltd. | China/Hong Kong | 2.0% |
| PT Astra International | Indonesia | 1.9% |
| Tingyi (Cayman Islands) Holding Corp. | China/Hong Kong | 1.8% |
| PT Telekomunikasi Indonesia | Indonesia | 1.8% |
| Swire Pacific, Ltd. | China/Hong Kong | 1.8% |
| % OF ASSETS IN TOP TEN | | 21.7% |

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

Matthews Pacific Tiger Fund

Portfolio Manager Commentary (continued)

delivered good results, and its management team is looking to replicate their success in other parts of Asia, including China and Vietnam. We maintain our confidence in their strategy.

The outlook for longer-term growth is less uncertain in domestically oriented economies such as India and Indonesia where there is likely to be less of an impact from withdrawal of stimulus measures. That may be a reason why performance of equity markets in those countries this year has been remarkably steady relative to their behavior in past periods of global turmoil.

Historically, the volatility has been pronounced due to the small size of the capital markets compared to the size of the economy. That has exaggerated the impact on the currency and equities in periods of rising risk aversion. Thus far, foreign investors have stayed invested in both these countries with no meaningful reversal of flows. In contrast to many other parts of Asia, companies in India and Indonesia are still pushing ahead with their investment plans, which, in our view, indicates long-term prospects for these economies.

Notwithstanding the favorable outlook, we remain cognizant of the risks facing the region, two of which are of immediate concern. The first is the response (or lack of) by authorities toward the potential increase in inflationary expectations. A second related issue is the ability of the region's economies to digest capital inflows. So far this year, several Asian central banks have allowed their currencies to strengthen vis-à-vis the U.S. dollar. This may bode well for controlling inflation and favor domestic consumers.

Another issue worth highlighting is the potential for a spike in non-performing loans in the Chinese banking system, given the hectic pace of lending last year. It is hard to predict the economic viability of these loans. We have taken the view of limiting the portfolio's exposure to the banking system in China to just one commercial bank, which has a focus on retail and wealth management.

Compared to five years ago, the portfolio's allocation to some of Asia's smaller markets—most notably members of ASEAN—has increased significantly. This reflects our efforts to seek attractive long-term investment opportunities across the region, even as parts of Asia may experience moderating growth.

| COUNTRY ALLOCATION (%) | |
|--|------|
| China/Hong Kong | 32.7 |
| India | 19.3 |
| South Korea | 14.3 |
| Indonesia | 7.6 |
| Taiwan | 6.9 |
| Malaysia | 4.5 |
| Thailand | 4.1 |
| Singapore | 3.4 |
| Philippines | 1.7 |
| Vietnam | 0.7 |
| Cash and Other Assets, Less Liabilities | 4.8 |

| SECTOR ALLOCATION (%) | |
|--|------|
| Financials | 31.5 |
| Consumer Discretionary | 15.8 |
| Information Technology | 14.0 |
| Consumer Staples | 11.9 |
| Health Care | 7.4 |
| Telecommunication Services | 5.0 |
| Industrials | 4.3 |
| Utilities | 3.7 |
| Materials | 1.2 |
| Energy | 0.4 |
| Cash and Other Assets, Less Liabilities | 4.8 |

| MARKET CAP EXPOSURE (%) ⁷ | |
|--|------|
| Large Cap (Over \$5B) | 60.4 |
| Mid Cap (\$1B-\$5B) | 30.5 |
| Small Cap (Under \$1B) | 4.3 |
| Cash and Other Assets, Less Liabilities | 4.8 |

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.

Matthews Pacific Tiger Fund

June 30, 2010

Schedule of Investments^a (unaudited)

COMMON EQUITIES: 95.2%

| | Shares | Value | | Shares | Value |
|--|-------------|----------------------|---|-------------|--------------------|
| CHINA/HONG KONG: 32.7% | | | SOUTH KOREA: 14.3% | | |
| Hang Lung Group, Ltd. | 20,164,000 | \$108,667,139 | Hyundai Mobis | 555,000 | \$93,087,100 |
| China Mobile, Ltd. ADR | 2,036,750 | 100,635,817 | LS Corp. | 944,781 | 67,701,869 |
| Ctrip.com International, Ltd. ADR ^b | 2,197,950 | 82,555,002 | Dongbu Insurance Co., Ltd. | 2,216,690 | 63,612,636 |
| Tingyi (Cayman Islands) Holding Corp. | 30,096,000 | 73,787,976 | Amorepacific Corp. | 65,152 | 55,430,519 |
| Swire Pacific, Ltd. A Shares | 6,376,500 | 72,381,227 | NHN Corp. ^b | 359,802 | 53,513,061 |
| Ping An Insurance (Group) Co. of China, Ltd. H Shares | 8,873,500 | 71,531,051 | Samsung Electronics Co., Ltd. | 82,404 | 51,684,962 |
| Hengan International Group Co., Ltd. | 7,996,000 | 64,747,122 | Cheil Worldwide, Inc. | 4,916,350 | 51,425,434 |
| China Resources Enterprise, Ltd. | 17,502,000 | 64,432,614 | POSCO | 129,000 | 48,879,500 |
| Baidu, Inc. ADR ^b | 926,000 | 63,042,080 | MegaStudy Co., Ltd.† | 336,666 | 44,483,452 |
| Dairy Farm International Holdings, Ltd. | 8,563,446 | 59,601,584 | Yuhan Corp. | 289,321 | 36,146,457 |
| Lenovo Group, Ltd. | 107,568,000 | 57,715,497 | Hana Financial Group, Inc. | 683,003 | 18,110,170 |
| Shangri-La Asia, Ltd. | 30,326,000 | 55,973,230 | Total South Korea | | 584,075,160 |
| China Merchants Bank Co., Ltd. H Shares | 22,182,350 | 53,066,845 | INDONESIA: 7.6% | | |
| New Oriental Education & Technology Group, Inc. ADR ^b | 539,400 | 50,266,686 | PT Bank Central Asia | 166,625,000 | 108,414,708 |
| Hong Kong Exchanges and Clearing, Ltd. | 3,189,500 | 49,744,950 | PT Astra International | 14,665,230 | 77,483,563 |
| Mindray Medical International, Ltd. ADR | 1,564,297 | 49,150,212 | PT Telekomunikasi Indonesia | 75,460,500 | 63,961,354 |
| China Resources Land, Ltd. | 24,794,000 | 46,618,477 | PT Perusahaan Gas Negara | 120,950,000 | 51,273,175 |
| China Vanke Co., Ltd. B Shares | 41,875,296 | 43,913,391 | PT Telekomunikasi Indonesia ADR | 275,700 | 9,437,211 |
| Tencent Holdings, Ltd. | 2,469,800 | 40,917,792 | Total Indonesia | | 310,570,011 |
| Dongfeng Motor Group Co., Ltd. H Shares | 33,440,000 | 38,788,390 | TAIWAN: 6.9% | | |
| NetEase.com, Inc. ADR ^b | 1,032,350 | 32,735,818 | Taiwan Semiconductor Manufacturing Co., Ltd. | 34,923,513 | 65,273,577 |
| Sinopharm Group Co., Ltd. H Shares | 5,256,400 | 19,152,320 | Yuanta Financial Holding Co., Ltd. | 112,400,000 | 59,999,730 |
| Inspur International, Ltd.† | 210,000,000 | 18,602,620 | Hon Hai Precision Industry Co., Ltd. ^b | 17,104,492 | 59,954,194 |
| Shenzhen Chiwan Wharf Holdings, Ltd. B Shares | 11,949,117 | 17,169,645 | Synnex Technology International Corp. | 27,039,200 | 58,519,526 |
| Total China/Hong Kong | | 1,335,197,485 | President Chain Store Corp. | 13,442,608 | 39,670,050 |
| INDIA: 19.3% | | | Total Taiwan | | 283,417,077 |
| HDFC Bank, Ltd. | 1,997,184 | 82,020,214 | MALAYSIA: 4.5% | | |
| Housing Development Finance Corp. | 1,087,137 | 68,511,192 | Genting BHD | 31,057,700 | 67,935,819 |
| Sun Pharmaceutical Industries, Ltd. | 1,665,363 | 63,776,384 | Top Glove Corp. BHD | 12,587,980 | 53,202,671 |
| Tata Power Co., Ltd. | 2,035,014 | 57,001,041 | Public Bank BHD | 12,136,386 | 44,517,366 |
| Infosys Technologies, Ltd. | 948,401 | 56,584,590 | KNM Group BHD ^b | 102,960,700 | 16,096,725 |
| Unitech, Ltd. | 35,024,406 | 55,378,095 | Total Malaysia | | 181,752,581 |
| ITC, Ltd. | 7,905,000 | 51,574,837 | THAILAND: 4.1% | | |
| Titan Industries, Ltd. | 989,621 | 50,175,135 | Bank of Ayudhya Public Co., Ltd. NVDR | 103,968,600 | 62,189,949 |
| Kotak Mahindra Bank, Ltd. | 2,997,941 | 49,189,710 | Land & Houses Public Co., Ltd. | 254,719,500 | 43,606,170 |
| Larsen & Toubro, Ltd. | 1,169,599 | 45,237,285 | Central Pattana Public Co., Ltd. | 66,596,100 | 40,732,231 |
| Dabur India, Ltd. | 10,030,888 | 45,231,555 | Land & Houses Public Co., Ltd. NVDR | 130,450,000 | 21,109,718 |
| Sun TV Network, Ltd. | 3,602,590 | 33,682,712 | Total Thailand | | 167,638,068 |
| Bharti Airtel, Ltd. | 5,563,480 | 31,322,533 | SINGAPORE: 3.4% | | |
| Sintex Industries, Ltd. | 4,105,656 | 28,265,767 | Parkway Holdings, Ltd. | 21,157,540 | 53,545,178 |
| Glenmark Pharmaceuticals, Ltd. | 4,529,022 | 26,161,852 | Keppel Land, Ltd. | 15,112,000 | 41,700,934 |
| Container Corp. of India, Ltd. | 654,095 | 18,922,834 | Hyflux, Ltd. | 17,990,187 | 41,480,514 |
| Infosys Technologies, Ltd. ADR | 219,611 | 13,156,895 | Total Singapore | | 136,726,626 |
| HDFC Bank, Ltd. ADR | 63,900 | 9,135,783 | PHILIPPINES: 1.7% | | |
| Total India | | 785,328,414 | SM Prime Holdings, Inc. | 299,519,117 | 69,387,062 |
| | | | Total Philippines | | 69,387,062 |

Schedule of Investments^a (unaudited) (continued)

COMMON EQUITIES (continued)

| | Shares | Value |
|--------------------------------------|----------------------|------------------------|
| VIETNAM: 0.7% | | |
| Vietnam Dairy Products JSC | 6,332,900 | \$29,304,801 |
| Total Vietnam | | 29,304,801 |
| <hr/> | | |
| TOTAL INVESTMENTS: 95.2% | 3,883,397,285 | |
| (Cost \$3,036,760,591 ^c) | | |
| | | |
| CASH AND OTHER ASSETS, | | |
| LESS LIABILITIES: 4.8% | | 195,720,906 |
| <hr/> | | |
| NET ASSETS: 100.0% | | \$4,079,118,191 |

a Certain securities were fair valued under the discretion of the Board of Trustees (Note 1-A).

b Non-income producing security.

c Cost for federal income tax purposes is \$3,037,506,843 and net unrealized appreciation consists of:

Gross unrealized appreciation \$958,448,731

Gross unrealized depreciation (112,558,289)

Net unrealized appreciation \$845,890,442

† 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

Richard H. Gao
Lead Manager

Henry Zhang, CFA
Co-Manager

FUND FACTS

| | |
|----------------------|---------------|
| Ticker | MCHFX |
| Inception Date | 2/19/98 |
| Assets | \$2.4 billion |
| NAV | \$24.85 |
| Total # of Positions | 64 |

Ratios

| | |
|---------------------|--------------------|
| Portfolio Turnover | 5.28% ¹ |
| Gross Expense Ratio | 1.21% ² |

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 and Taiwan. China includes its administrative and other districts, such as Hong Kong.

Matthews China Fund

Portfolio Manager Commentary

For the first half of 2010, the Matthews China Fund declined -2.55%, while its benchmark, the MSCI China Index, dropped -5.98%. Chinese shares accelerated their decline in the second quarter amid investor concerns over inflation, overheating in the property market and growing labor costs. For the quarter ended June 30, the Fund was down -5.26%, while its benchmark was down -4.48%.

After a strong performance in 2009, Chinese equities were weak during the first half of 2010. While China's GDP grew at 11.9% in the first quarter, investors focused more on signs of economic overheating as inflation rose to over 3% and property markets also continued to increase. In addition, the increasing cost of labor became the latest issue as foreign joint ventures in China have been forced to raise salaries substantially amid growing labor unrest at their factories. China has sent clear messages that it will not allow its economy to grow at a pace that is out of control, and the government has been rolling out various tightening measures to moderate the growth. So far, loan growth has slowed, policies aimed at tightening property markets seem to be taking effect and China's latest currency moves may help curb inflation over the long term. It seems likely that China may achieve a "soft landing" toward the end of the year, with economic growth gradually slowing and inflation under control. However, uncertainties, including a worsening of the European debt situation and a sharp decline of Chinese exports, still exist. We are also cautious on the overall quality of bank loans and expect to see some deterioration in nonperforming loans going forward.

During the six month period, both the Fund's overweight and stock selection in certain sectors, such as consumer discretionary, consumer staples, information technology and industrials, helped it outperform its benchmark. Our cautious moves in the financial sector enabled us avoid the steep declines experienced by banks and property companies. In the second quarter, our more defensive positions in utilities and mass market retailing served us well during the volatile market environment. Conversely, our relative underweight in telecommunications services was a detractor to performance as China Mobile performed strongly in the first half of the year. While China Mobile is one of our largest holdings, our weighting in it is much smaller than that of the benchmark.

We added two new stocks to the portfolio during the second quarter that illustrate how we seek to capitalize on emerging long-term growth trends in the domestic market: Digital China Holdings and Sands China. These two companies represent some of the developments in China's rapidly growing service industry and are reflective of China's new consumer behavior. Digital China is one of the country's leading information technology (IT) firms focusing on distribution and IT services. China's demand for IT services has grown

(continued)

¹ The lesser of fiscal year 2009 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

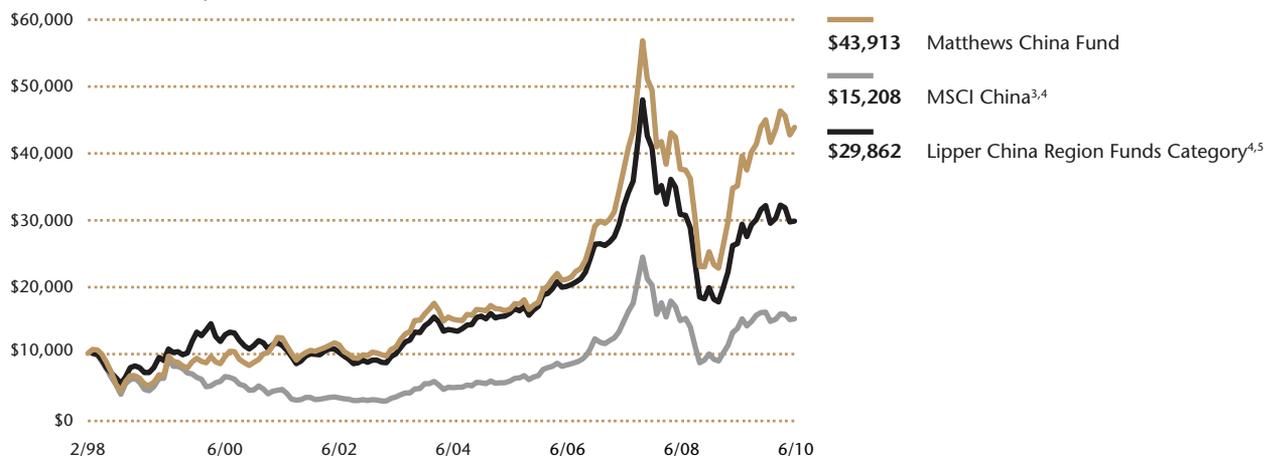
² Matthews Asia Funds does not charge 12b-1 fees.

PERFORMANCE AS OF JUNE 30, 2010

| | Average Annual Total Returns | | | | | Inception 2/19/98 |
|--|------------------------------|--------|---------|---------|----------|----------------------|
| | 3 Months | 1 Year | 3 Years | 5 Years | 10 Years | |
| Matthews China Fund | -5.26% | 24.95% | 5.33% | 21.41% | 16.52% | 12.72% |
| MSCI China Index ³ | -4.48% | 11.11% | 0.92% | 21.07% | 8.83% | 3.45% ⁴ |
| Lipper China Funds Category Average ⁴ | -8.60% | 12.53% | -3.00% | 13.81% | 8.61% | 8.97% ⁴ |

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.

GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION



Plotted monthly. The performance data and graph do 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\$.

3 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 59 for index definition.

4 Calculated from 2/28/98.

5 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 HOLDINGS⁶

| | Sector | % of Net Assets |
|---|----------------------------|-----------------|
| China Mobile, Ltd. | Telecommunication Services | 3.3% |
| Tingyi (Cayman Islands) Holding Corp. | Consumer Staples | 2.6% |
| Lianhua Supermarket Holdings Co., Ltd. | Consumer Staples | 2.6% |
| Cheung Kong Infrastructure Holdings, Ltd. | Utilities | 2.4% |
| Hong Kong & China Gas Co., Ltd. | Utilities | 2.4% |
| China Life Insurance Co., Ltd. | Financials | 2.3% |
| Golden Eagle Retail Group, Ltd. | Consumer Discretionary | 2.3% |
| CNOOC, Ltd. | Energy | 2.3% |
| Belle International Holdings, Ltd. | Consumer Discretionary | 2.2% |
| Hengan International Group Co., Ltd. | Consumer Staples | 2.2% |
| % OF ASSETS IN TOP TEN | | 24.6% |

CHINA EXPOSURE⁷

| | |
|---|-------|
| SAR (Hong Kong) | 41.4% |
| H Share | 30.2% |
| China-affiliated Corporations | 17.9% |
| Overseas Listed | 7.7% |
| B Share | 1.3% |
| Cash and Other Assets, Less Liabilities | 1.5% |

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

7 **SAR (Hong Kong)** companies are companies that conduct business in Hong Kong and/or mainland China. **H Shares** are mainland China companies listed on the Hong Kong exchange but incorporated in mainland China. **China-affiliated corporations (CAC)**, also known as "Red Chips," are mainland China companies with partial state ownership listed in Hong Kong, and incorporated in Hong Kong. **Overseas Listed (OL)** companies are companies that conduct business in mainland China but listed in overseas markets such as Japan, Singapore, Taiwan and the United States. **B Shares** are mainland Chinese companies listed on the Shanghai and Shenzhen stock exchanges, available to both Chinese and non-Chinese investors.

| SECTOR ALLOCATION (%) | |
|--|------|
| Consumer Discretionary | 22.7 |
| Financials | 19.0 |
| Consumer Staples | 13.7 |
| Industrials | 12.0 |
| Information Technology | 11.7 |
| Energy | 6.2 |
| Utilities | 6.1 |
| Telecommunication Services | 4.6 |
| Health Care | 2.5 |
| Cash and Other Assets, Less Liabilities | 1.5 |

| MARKET CAP EXPOSURE (%) ⁸ | |
|--|------|
| Large Cap (Over \$5B) | 68.3 |
| Mid Cap (\$1B-\$5B) | 26.9 |
| Small Cap (Under \$1B) | 3.3 |
| Cash and Other Assets, Less Liabilities | 1.5 |

⁸ 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)

as companies move up the value chain and improve productivity. As the number one IT vendor in China, Digital China's top clients include local governments, major state-owned enterprises and foreign multinational companies. The company is developing rapidly in the IT services arena, leveraging its huge client base and strong research and development facilities. Sands China operates resorts and casinos in Macau, which has already surpassed Las Vegas to become the largest gaming market in the world. Sands China is changing the landscape of Macau's gaming market by offering Las Vegas-style casinos. It has already achieved market share of more than 20% and is one of the strongest players in Macau.

Over the history of the Fund, we have been following the evolution of consumer patterns in China and seeking companies in their initial stage of growth that we believe will benefit from the coming consumer trends. When we first launched the Fund in the late 1990s, Chinese consumer demand centered mostly on basic necessities such as white goods and home improvement products. The average per capita income was approximately US\$800 at the time. Today, the average income has increased to nearly US\$3,000. With rapid growth in income levels, Chinese consumer demands have gradually shifted toward higher-end luxury products, banking and insurance services, health care, education and information services. Over the years, the Fund's investment focus in consumer areas has also shifted, from white goods to personal computers, cell phones, banking and insurance companies and technology services firms. In this changing environment, we will maintain our consumer-focused approach to investing in China.

Schedule of Investments^a (unaudited)

COMMON EQUITIES: CHINA/HONG KONG: 98.5%

| | Shares | Value | | Shares | Value |
|--|------------|--------------------|--|--------|--------------------|
| CONSUMER DISCRETIONARY: 22.7% | | | | | |
| Hotels, Restaurants & Leisure: 5.8% | | | | | |
| Ctrip.com International, Ltd. ADR ^b | 1,335,700 | \$50,168,892 | | | |
| Cafe' de Coral Holdings, Ltd. | 17,914,100 | 45,876,876 | | | |
| Shangri-La Asia, Ltd. | 15,453,600 | 28,522,981 | | | |
| Sands China, Ltd. ^b | 9,158,400 | 13,535,930 | | | |
| | | <u>138,104,679</u> | | | |
| Multiline Retail: 4.1% | | | | | |
| Golden Eagle Retail Group, Ltd. | 26,496,000 | 55,317,995 | | | |
| Parkson Retail Group, Ltd. | 26,044,500 | 43,900,226 | | | |
| | | <u>99,218,221</u> | | | |
| Textiles, Apparel & Luxury Goods: 3.8% | | | | | |
| Li Ning Co., Ltd. | 12,019,000 | 39,382,821 | | | |
| Ports Design, Ltd. | 14,983,500 | 38,110,228 | | | |
| Glorious Sun Enterprises, Ltd. | 33,994,000 | 12,585,162 | | | |
| | | <u>90,078,211</u> | | | |
| Specialty Retail: 2.2% | | | | | |
| Belle International Holdings, Ltd. | 37,766,000 | 53,578,057 | | | |
| Distributors: 2.2% | | | | | |
| Li & Fung, Ltd. | 11,809,200 | 52,834,085 | | | |
| Automobiles: 2.0% | | | | | |
| Dongfeng Motor Group Co., Ltd. H Shares | 40,298,000 | 46,743,258 | | | |
| Diversified Consumer Services: 1.9% | | | | | |
| New Oriental Education & Technology Group, Inc. ADR ^b | 477,800 | 44,526,182 | | | |
| Media: 0.7% | | | | | |
| Television Broadcasts, Ltd. | 3,270,000 | 15,163,466 | | | |
| AirMedia Group, Inc. ADR ^b | 861,022 | 2,686,389 | | | |
| | | <u>17,849,855</u> | | | |
| Total Consumer Discretionary | | | | | <u>542,932,548</u> |
| FINANCIALS: 19.0% | | | | | |
| Real Estate Management & Development: 6.4% | | | | | |
| Hang Lung Group, Ltd. | 9,166,000 | 49,397,094 | | | |
| Swire Pacific, Ltd. A Shares | 3,930,000 | 44,610,401 | | | |
| China Vanke Co., Ltd. B Shares | 29,906,484 | 31,362,050 | | | |
| China Resources Land, Ltd. | 14,852,000 | 27,925,208 | | | |
| | | <u>153,294,753</u> | | | |
| Commercial Banks: 6.3% | | | | | |
| BOC Hong Kong Holdings, Ltd. | 21,662,000 | 49,334,446 | | | |
| China Merchants Bank Co., Ltd. H Shares | 19,955,114 | 47,738,627 | | | |
| China Construction Bank Corp. H Shares | 40,638,000 | 32,714,141 | | | |
| Bank of Communications Co., Ltd. H Shares | 19,607,000 | 20,635,506 | | | |
| | | <u>150,422,720</u> | | | |
| Insurance: 4.5% | | | | | |
| Ping An Insurance (Group) Co. of China, Ltd. H Shares | 6,432,500 | \$51,853,664 | | | |
| China Life Insurance Co., Ltd. H Shares | 10,768,000 | 47,090,937 | | | |
| China Life Insurance Co., Ltd. ADR | 136,300 | 8,886,760 | | | |
| | | <u>107,831,361</u> | | | |
| Diversified Financial Services: 1.8% | | | | | |
| Hong Kong Exchanges and Clearing, Ltd. | 2,648,500 | 41,307,258 | | | |
| Total Financials | | | | | <u>452,856,092</u> |
| CONSUMER STAPLES: 13.7% | | | | | |
| Food Products: 4.8% | | | | | |
| Tingyi (Cayman Islands) Holding Corp. | 25,185,000 | 61,747,414 | | | |
| China Yurun Food Group, Ltd. | 16,901,000 | 53,148,485 | | | |
| | | <u>114,895,899</u> | | | |
| Food & Staples Retailing: 4.7% | | | | | |
| Lianhua Supermarket Holdings Co., Ltd. H Shares† | 16,796,000 | 61,523,923 | | | |
| China Resources Enterprise, Ltd. | 13,782,000 | 50,737,646 | | | |
| | | <u>112,261,569</u> | | | |
| Household & Personal Products: 2.3% | | | | | |
| Hengan International Group Co., Ltd. | 6,610,500 | 53,528,121 | | | |
| Beverages: 1.9% | | | | | |
| Tsingtao Brewery Co., Ltd. H Shares | 9,707,000 | 45,346,048 | | | |
| Total Consumer Staples | | | | | <u>326,031,637</u> |
| INDUSTRIALS: 12.0% | | | | | |
| Transportation Infrastructure: 3.4% | | | | | |
| China Merchants Holdings International Co., Ltd. | 15,522,581 | 51,243,945 | | | |
| GZL Transport, Ltd. | 36,765,000 | 18,073,069 | | | |
| Beijing Capital International Airport Co., Ltd. H Shares | 18,104,000 | 10,610,008 | | | |
| | | <u>79,927,022</u> | | | |
| Machinery: 2.8% | | | | | |
| China South Locomotive and Rolling Stock Corp. H Shares | 64,391,000 | 44,019,690 | | | |
| China National Materials Co., Ltd. H Shares | 37,943,000 | 22,825,159 | | | |
| | | <u>66,844,849</u> | | | |
| Airlines: 2.0% | | | | | |
| Air China, Ltd. H Shares ^b | 49,583,900 | 48,626,919 | | | |
| Electrical Equipment: 1.9% | | | | | |
| China High Speed Transmission Equipment Group Co., Ltd. | 21,263,000 | 44,662,652 | | | |
| Construction & Engineering: 1.1% | | | | | |
| China Railway Construction Corp., Ltd. H Shares | 20,975,500 | 26,351,724 | | | |

Schedule of Investments^a (unaudited) (continued)

COMMON EQUITIES: CHINA/HONG KONG (continued)

| | Shares | Value |
|---|-------------|--------------------|
| Industrial Conglomerates: 0.8% | | |
| NWS Holdings, Ltd. | 11,017,276 | \$19,913,004 |
| Total Industrials | | 286,326,170 |
| INFORMATION TECHNOLOGY: 11.7% | | |
| Internet Software & Services: 3.9% | | |
| Tencent Holdings, Ltd. | 2,334,900 | 38,682,870 |
| Sina Corp. ^b | 792,700 | 27,950,602 |
| NetEase.com, Inc. ADR ^b | 851,400 | 26,997,894 |
| | | <u>93,631,366</u> |
| Computers & Peripherals: 2.9% | | |
| Lenovo Group, Ltd. | 79,624,000 | 42,722,173 |
| TPV Technology, Ltd. | 45,168,000 | 26,796,586 |
| | | <u>69,518,759</u> |
| Communications Equipment: 1.9% | | |
| ZTE Corp. H Shares | 15,079,254 | 45,786,037 |
| Software: 1.9% | | |
| Kingdee International Software Group Co., Ltd.† | 120,330,000 | 45,334,844 |
| Electronic Equipment, Instruments & Components: 1.1% | | |
| Digital China Holdings, Ltd. | 17,164,000 | 26,222,545 |
| Total Information Technology | | 280,493,551 |
| ENERGY: 6.2% | | |
| Oil, Gas & Consumable Fuels: 5.0% | | |
| CNOOC, Ltd. | 32,046,000 | 54,467,887 |
| China Shenhua Energy Co., Ltd. H Shares | 11,434,000 | 41,250,499 |
| China Petroleum & Chemical Corp. (Sinopec) H Shares | 28,676,000 | 23,130,918 |
| | | <u>118,849,304</u> |
| Energy Equipment & Services: 1.2% | | |
| China Oilfield Services, Ltd. H Shares | 24,186,000 | 28,145,526 |
| Total Energy | | 146,994,830 |
| UTILITIES: 6.1% | | |
| Electric Utilities: 2.4% | | |
| Cheung Kong Infrastructure Holdings, Ltd. | 15,431,500 | 57,163,746 |
| Gas Utilities: 2.4% | | |
| Hong Kong & China Gas Co., Ltd. | 23,045,653 | 56,986,257 |
| Independent Power Producers & Energy Traders: 1.3% | | |
| China Longyuan Power Group Corp. H Shares ^b | 19,836,000 | 18,210,841 |
| Datang International Power Generation Co., Ltd. H Shares | 30,990,000 | 12,500,091 |
| | | <u>30,710,932</u> |
| Total Utilities | | 144,860,935 |

| | Shares | Value |
|--|------------|--------------------------------------|
| TELECOMMUNICATION SERVICES: 4.6% | | |
| Wireless Telecommunication Services: 3.3% | | |
| China Mobile, Ltd. | 5,773,583 | \$57,376,998 |
| China Mobile, Ltd. ADR | 431,200 | 21,305,592 |
| | | <u>78,682,590</u> |
| Diversified Telecommunication Services: 1.3% | | |
| China Communications Services Corp., Ltd. H Shares | 63,578,000 | 30,721,460 |
| Total Telecommunication Services | | 109,404,050 |
| HEALTH CARE: 2.5% | | |
| Health Care Equipment & Supplies: 1.3% | | |
| Mindray Medical International, Ltd. ADR | 973,268 | 30,580,080 |
| Health Care Providers & Services: 1.2% | | |
| Sinopharm Group Co., Ltd. H Shares | 8,128,000 | 29,615,336 |
| Total Health Care | | 60,195,416 |
| TOTAL COMMON EQUITIES | | 2,350,095,229 |
| | | (Cost \$1,890,087,466) |
| RIGHTS: 0.0% | | |
| FINANCIALS: 0.0% | | |
| Commercial Banks: 0.0% | | |
| Bank of Communications Co., Ltd. H Shares, Rights, Expires, 07/19/10 | 2,941,050 | 1,178,399 |
| TOTAL RIGHTS | | 1,178,399 |
| | | (Cost \$0) |
| TOTAL INVESTMENTS: 98.5% | | 2,351,273,628 |
| | | (Cost \$1,890,087,466 ^c) |
| CASH AND OTHER ASSETS, LESS LIABILITIES: 1.5% | | 34,993,519 |
| NET ASSETS: 100.0% | | \$2,386,267,147 |

a Certain securities were fair valued under the discretion of the Board of Trustees (Note 1-A).

b Non-income producing security.

c Cost for federal income tax purposes is \$1,893,218,634 and net unrealized appreciation consists of:

| | |
|-------------------------------|----------------------|
| Gross unrealized appreciation | \$546,357,486 |
| Gross unrealized depreciation | (88,302,492) |
| Net unrealized appreciation | <u>\$458,054,994</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

Andrew Foster
Co-Manager

FUND FACTS

| | |
|----------------------|-----------------|
| Ticker | MINDX |
| Inception Date | 10/31/05 |
| Assets | \$904.4 million |
| NAV | \$18.15 |
| Total # of Positions | 57 |

Ratios

| | |
|---------------------|---------------------|
| Portfolio Turnover | 18.09% ¹ |
| Gross Expense Ratio | 1.27% ² |

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 first half of 2010, the Matthews India Fund gained 11.42%, while its benchmark, the Bombay Stock Exchange 100 (BSE 100) Index gained 3.14%. For the quarter ended June 30, the Fund increased 1.91%, while the benchmark decreased -1.22%.

The portfolio's performance relative to the benchmark was helped by a combination of holdings in the financials and industrials sectors. Stocks in the materials sector were the biggest drag on the BSE 100 Index in the first half of the year. Since inception, the Fund has carried a much smaller allocation to commodities, including materials, thus helping the Fund's performance versus the benchmark year-to-date.

Financials were the biggest contributors, accounting for almost one-third of the Fund's performance in the first half of the year, led by the continuing recovery in both public and private sector banks. Private banks have traded at a premium to public banks, but the gap has decreased from all-time highs of well over 100%, thereby helping returns from portfolio holdings such as Oriental Bank of Commerce. While the drivers of India's banking industry—well-capitalized balance sheets, ensuing investment cycle and penetration of retail loan products—are widely known, the case for public versus private sector banks is less clear. On the one hand, private banks are more innovative and have been increasing their share of fee income and loans in the system. But public banks have the most to gain, given their large branch network and access to low-cost deposits, as well as improving productivity from rather low levels. The portfolio includes both public and private sector banks in which we hold the greatest conviction in the quality of the deposit base and loan portfolio.

Indian equity markets were among the best-performing in the Asia ex-Japan region year-to-date, even after a year of significant outperformance in 2009. The surprising lack of volatility in India's capital markets this year is a stark contrast to prior periods of global turmoil when equities and the Indian rupee have suffered from an increase in investor risk aversion and a consequent reversal in capital flows. Our contention has been that India's economic drivers are largely domestic in nature with over half of the GDP driven by private consumption. The impact of this can be seen in the fundamental performance of corporate India—over the past decade, earnings per share reported by Indian companies have shown compounded annual growth at a rate in the low teens, with volatility in a similar range. India's volatility relative to its growth has been significantly lower than that of other emerging market peers, and even the U.S.

Sustained overseas flows into India, despite increased global turmoil during the period, were a welcome change from the past when foreign investors have reversed course in environments of heightened risk. It is uncertain whether this change is going to be transitory. What seems relatively more certain to us is the growth outlook for

(continued)

¹ The lesser of fiscal year 2009 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

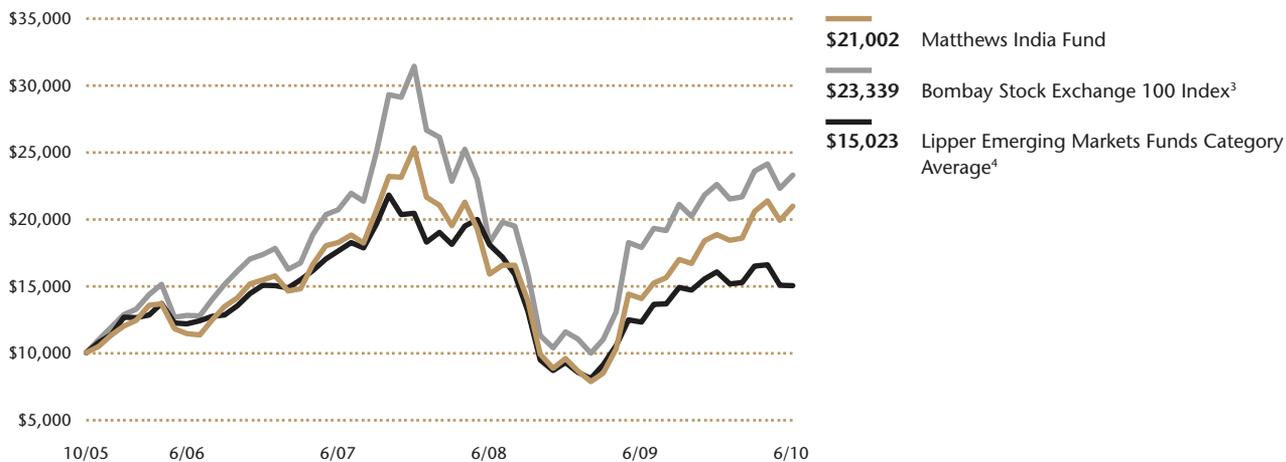
² Matthews Asia Funds does not charge 12b-1 fees.

PERFORMANCE AS OF JUNE 30, 2010

| | Average Annual Total Returns | | | |
|---|------------------------------|--------|---------|-----------------------|
| | 3 Months | 1 Year | 3 Years | Inception 10/31/05 |
| Matthews India Fund | 1.91% | 49.31% | 4.75% | 17.25% |
| Bombay Stock Exchange 100 Index ³ | -1.22% | 30.34% | 4.06% | 19.92% |
| Lipper Emerging Markets Funds Category Average ⁴ | -8.96% | 22.58% | -5.41% | 8.96% |

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.

GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION



Plotted monthly. The performance data and graph do 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\$.

³ 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 59 for index definition.

⁴ 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 HOLDINGS⁵

| | Sector | % of Net Assets |
|-------------------------------------|------------------------|-----------------|
| HDFC Bank, Ltd. | Financials | 3.9% |
| Dabur India, Ltd. | Consumer Staples | 3.5% |
| Infosys Technologies, Ltd. | Information Technology | 3.4% |
| Gail India, Ltd. | Utilities | 3.2% |
| Sun Pharmaceutical Industries, Ltd. | Health Care | 3.0% |
| Jain Irrigation Systems, Ltd. | Industrials | 3.0% |
| Crompton Greaves, Ltd. | Industrials | 2.9% |
| Container Corp. of India, Ltd. | Industrials | 2.9% |
| Asian Paints, Ltd. | Materials | 2.9% |
| Reliance Industries, Ltd. | Energy | 2.9% |
| % OF ASSETS IN TOP TEN | | 31.6% |

⁵ Holdings may combine more than one security from same issuer and related depository receipts.

Matthews India Fund

Portfolio Manager Commentary (continued)

the next decade, which is likely to be better than the last decade. The potential from a sustained increase in investment spending, and increasing contribution from the rural and farming segments, can be significant drivers of the economy in the years to come. For there to be a pick-up in investment spending, the importance of availability of capital cannot be overstated. The efforts by the government to reduce the fiscal deficit via divestment, and recently increasing prices of sensitive items, such as cooking gas, is a step in the right direction.

Full capital account convertibility remains a long-term goal, but the government seems relatively more receptive in allowing equity-linked flows in the form of foreign direct investment (FDI). Policy measures aimed at facilitating flows into areas such as telecommunications and financial services have helped cross border merger and acquisition (M&A) activity. In fact, year-to-date there has been a noticeable pick-up in inbound M&A, perhaps reflecting India's rise as an attractive destination.

There have also been efforts to ease access to capital markets for infrastructure companies. One of the portfolio's recent holdings, Infrastructure Development and Finance Company (IDFC), has a business model geared toward investing in infrastructure-oriented sectors by raising funding, either in the domestic or international market. IDFC is one of the few institutions capable of providing syndication services for infrastructure investment, which is likely to generate fee-based income for the company. Even though the wholesale nature of their business model can be problematic in times of varying liquidity, recent measures by the government such as a proposal to allow infrastructure finance companies to issue tax-exempt bonds, may offset some of those pressures.

In spite of several favorable factors, it is premature to conclude that India's economy is on auto pilot. The equity market's gains over the past 18 months mean that valuations provide little cushion in the event of any negative surprises in corporate earnings. Inflation is a near-term challenge, although the Reserve Bank of India has shown itself to be capable of keeping expectations in check. On balance, the outlook for Indian equities is not as benign as it was at the start of 2009, and we continue to emphasize quality as a way to overcome any sharp rise in volatility.

| SECTOR ALLOCATION (%) | |
|--|------|
| Financials | 23.4 |
| Industrials | 19.4 |
| Consumer Discretionary | 10.2 |
| Information Technology | 8.9 |
| Consumer Staples | 8.7 |
| Materials | 7.0 |
| Health Care | 6.9 |
| Utilities | 5.9 |
| Energy | 4.0 |
| Telecommunication Services | 1.4 |
| Cash and Other Assets, Less Liabilities | 4.2 |

| MARKET CAP EXPOSURE (%) ⁶ | |
|--|------|
| Large Cap (Over \$5B) | 34.3 |
| Mid Cap (\$1B-\$5B) | 48.3 |
| Small Cap (Under \$1B) | 13.2 |
| Cash and Other Assets, Less Liabilities | 4.2 |

⁶ 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^a (unaudited)

COMMON EQUITIES: 92.8%

| | Shares | Value | | Shares | Value |
|---|------------|--------------------|---|-----------|-------------------|
| FINANCIALS: 23.4% | | | CONSUMER DISCRETIONARY: 10.2% | | |
| Commercial Banks: 13.4% | | | Media: 4.7% | | |
| Axis Bank, Ltd. | 845,032 | \$22,401,809 | Sun TV Network, Ltd. | 1,975,127 | \$18,466,612 |
| Oriental Bank of Commerce | 2,946,834 | 20,574,106 | HT Media, Ltd. | 3,018,943 | 9,610,719 |
| Corporation Bank | 1,719,331 | 19,317,935 | Jagran Prakashan, Ltd. | 3,426,501 | 9,103,277 |
| HDFC Bank, Ltd. | 428,033 | 17,578,429 | Dish TV India, Ltd. ^c | 4,737,097 | 4,770,250 |
| HDFC Bank, Ltd. ADR | 122,227 | 17,474,794 | | | <u>41,950,858</u> |
| Allahabad Bank | 4,700,000 | 16,260,270 | Auto Components: 2.5% | | |
| ICICI Bank, Ltd. ADR | 178,283 | 6,443,148 | Exide Industries, Ltd. | 8,066,741 | <u>22,688,479</u> |
| ICICI Bank, Ltd. | 50,000 | 914,466 | Hotels, Restaurants & Leisure: 1.6% | | |
| | | <u>120,964,957</u> | Indian Hotels Co., Ltd. | 6,624,840 | <u>14,812,052</u> |
| Real Estate Management & Development: 3.2% | | | Textiles, Apparel & Luxury Goods: 1.4% | | |
| Unitech, Ltd. | 9,603,178 | 15,183,861 | Titan Industries, Ltd. | 254,691 | <u>12,913,181</u> |
| Ascendas India Trust | 20,340,000 | 13,620,881 | Total Consumer Discretionary | | |
| Emami Infrastructure, Ltd. ^{b,c} | 212,681 | 219,356 | | | <u>92,364,570</u> |
| | | <u>29,024,098</u> | CONSUMER STAPLES: 8.7% | | |
| Diversified Financial Services: 3.1% | | | Personal Products: 6.5% | | |
| Kotak Mahindra Bank, Ltd. | 1,075,000 | 17,638,418 | Dabur India, Ltd. | 6,939,715 | 31,292,753 |
| Infrastructure Development Finance Co., Ltd. | 2,762,708 | 10,606,739 | Emami, Ltd. | 896,398 | 14,957,207 |
| | | <u>28,245,157</u> | Marico, Ltd. | 4,549,720 | 12,603,496 |
| Consumer Finance: 2.0% | | | | | <u>58,853,456</u> |
| Shriram Transport Finance Co., Ltd. | 1,497,977 | <u>18,460,353</u> | Tobacco: 2.2% | | |
| Thriffs & Mortgage Finance: 1.7% | | | ITC, Ltd. | 3,065,000 | <u>19,997,075</u> |
| Housing Development Finance Corp. | 245,000 | <u>15,439,859</u> | Total Consumer Staples | | |
| Total Financials | | <u>212,134,424</u> | | | <u>78,850,531</u> |
| INDUSTRIALS: 19.4% | | | INFORMATION TECHNOLOGY: 8.5% | | |
| Machinery: 7.6% | | | IT Services: 5.9% | | |
| Jain Irrigation Systems, Ltd. | 1,166,127 | 26,720,393 | Infosys Technologies, Ltd. | 298,281 | 17,796,384 |
| Ashok Leyland, Ltd. | 18,511,277 | 25,153,541 | CMC, Ltd. | 421,828 | 12,928,113 |
| Thermax, Ltd. | 1,043,128 | 16,839,787 | Infosys Technologies, Ltd. ADR | 213,179 | 12,771,554 |
| | | <u>68,713,721</u> | HCL Infosystems, Ltd. | 4,032,290 | 9,887,872 |
| Electrical Equipment: 2.9% | | | | | <u>53,383,923</u> |
| Crompton Greaves, Ltd. | 4,777,500 | <u>26,375,704</u> | Internet Software & Services: 1.8% | | |
| Road & Rail: 2.9% | | | Info Edge India, Ltd. | 851,727 | <u>16,276,738</u> |
| Container Corp. of India, Ltd. | 903,101 | <u>26,126,527</u> | Software: 0.8% | | |
| Building Products: 2.4% | | | Financial Technologies India, Ltd. | 240,752 | <u>6,875,035</u> |
| Sintex Industries, Ltd. | 3,183,251 | <u>21,915,385</u> | Total Information Technology | | |
| Construction & Engineering: 2.2% | | | | | <u>76,535,696</u> |
| Larsen & Toubro, Ltd. | 501,660 | <u>19,403,006</u> | HEALTH CARE: 6.6% | | |
| Industrial Conglomerates: 1.4% | | | Pharmaceuticals: 6.6% | | |
| MAX India, Ltd. ^c | 3,913,102 | <u>12,837,654</u> | Sun Pharmaceutical Industries, Ltd. | 710,460 | 27,207,624 |
| Total Industrials | | <u>175,371,997</u> | Glenmark Pharmaceuticals, Ltd. | 3,153,091 | 18,213,800 |
| | | | Cipla India, Ltd. | 1,953,275 | 14,157,277 |
| | | | Total Health Care | | |
| | | | | | <u>59,578,701</u> |

Schedule of Investments^a (unaudited) (continued)

COMMON EQUITIES (continued)

| | Shares | Value | Face Amount | Value |
|--|-----------|--------------------|-------------|------------------|
| MATERIALS: 5.5% | | | | |
| Chemicals: 5.0% | | | | |
| Asian Paints, Ltd. | 527,500 | \$25,998,745 | | |
| Castrol India, Ltd. | 1,371,000 | 12,986,894 | | |
| Grasim Industries, Ltd. | 163,980 | 6,452,752 | | |
| | | <u>45,438,391</u> | | |
| Metals & Mining: 0.3% | | | | |
| NMDC, Ltd. | 392,045 | 2,219,411 | | |
| Construction Materials: 0.2% | | | | |
| Samruddhi Cement, Ltd. ^c | 163,980 | 1,726,830 | | |
| Total Materials | | <u>49,384,632</u> | | |
| UTILITIES: 5.1% | | | | |
| Gas Utilities: 3.2% | | | | |
| Gail India, Ltd. | 2,914,751 | 29,142,993 | | |
| Electric Utilities: 1.9% | | | | |
| CESC, Ltd. | 2,155,920 | 17,321,518 | | |
| Total Utilities | | <u>46,464,511</u> | | |
| ENERGY: 4.0% | | | | |
| Oil, Gas & Consumable Fuels: 4.0% | | | | |
| Reliance Industries, Ltd. | 1,110,742 | 25,850,865 | | |
| Chennai Petroleum Corp., Ltd. ^c | 1,889,744 | 10,196,302 | | |
| Total Energy | | <u>36,047,167</u> | | |
| TELECOMMUNICATION SERVICES: 1.4% | | | | |
| Wireless Telecommunication Services: 1.4% | | | | |
| Bharti Airtel, Ltd. | 2,194,382 | 12,354,426 | | |
| Total Telecommunication Services | | <u>12,354,426</u> | | |
| TOTAL COMMON EQUITIES | | <u>839,086,655</u> | | |
| (Cost \$606,992,789) | | | | |
| INFORMATION TECHNOLOGY: 0.4% | | | | |
| Software: 0.4% | | | | |
| Financial Technologies India, Ltd., Cnv. 0.000%, 12/21/2011 | | | \$2,500,000 | \$3,300,000 |
| Total Information Technology | | | | <u>3,300,000</u> |
| HEALTH CARE: 0.3% | | | | |
| Pharmaceuticals: 0.3% | | | | |
| Aurobindo Pharma, Ltd., Cnv. 0.000%, 08/11/2010 | | | 2,000,000 | 3,170,000 |
| Total Health Care | | | | <u>3,170,000</u> |
| TOTAL INTERNATIONAL BONDS | | | | |
| 27,126,000 | | | | |
| (Cost \$26,471,223) | | | | |
| TOTAL INVESTMENTS: 95.8% | | | | |
| 866,212,655 | | | | |
| (Cost \$633,464,012 ^d) | | | | |
| CASH AND OTHER ASSETS, LESS LIABILITIES: 4.2% | | | | |
| 38,178,425 | | | | |
| NET ASSETS: 100.0% | | | | |
| \$904,391,080 | | | | |

- a Certain securities were fair valued under the discretion of the Board of Trustees (Note 1-A).
- b Illiquid security.
- c Non-income producing security.
- d Cost for federal income tax purposes is \$636,639,284 and net unrealized appreciation consists of:

| | |
|-------------------------------|----------------------|
| Gross unrealized appreciation | \$267,884,113 |
| Gross unrealized depreciation | (38,310,742) |
| Net unrealized appreciation | <u>\$229,573,371</u> |

Cnv. Convertible
ADR American Depository Receipt

See accompanying notes to financial statements.

INTERNATIONAL BONDS: 3.0%

| | Face Amount | Value |
|--|--------------|-------------------|
| MATERIALS: 1.5% | | |
| Metals & Mining: 1.5% | | |
| Sesa Goa, Ltd., Cnv. 5.000%, 10/31/2014 | \$12,000,000 | 13,236,000 |
| Total Materials | | <u>13,236,000</u> |
| UTILITIES: 0.8% | | |
| Electric Utilities: 0.8% | | |
| Tata Power Co., Ltd., Cnv. 1.750%, 11/21/2014 | 7,000,000 | 7,420,000 |
| Total Utilities | | <u>7,420,000</u> |



PORTFOLIO MANAGERS

Taizo Ishida
Lead Manager

Kenichi Amaki
Co-Manager

FUND FACTS

| | |
|----------------------|----------------|
| Ticker | MJFOX |
| Inception Date | 12/31/98 |
| Assets | \$59.6 million |
| NAV | \$10.41 |
| Total # of Positions | 51 |

Ratios

| | |
|---------------------|----------------------|
| Portfolio Turnover | 126.75% ¹ |
| Gross Expense Ratio | 1.29% ² |

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.

¹ The lesser of fiscal year 2009 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

² Matthews Asia Funds does not charge 12b-1 fees.

Matthews Japan Fund

Portfolio Manager Commentary

For the first half of 2010, the Matthews Japan Fund returned -4.58%, while its benchmark, the MSCI Japan Index fell -2.65%. For the quarter ended June 30, the Fund returned -8.04%, while its benchmark fell -10.07%.

While Japan remained one of the best-performing markets in the world during the first six months of 2010, its strong rally came to an abrupt halt at the end of April, as did the rally in most other major stock markets around the globe. A combination of strong export earnings and cheap valuations for Japanese equities helped support the rally in the first quarter. However, a slowdown in China's economy and a sudden appreciation of the yen against the euro in the second quarter drove the index lower in May and June. All major drivers of Japan's economy slowed, including export growth, industrial production and job creation. For the country's economy to expand, real export growth is important. Western economies—Japan's export partners for many decades—still suffer from prolonged economic woes. However, the bright spot is that many Japanese companies are now shifting their focus from the West to the East, where economic growth is stronger. As a result, concern is emerging over the direction and trajectory of the Chinese economy as it is an increasingly important market for many Japanese exporters.

The Fund has been seeking "emerging growth" companies that are either companies with dominant market share that have recently gone public or older, more established companies that have identified new growth drivers for their business. Examples of these drivers include Asia's growing pool of consumers with rising discretionary income and "green" technologies that address the limitations of available energy in emerging markets such as China. These drivers could lead to margin expansion and the potential for higher returns on investment. The Fund also looks for compelling valuations. As bottom-up investors, we construct our portfolio one stock at a time rather than through sector allocation. Fund holdings such as consumer firms Pigeon and Rinnai represent the Fund's emerging growth plays, while Japanese Real Estate Investment Trusts (J-REITs) are held in part for their dividend yield.

Late in the second quarter, Unicharm Petcare, one of the Fund's core emerging growth stocks was acquired by Unicharm, its parent company. Unicharm Petcare was one of the portfolio's best performers year-to-date, however, as a result of the acquisition, the Fund will no longer be able to participate in the company's growth.

By sector, the Fund's industrials holdings included both positive contributors as well as the portfolio's two worst performers for the first six months of 2010: The Japan Steel Works (JSW) and machinery firm Kubota. JSW's performance was negatively affected by the collapse of the euro while Kubota, an agricultural machinery company,

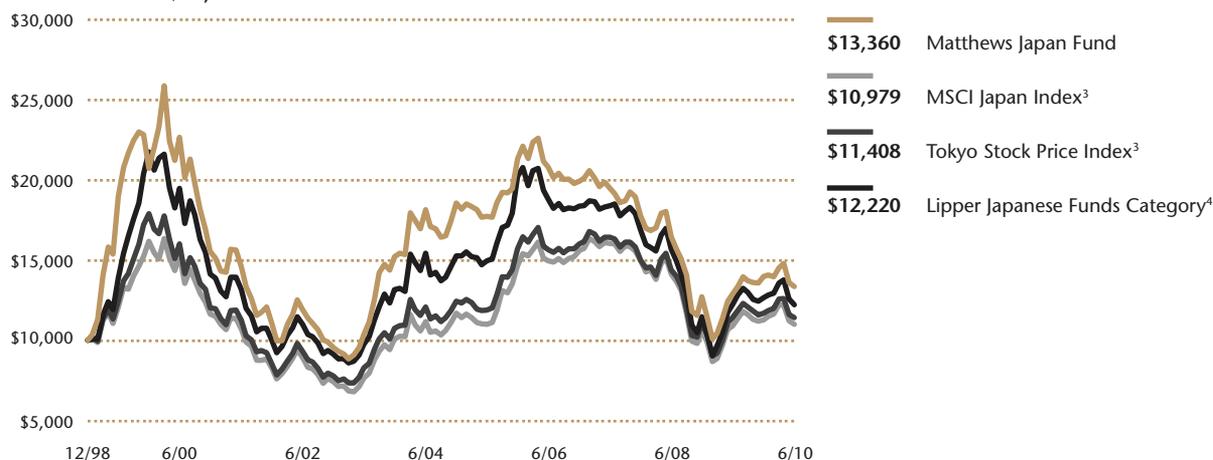
(continued)

PERFORMANCE AS OF JUNE 30, 2010

| | Average Annual Total Returns | | | | | Inception 12/31/98 |
|---|------------------------------|--------|---------|---------|----------|-----------------------|
| | 3 Months | 1 Year | 3 Years | 5 Years | 10 Years | |
| Matthews Japan Fund | -8.04% | 3.70% | -11.82% | -5.51% | -5.15% | 2.55% |
| MSCI Japan Index ³ | -10.07% | 0.89% | -11.89% | -0.04% | -3.28% | 0.82% |
| Tokyo Stock Price Index ³ | -9.28% | 0.00% | -11.45% | -0.82% | -3.34% | 1.15% |
| Lipper Japanese Funds Category Average ⁴ | -12.30% | -1.75% | -15.54% | -5.28% | -6.75% | 1.47% |

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.

GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION



Plotted monthly. The performance data and graph do 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\$.

³ 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 59 for index definitions.

⁴ 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 HOLDINGS⁵

| | Sector | % of Net Assets |
|--|------------------------|-----------------|
| ITOCHU Corp. | Industrials | 3.6% |
| Pigeon Corp. | Consumer Staples | 3.6% |
| ORIX Corp. | Financials | 3.3% |
| So-net Entertainment Corp. | Information Technology | 3.2% |
| Advance Residence Investment Corp., REIT | Financials | 2.9% |
| Hoshizaki Electric Co., Ltd. | Industrials | 2.9% |
| Nissan Motor Co., Ltd. | Consumer Discretionary | 2.8% |
| Kakaku.com, Inc. | Information Technology | 2.7% |
| Toshiba Corp. | Information Technology | 2.7% |
| Fanuc, Ltd. | Industrials | 2.7% |
| % OF ASSETS IN TOP TEN | | 30.4% |

⁵ Holdings may combine more than one security from same issuer and related depository receipts.

| SECTOR ALLOCATION (%) | |
|--|------|
| Industrials | 24.7 |
| Financials | 22.7 |
| Information Technology | 16.2 |
| Consumer Discretionary | 15.3 |
| Consumer Staples | 6.2 |
| Health Care | 5.6 |
| Materials | 5.1 |
| Telecommunication Services | 3.9 |
| Cash and Other Assets, Less Liabilities | 0.3 |

| MARKET CAP EXPOSURE (%) ⁶ | |
|--|------|
| Large Cap (Over \$5B) | 43.3 |
| Mid Cap (\$1B-\$5B) | 34.2 |
| Small Cap (Under \$1B) | 22.2 |
| Cash and Other Assets, Less Liabilities | 0.3 |

⁶ 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

Portfolio Manager Commentary (continued)

was hampered by slower orders from China following delays in China's farming subsidy program. Financials also yielded mixed results, though the sector itself performed on par with the market. The bulk of our J-REIT holdings positively contributed to performance. Meanwhile, Goldcrest, Kenedix and Nomura Holdings detracted from performance in part because investor sentiments toward this sector soured due to Europe's debt issues. In addition, these three financial firms tend to be more sensitive to general market fluctuations. While the benchmark holds large pharmaceutical companies, the Fund's exposure to the health care sector is via medical device makers, which continued to be solid performers year-to-date. One of the Fund's new holdings in this area, Asahi Intecc, was among the health care sector's top performers. The firm has a global market share of 20% to 25% in its main product which is used in catheter treatments for coronary diseases. Sales for this product, known as PTCA guidewire, have grown at a five-year compound annual growth rate of 21% as catheter treatments are one-third the cost of open heart surgeries. While developed countries have been the main market for the product, sales to China are expected to grow.

We believe that in the years to come more innovative Japanese companies should continue to grow—either in overseas markets or within Japan. Meanwhile, companies that have not rethought their strategies will continue to be a drag on the market. In this sense, the major indices may not be a good gauge with which to track Japan's more compelling equities. The Fund's ability to find more interesting growth companies in the Japanese market over the last few years has been encouraging. Looking ahead, potential risks may come from Japan's pace of export growth, particularly to Asia.

Looking ahead, the buying momentum of the overall Japanese market may not be as strong as it was six months ago due to much-improved foreign ownership during the period. However, valuations still remain attractive, and we continue to be optimistic about the growth potential of some of the country's more progressive companies even in this challenging environment.

Schedule of Investments^a (unaudited)

COMMON EQUITIES: JAPAN: 99.7%

| | Shares | Value | | Shares | Value |
|---|---------|-------------------|---|---------|------------------|
| INDUSTRIALS: 24.7% | | | INFORMATION TECHNOLOGY: 16.2% | | |
| Machinery: 16.6% | | | Electronic Equipment, Instruments & Components: 6.4% | | |
| Hoshizaki Electric Co., Ltd. | 97,700 | \$1,697,650 | Hamamatsu Photonics, K.K. | 42,200 | \$1,172,318 |
| Fanuc, Ltd. | 14,100 | 1,592,208 | Keyence Corp. | 3,997 | 924,276 |
| Nabtesco Corp. | 101,000 | 1,556,882 | Nippon Electric Glass Co., Ltd. | 79,000 | 904,909 |
| Kubota Corp. | 195,000 | 1,495,709 | Kyocera Corp. | 10,400 | 841,946 |
| Komatsu, Ltd. | 69,000 | 1,242,423 | | | 3,843,449 |
| The Japan Steel Works, Ltd. | 135,000 | 1,186,638 | Internet Software & Services: 5.9% | | |
| Mitsubishi Heavy Industries, Ltd. | 322,000 | 1,110,817 | So-net Entertainment Corp. | 792 | 1,893,244 |
| | | 9,882,327 | Kakaku.com, Inc. | 394 | 1,627,684 |
| Trading Companies & Distributors: 3.6% | | | | | 3,520,928 |
| ITOCHU Corp. | 277,000 | 2,165,438 | Computers & Peripherals: 2.7% | | |
| Electrical Equipment: 2.6% | | | Toshiba Corp. ^b | 322,000 | 1,595,050 |
| Nidec Corp. | 18,200 | 1,523,652 | Software: 1.2% | | |
| Construction & Engineering: 1.9% | | | Nintendo Co., Ltd. | 2,400 | 704,662 |
| Toshiba Plant Systems & Services Corp. | 91,000 | 1,135,983 | Total Information Technology | | |
| Total Industrials | | 14,707,400 | | | 9,664,089 |
| FINANCIALS: 22.7% | | | CONSUMER DISCRETIONARY: 15.3% | | |
| Real Estate Investment Trusts: 9.4% | | | Automobiles: 7.1% | | |
| Advance Residence Investment Corp., REIT | 1,347 | 1,738,692 | Nissan Motor Co., Ltd. ^b | 236,300 | 1,646,651 |
| BLife Investment Corp., REIT | 274 | 1,322,824 | Yamaha Motor Co., Ltd. ^b | 118,100 | 1,561,307 |
| United Urban Investment Corp., REIT | 149 | 889,371 | Honda Motor Co., Ltd. | 35,600 | 1,033,878 |
| Japan Hotel and Resort, Inc., REIT | 189 | 364,607 | | | 4,241,836 |
| Starts Proceed Investment Corp., REIT | 352 | 344,394 | Household Durables: 3.5% | | |
| Premier Investment Corp., REIT | 89 | 338,677 | Rinnai Corp. | 21,600 | 1,108,724 |
| Japan Retail Fund Investment Corp., REIT | 271 | 330,058 | Panasonic Corp. | 78,000 | 973,975 |
| Nippon Commercial Investment Corp., REIT | 263 | 252,151 | | | 2,082,699 |
| | | 5,580,774 | Specialty Retail: 2.1% | | |
| Capital Markets: 3.3% | | | Point, Inc. | 22,750 | 1,247,815 |
| Jafco Co., Ltd. | 49,900 | 1,103,852 | Diversified Consumer Services: 1.3% | | |
| Nomura Holdings, Inc. | 158,900 | 868,148 | Benesse Holdings, Inc. | 16,900 | 769,337 |
| | | 1,972,000 | Auto Components: 1.3% | | |
| Consumer Finance: 3.3% | | | Koito Manufacturing Co., Ltd. | 50,000 | 736,292 |
| ORIX Corp. | 27,120 | 1,964,703 | Total Consumer Discretionary | | |
| Real Estate Management & Development: 3.0% | | | | | 9,077,979 |
| Goldcrest Co., Ltd. | 68,170 | 1,178,194 | CONSUMER STAPLES: 6.2% | | |
| Kenedix, Inc. ^b | 3,625 | 596,999 | Household Products: 3.6% | | |
| | | 1,775,193 | Pigeon Corp. | 57,400 | 2,117,625 |
| Commercial Bank: 2.1% | | | Tobacco: 2.6% | | |
| Mitsubishi UFJ Financial Group, Inc. | 276,900 | 1,257,322 | Japan Tobacco, Inc. | 508 | 1,580,437 |
| Diversified Financial Services: 1.6% | | | Total Consumer Staples | | |
| IBJ Leasing Co., Ltd. | 54,800 | 968,336 | | | 3,698,062 |
| Total Financials | | 13,518,328 | HEALTH CARE: 5.6% | | |
| | | | Health Care Equipment & Supplies: 5.6% | | |
| | | | Systemex Corp. | 21,600 | 1,226,750 |
| | | | Asahi Intecc Co., Ltd. | 66,500 | 1,159,141 |
| | | | Mani, Inc. | 28,900 | 969,065 |
| | | | Total Health Care | | 3,354,956 |

Schedule of Investments^a (unaudited) (continued)

COMMON EQUITIES: JAPAN (continued)

| | Shares | Value |
|--|---------|---------------------|
| MATERIALS: 5.1% | | |
| Chemicals: 4.2% | | |
| Denki Kagaku Kogyo, K.K. | 331,000 | \$1,540,662 |
| Kansai Paint Co., Ltd. | 112,000 | 961,396 |
| | | <u>2,502,058</u> |
| Metals & Mining: 0.9% | | |
| Hitachi Metals, Ltd. | 50,000 | 506,202 |
| Total Materials | | <u>3,008,260</u> |
| TELECOMMUNICATION SERVICES: 3.9% | | |
| Wireless Telecommunication Services: 3.9% | | |
| Softbank Corp. | 46,800 | 1,241,289 |
| NTT DoCoMo, Inc. | 729 | 1,103,917 |
| Total Telecommunication Services | | <u>2,345,206</u> |
| TOTAL INVESTMENTS: 99.7% | | <u>59,374,280</u> |
| (Cost \$56,410,272 ^c) | | |
| CASH AND OTHER ASSETS, | | |
| LESS LIABILITIES: 0.3% | | <u>176,721</u> |
| NET ASSETS: 100.0% | | <u>\$59,551,001</u> |

a Certain securities were fair valued under the discretion of the Board of Trustees (Note 1-A).

b Non-income producing security.

c Cost for federal income tax purposes is \$56,467,699 and net unrealized appreciation consists of:

| | |
|-------------------------------|--------------------|
| Gross unrealized appreciation | \$7,579,214 |
| Gross unrealized depreciation | <u>(4,672,633)</u> |
| Net unrealized appreciation | <u>\$2,906,581</u> |

REIT Real Estate Investment Trust

See accompanying notes to financial statements.



PORTFOLIO MANAGERS

J. Michael Oh
Lead Manager

Michael B. Han, CFA
Co-Manager

FUND FACTS

| | |
|----------------------|-----------------|
| Ticker | MAKOX |
| Inception Date | 1/3/95 |
| Assets | \$132.0 million |
| NAV | \$4.13 |
| Total # of Positions | 55 |

Ratios

| | |
|---------------------|---------------------|
| Portfolio Turnover | 52.47% ¹ |
| Gross Expense Ratio | 1.30% ² |

Benchmark

Korea Composite Stock Price Index (KOSPI)

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 first half of 2010, the Matthews Korea Fund declined -4.18%, while its benchmark, the Korea Composite Stock Price Index (KOSPI), lost -3.77%. For the quarter ended June 30, the Fund was down -5.49% and the benchmark fell -7.13%.

During the first half of the year, Korean equities exhibited increased volatility, with the market initially in positive territory during the first quarter as the global economic recovery continued and Korean exporters recorded strong results. Entering the second quarter, the Korean market declined as geopolitical tensions increased between North and South Korea following the North's attack on a South Korean navy ship. Despite the market volatility, however, domestic consumer sentiment remained positive during the first half of the year with department store sales recovering and confidence rising among consumers.

Among the top-performing stocks in the Fund during the first six months of the year was Seoul-based snack food manufacturer, Orion Corp. Orion is a dominant manufacturer and distributor of snack items such as biscuits, chewing gum and candies. Orion started its snack business in the 1950s and the company grew to become one of Korea's dominant confectionary makers. In early 2000, Orion began expanding overseas, predominantly to China. It has significantly expanded its presence there, as well as in Russia and Vietnam. This year, Orion's sales in China are expected to be larger than its domestic sales and Vietnam should account for about 25% of Orion's international sales.

Large Korean companies such as Samsung, LG Electronics and Hyundai Motors have been strong in the global market for some time but we are now seeing small-to-medium size consumer companies with dominant domestic positions expanding into overseas markets, particularly in other parts of Asia. These firms are able to leverage both the expertise they have gained in Korea and the fact that Koreans share similar tastes and cultural backgrounds with Chinese and some Southeast Asian consumers. According to the management team at Orion, the firm was able to use similar product concepts and brands to successfully penetrate the Chinese market. Superior product quality and better branding also helps Korean companies like Orion win over consumers elsewhere in Asia.

Among the biggest detractors to Fund performance during the period was LG Electronics. While LG has built a strong name, especially in emerging countries, and expanded its market share in televisions and other white goods, its mobile phone division has suffered. The company lacks a smart phone product offering and the stock price declined during the first half of the year as a result. LG is expected to launch an entire series of smart phones in the second half of the year, and we remain optimistic that the company

(continued)

¹ The lesser of fiscal year 2009 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

² Matthews Asia Funds does not charge 12b-1 fees.

PERFORMANCE AS OF JUNE 30, 2010

| | Average Annual Total Returns | | | | | Inception 1/3/95 |
|---|------------------------------|--------|---------|---------|----------|---------------------|
| | 3 Months | 1 Year | 3 Years | 5 Years | 10 Years | |
| Matthews Korea Fund | -5.49% | 31.69% | -8.00% | 7.17% | 11.48% | 4.37% |
| Korea Composite Stock Price Index ³ | -7.13% | 27.32% | -9.25% | 7.78% | 6.86% | 0.93% |
| Lipper Pacific ex Japan Funds Category Average ⁴ | -6.05% | 22.03% | -2.58% | 10.93% | 7.77% | 6.43% ⁵ |

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.

GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION



Plotted monthly. The performance data and graph do 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\$.

³ 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 59 for index definition.

⁴ 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.

⁵ Calculated from 12/31/94.

TOP TEN HOLDINGS⁶

| | Sector | % of Net Assets |
|---|----------------------------|-----------------|
| Samsung Electronics Co., Ltd. | Information Technology | 11.7% |
| POSCO | Materials | 3.8% |
| Shinhan Financial Group Co., Ltd. | Financials | 3.6% |
| KB Financial Group, Inc. | Financials | 3.0% |
| LG Chem, Ltd. | Materials | 2.7% |
| SK Telecom Co., Ltd. | Telecommunication Services | 2.6% |
| Hyundai Mobis | Consumer Discretionary | 2.5% |
| Hyundai Motor Co. | Consumer Discretionary | 2.4% |
| Dongbu Insurance Co., Ltd. | Financials | 2.4% |
| Samsung Fire & Marine Insurance Co., Ltd. | Financials | 2.3% |
| % OF ASSETS IN TOP TEN | | 37.0% |

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

Matthews Korea Fund

Portfolio Manager Commentary (continued)

can regain some of its lost market share and profitability in the mobile phone business.

On a sector basis, consumer-related stocks performed well while financials suffered, mostly due to a lack of clarity related to the government's banking sector reforms. Valuations for Korean banks and insurance companies remain very attractive and financial holdings remain a major portion of the portfolio.

Looking forward, ongoing tension between North and South Korea could lead to short-term market volatility. However, we believe that, judging from prior conflicts between the two countries, tensions should not leave a long-lasting market impact. Currency volatility, on the other hand, remains a key risk for Korean companies that conduct business abroad.

The Korean won has been among the most volatile currencies in the region. In 2008, the won was the second worst-performing currency in the OECD (second only to Iceland's krona). As Korea's growth outlook became favorable earlier this year, the market attracted heavy flows of foreign capital, in part funded by negligible interest rates in the U.S. and other developed countries. But when the European debt crisis began, foreign investors started to sell off Korean equities, pushing the won lower.

Recognizing the recent currency volatility, the South Korean government started to devise a plan that should stabilize capital flows. In mid-June, the government set limits on the build-up of foreign exchange derivatives that are believed to influence the volatility. Foreign banks will be required to cut holdings in currency derivatives to 250% of equity capital and domestic banks to 50%.

While it is hard to assess the potential impact of this policy to the market, it should minimally impact the fundamentals of the companies in which we invest. We remain focused on identifying Korea's long-term economic developments and companies that stand to benefit from this evolution. We believe that Korea is well-positioned to benefit as the region grows and markets recover globally.

| SECTOR ALLOCATION (%) | |
|--|------|
| Consumer Discretionary | 21.2 |
| Information Technology | 20.8 |
| Financials | 18.6 |
| Industrials | 10.7 |
| Materials | 10.6 |
| Consumer Staples | 8.4 |
| Telecommunication Services | 4.0 |
| Health Care | 3.5 |
| Energy | 1.5 |
| Cash and Other Assets, Less Liabilities | 0.7 |

| MARKET CAP EXPOSURE (%) ⁷ | |
|--|------|
| Large Cap (Over \$5B) | 55.4 |
| Mid Cap (\$1B-\$5B) | 29.0 |
| Small Cap (Under \$1B) | 14.9 |
| Cash and Other Assets, Less Liabilities | 0.7 |

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.

Matthews Korea Fund

June 30, 2010

Schedule of Investments^a (unaudited)

COMMON EQUITIES: SOUTH KOREA: 94.9%

| | Shares | Value | | Shares | Value |
|---|---------|-------------------|--|--------|-------|
| INFORMATION TECHNOLOGY: 19.6% | | | | | |
| Semiconductors & Semiconductor Equipment: 11.7% | | | | | |
| Samsung Electronics Co., Ltd. | 24,630 | \$15,448,287 | | | |
| Electronic Equipment, Instruments & Components: 6.1% | | | | | |
| Samsung Electro-Mechanics Co., Ltd. | 23,028 | 2,879,646 | | | |
| LG Display Co., Ltd. ADR | 133,600 | 2,150,960 | | | |
| Uju Electronics Co., Ltd. | 86,724 | 1,963,700 | | | |
| Samsung SDI Co., Ltd. | 8,202 | 1,147,861 | | | |
| | | <u>8,142,167</u> | | | |
| Internet Software & Services: 1.8% | | | | | |
| NHN Corp. ^b | 15,783 | 2,347,393 | | | |
| Total Information Technology | | <u>25,937,847</u> | | | |
| CONSUMER DISCRETIONARY: 19.3% | | | | | |
| Automobiles: 4.6% | | | | | |
| Hyundai Motor Co. | 27,465 | 3,213,645 | | | |
| Kia Motors Corp. | 109,610 | 2,904,266 | | | |
| | | <u>6,117,911</u> | | | |
| Auto Components: 4.1% | | | | | |
| Hyundai Mobis | 19,899 | 3,337,550 | | | |
| Hankook Tire Co., Ltd. | 92,430 | 2,097,017 | | | |
| | | <u>5,434,567</u> | | | |
| Hotels, Restaurants & Leisure: 3.6% | | | | | |
| Modetour Network, Inc. | 73,564 | 2,115,674 | | | |
| Hana Tour Service, Inc. | 36,817 | 1,632,282 | | | |
| Grand Korea Leisure Co., Ltd. | 53,090 | 1,037,118 | | | |
| | | <u>4,785,074</u> | | | |
| Household Durables: 2.2% | | | | | |
| LG Electronics, Inc. | 38,389 | 2,919,252 | | | |
| Media: 1.8% | | | | | |
| Cheil Worldwide, Inc. | 224,260 | 2,345,778 | | | |
| Multiline Retail: 1.7% | | | | | |
| Hyundai Department Store Co., Ltd. | 23,200 | 2,216,309 | | | |
| Diversified Consumer Services: 1.3% | | | | | |
| MegaStudy Co., Ltd. | 13,144 | 1,736,708 | | | |
| Total Consumer Discretionary | | <u>25,555,599</u> | | | |
| FINANCIALS: 17.3% | | | | | |
| Commercial Banks: 8.6% | | | | | |
| Shinhan Financial Group Co., Ltd. | 127,348 | 4,687,567 | | | |
| Korea Exchange Bank | 263,690 | 2,687,407 | | | |
| KB Financial Group, Inc. | 64,410 | 2,468,886 | | | |
| KB Financial Group, Inc. ADR | 38,953 | 1,475,929 | | | |
| | | <u>11,319,789</u> | | | |
| Insurance: 5.4% | | | | | |
| Dongbu Insurance Co., Ltd. | 109,590 | \$3,144,918 | | | |
| Samsung Fire & Marine Insurance Co., Ltd. | 19,233 | 3,052,977 | | | |
| Korea Life Insurance Co., Ltd. | 137,000 | 951,617 | | | |
| | | <u>7,149,512</u> | | | |
| Capital Markets: 3.3% | | | | | |
| Kiwoom Securities Co., Ltd. | 84,370 | 2,824,445 | | | |
| Samsung Securities Co., Ltd. | 34,513 | 1,523,194 | | | |
| | | <u>4,347,639</u> | | | |
| Total Financials | | <u>22,816,940</u> | | | |
| INDUSTRIALS: 10.7% | | | | | |
| Industrial Conglomerates: 3.2% | | | | | |
| Orion Corp. | 8,266 | 2,487,449 | | | |
| Samsung Techwin Co., Ltd. | 20,004 | 1,716,198 | | | |
| | | <u>4,203,647</u> | | | |
| Construction & Engineering: 2.5% | | | | | |
| Samsung Engineering Co., Ltd. | 22,169 | 2,053,009 | | | |
| HanmiParsons Co., Ltd. | 120,600 | 1,291,882 | | | |
| | | <u>3,344,891</u> | | | |
| Building Products: 2.2% | | | | | |
| LG Hausys, Ltd. | 24,305 | 1,824,398 | | | |
| Sung Kwang Bend Co., Ltd. | 62,910 | 1,020,612 | | | |
| | | <u>2,845,010</u> | | | |
| Commercial Services & Supplies: 2.1% | | | | | |
| Korea Plant Service & Engineering Co., Ltd. | 37,700 | 2,085,678 | | | |
| S1 Corp. | 16,987 | 723,136 | | | |
| | | <u>2,808,814</u> | | | |
| Machinery: 0.7% | | | | | |
| JVM Co., Ltd. ^b | 50,804 | 943,360 | | | |
| Total Industrials | | <u>14,145,722</u> | | | |
| MATERIALS: 10.6% | | | | | |
| Chemicals: 5.7% | | | | | |
| LG Chem, Ltd. | 14,263 | 3,577,029 | | | |
| OCI Materials Co., Ltd. | 21,729 | 2,086,265 | | | |
| Hyosung Corp. | 29,239 | 1,851,448 | | | |
| | | <u>7,514,742</u> | | | |
| Metals & Mining: 3.8% | | | | | |
| POSCO ADR | 37,800 | 3,565,296 | | | |
| POSCO | 3,903 | 1,478,889 | | | |
| | | <u>5,044,185</u> | | | |
| Containers & Packaging: 1.1% | | | | | |
| Lock & Lock Co., Ltd. | 46,750 | 1,427,195 | | | |
| Total Materials | | <u>13,986,122</u> | | | |

Schedule of Investments^a (unaudited) (continued)

COMMON EQUITIES: SOUTH KOREA (continued)

| | Shares | Value |
|---|---------|--------------------|
| CONSUMER STAPLES: 8.4% | | |
| Food & Staples Retailing: 3.6% | | |
| Shinsegae Food Co., Ltd. | 38,842 | \$2,571,528 |
| Shinsegae Co., Ltd. | 5,000 | 2,160,370 |
| | | <u>4,731,898</u> |
| Personal Products: 1.8% | | |
| Amorepacific Corp. | 2,808 | 2,389,011 |
| Household Products: 1.6% | | |
| LG Household & Health Care, Ltd. | 7,351 | 2,087,669 |
| Tobacco: 1.4% | | |
| KT&G Corp. | 37,500 | 1,843,533 |
| Total Consumer Staples | | <u>11,052,111</u> |
| TELECOMMUNICATION SERVICES: 4.0% | | |
| Wireless Telecommunication Services: 2.6% | | |
| SK Telecom Co., Ltd. ADR | 119,700 | 1,763,181 |
| SK Telecom Co., Ltd. | 12,839 | 1,682,606 |
| | | <u>3,445,787</u> |
| Diversified Telecommunication Services: 1.4% | | |
| KT Corp. | 48,404 | 1,787,450 |
| Total Telecommunication Services | | <u>5,233,237</u> |
| HEALTH CARE: 3.5% | | |
| Pharmaceuticals: 3.5% | | |
| Dong-A Pharmaceutical Co., Ltd. | 25,045 | 2,498,882 |
| Yuhan Corp. | 16,626 | 2,077,177 |
| Total Health Care | | <u>4,576,059</u> |
| ENERGY: 1.5% | | |
| Oil, Gas & Consumable Fuels: 1.5% | | |
| SK Energy Co., Ltd. | 22,470 | 1,998,500 |
| Total Energy | | <u>1,998,500</u> |
| TOTAL COMMON EQUITIES | | <u>125,302,137</u> |
| (Cost \$105,780,913) | | |

PREFERRED EQUITIES: SOUTH KOREA: 4.4%

| | | |
|---|--------|------------------|
| CONSUMER DISCRETIONARY: 1.9% | | |
| Automobiles: 1.9% | | |
| Hyundai Motor Co., Ltd., 2nd, Pfd. | 58,494 | 2,467,090 |
| Total Consumer Discretionary | | <u>2,467,090</u> |
| FINANCIALS: 1.3% | | |
| Insurance: 1.3% | | |
| Samsung Fire & Marine Insurance Co., Ltd., Pfd. | 24,176 | 1,768,746 |
| Total Financials | | <u>1,768,746</u> |

PREFERRED EQUITIES: SOUTH KOREA (continued)

| | Shares | Value |
|---|--------|----------------------|
| INFORMATION TECHNOLOGY: 1.2% | | |
| Semiconductors & Semiconductor Equipment: 1.2% | | |
| Samsung Electronics Co., Ltd., Pfd. | 3,646 | \$1,554,275 |
| Total Information Technology | | <u>1,554,275</u> |
| TOTAL PREFERRED EQUITIES | | <u>5,790,111</u> |
| (Cost \$5,090,698) | | |
| TOTAL INVESTMENTS: 99.3% | | <u>131,092,248</u> |
| (Cost \$110,871,611 ^c) | | |
| CASH AND OTHER ASSETS, LESS LIABILITIES: 0.7% | | |
| | | <u>932,690</u> |
| NET ASSETS: 100.0% | | <u>\$132,024,938</u> |

- a Certain securities were fair valued under the discretion of the Board of Trustees (Note 1-A).
- b Non-income producing security.
- c Cost for federal income tax purposes is \$111,341,076 and net unrealized appreciation consists of:
- | | |
|-------------------------------|---------------------|
| Gross unrealized appreciation | \$27,761,284 |
| Gross unrealized depreciation | (8,010,112) |
| Net unrealized appreciation | <u>\$19,751,172</u> |

ADR American Depositary Receipt
Pfd. Preferred

See accompanying notes to financial statements.

ASIA SMALL COMPANY
STRATEGY



PORTFOLIO MANAGERS

Lydia So

Lead Manager

Michael B. Han, CFA

Co-Manager

FUND FACTS

| | |
|----------------------|-----------------|
| Ticker | MSMLX |
| Inception Date | 9/15/08 |
| Assets | \$161.2 million |
| NAV | \$16.31 |
| Total # of Positions | 73 |

Ratios

| | |
|---------------------------------|---------------------|
| Portfolio Turnover | 21.39% ¹ |
| Gross Expense Ratio | 2.10% ² |
| After Contractual Fee Waiver | 2.00% ² |

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, excluding Japan.

1 The lesser of fiscal year 2009 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

2 The Advisor has contractually agreed to waive certain fees and reimburse certain expenses for Matthews Asia Small Companies Fund. Please see page 89 for additional information. Matthews Asia Funds does not charge 12b-1 fees.

Matthews Asia Small Companies Fund

Portfolio Manager Commentary

For the first half of 2010, the Matthews Asia Small Companies Fund gained 3.29%, outperforming its benchmark, the MSCI All Country Asia ex Japan Small Cap Index, which lost -1.91%. For the quarter ended June 30, the Fund declined -1.69%, while its benchmark fell -5.98%.

Concerns surrounding Europe's sovereign debt issues continued to affect global sentiment in the second quarter of the year. The sharp depreciation of the euro against the U.S. dollar in May, coupled with sell-offs in global equity markets, exacerbated fears of a repeat of the global financial crisis we witnessed not long ago. The likelihood of a global economic recovery appeared more fragile than previously expected. Asian equities were not immune to severe sell-offs as investors showed concern for real financial impacts, not just investor sentiment. Europe is one of China's largest export markets. Dampened demand and eroding purchasing power in Europe could present huge challenges to its export sector. At the corporate level, company earnings could also fluctuate depending on end-market demand.

External factors aside, Asia is faced with other macroeconomic issues that are mostly inflationary. With property prices rising considerably across many cities in China, the government introduced several tightening measures in attempts to cool down the property sector. On the labor front, intense pressure from factory workers demanding increased wages has driven salaries higher in several high profile cases.

In general, however, Asia's economic growth has recovered from recent lows, prompting central banks to evaluate the resurgence of inflationary pressures. In fact, India, Malaysia and Taiwan all raised interest rates in the second quarter. China announced plans to reform its exchange rate regime to increase flexibility, sparking some short-term excitement in the market during the same period.

Amid a rather uncertain market environment, the Fund stayed consistent with its strategy of focusing on domestically oriented and high quality companies. Stock selection accounted for the bulk of the Fund's outperformance over its benchmark in both the first and second quarter of 2010. We are pleased that companies with solid fundamentals that made shrewd business decisions to grow and expand were recognized by the market. The Fund's holding in materials, consumer staples and health care were the top contributors. Information technology stocks, however, were the largest detractors. In addition, our long-standing overweight in India and underweight in Taiwan favorably impacted the Fund's performance.

On a company basis, Korean materials firm POSCO Chemtech was a major contributor to Fund performance in the first half of 2010. The company supplies refractory materials and maintenance services to steel manufacturers in Korea. While steel manufacturing itself can be a cyclical and capital-intensive industry, POSCO Chemtech's

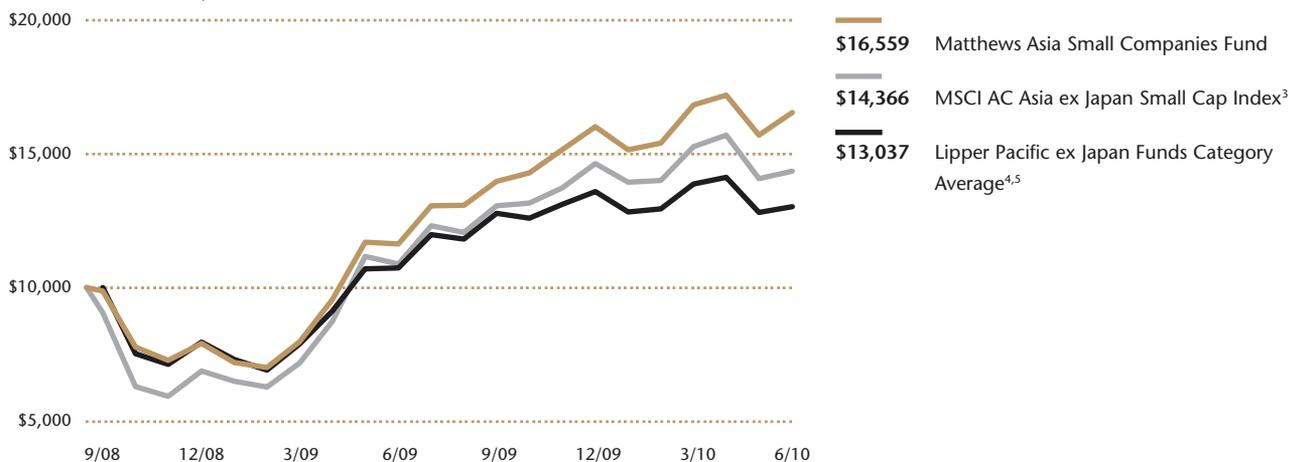
(continued)

PERFORMANCE AS OF JUNE 30, 2010

| | Average Annual Total Returns | | |
|---|------------------------------|--------|----------------------|
| | 3 Months | 1 Year | Inception 9/15/08 |
| Matthews Asia Small Companies Fund | -1.69% | 42.44% | 32.57% |
| MSCI All Country Asia ex Japan Small Cap Index ³ | -5.98% | 32.04% | 22.45% |
| Lipper Pacific ex Japan Funds Category Average ⁴ | -6.05% | 22.03% | 16.14% ⁵ |

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.

GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION



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\$.

³ 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 59 for index definition.

⁴ 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.

⁵ Calculated from 9/30/08.

TOP TEN HOLDINGS⁶

| | Country | % of Net Assets |
|---|-----------------|-----------------|
| St. Shine Optical Co., Ltd. | Taiwan | 3.3% |
| Singapore Airport Terminal Services, Ltd. | Singapore | 2.4% |
| Ipca Laboratories, Ltd. | India | 2.3% |
| Vinda International Holdings, Ltd. | China/Hong Kong | 2.2% |
| Hengdeli Holdings, Ltd. | China/Hong Kong | 2.2% |
| Yip's Chemical Holdings, Ltd. | China/Hong Kong | 2.1% |
| Exide Industries, Ltd. | India | 2.0% |
| Jyothy Laboratories, Ltd. | India | 1.9% |
| Formosa International Hotels Corp. | Taiwan | 1.9% |
| Dongbu Insurance Co., Ltd. | South Korea | 1.9% |
| % OF ASSETS IN TOP TEN | | 22.2% |

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

COUNTRY ALLOCATION (%)

| | |
|--|------|
| China/Hong Kong | 31.5 |
| India | 21.1 |
| Taiwan | 14.8 |
| South Korea | 14.6 |
| Singapore | 10.8 |
| Malaysia | 2.9 |
| Indonesia | 2.4 |
| Thailand | 0.9 |
| Cash and Other Assets, Less Liabilities | 1.0 |

SECTOR ALLOCATION (%)

| | |
|--|------|
| Consumer Discretionary | 21.7 |
| Industrials | 17.4 |
| Information Technology | 17.0 |
| Financials | 15.1 |
| Health Care | 9.8 |
| Materials | 9.3 |
| Consumer Staples | 7.0 |
| Utilities | 1.7 |
| Cash and Other Assets, Less Liabilities | 1.0 |

MARKET CAP EXPOSURE (%)^{7,8}

| | |
|--|------|
| Mid Cap (\$1B-\$5B) | 45.4 |
| Small Cap (Under \$1B) | 53.6 |
| Cash and Other Assets, Less Liabilities | 1.0 |

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.

Matthews Asia Small Companies Fund

Portfolio Manager Commentary (continued)

earnings profile has been steady thanks to the consumable and recurring nature of its products and services. The company also spearheaded a new chemical division that will provide it with additional diversification. Going forward, POSCO Chemtech's earnings momentum is expected to be robust on the back of increasing steel production capacity in Korea as well as its expanded product offerings.

Toward the end of the first quarter of 2010, the Fund initiated a small position in Jyothy Laboratories, a consumer staples company in India. Jyothy's product portfolio includes fabric care, dish washing detergents and household pesticides. Most recently, the company launched a mosquito repellent product, which is expected to do well in rural areas. After seeing strong organic growth in its existing product lineup and a promising new product launch, we increased our position in the company. In the second quarter, Jyothy was a substantial contributor to Fund performance.

Unfortunately, not all of our holdings performed as well as we hoped. Asiatravel.com Holdings, an online hotel and travel booking service provider based in Singapore, performed poorly. The company suffered some slowdown in travel booking due to poor global sentiment, as well as a sharp drop in visitors to Thailand following a sudden escalation of political unrest there in April. However, we believe that these setbacks are largely temporary in nature. The company is a leader in its space in Southeast Asia and we believe its technology platform and products are desirable in the long run given Asia's demographics and spending trends.

As the global macroeconomic picture remains somewhat murky and a "double-dip" recession scenario has become a popular topic of debate among investors, we remain focused and cautious regarding potential risks to our holdings. While the market has undoubtedly become more volatile, we were encouraged to see that some quality companies managed to thrive in their respective industries. We will continue our bottom-up investment selection efforts. We believe that valuations remain reasonable in Asia and should present attractive opportunities for long-term investors.

Schedule of Investments^a (unaudited)

COMMON EQUITIES: 99.0%

| | Shares | Value | | Shares | Value |
|--|-----------|-------------------|--|------------|-------------------|
| CHINA/HONG KONG: 31.5% | | | TAIWAN: 14.8% | | |
| Vinda International Holdings, Ltd. | 4,282,000 | \$3,614,496 | St. Shine Optical Co., Ltd. | 668,492 | \$5,324,629 |
| Hengdeli Holdings, Ltd. | 8,112,000 | 3,496,789 | Formosa International Hotels Corp. | 247,700 | 3,027,467 |
| Yip's Chemical Holdings, Ltd. | 3,368,000 | 3,399,800 | TXC Corp. | 1,902,900 | 2,933,484 |
| KWG Property Holding, Ltd. | 4,785,500 | 2,942,970 | Chroma ATE, Inc. | 1,496,175 | 2,861,300 |
| Towngas China Co., Ltd. | 7,298,000 | 2,754,108 | Pacific Hospital Supply Co., Ltd. | 1,283,000 | 2,855,389 |
| Kingdee International Software Group Co., Ltd. | 7,240,000 | 2,727,701 | Synnex Technology International Corp. | 1,246,800 | 2,698,384 |
| Dalian Port PDA Co., Ltd. H Shares | 6,194,000 | 2,681,551 | Richtek Technology Corp. | 308,000 | 2,579,267 |
| PCD Stores, Ltd. ^b | 8,442,900 | 2,620,670 | ACES Electronic Co., Ltd. | 531,000 | 1,531,023 |
| Golden Eagle Retail Group, Ltd. | 1,248,000 | 2,605,558 | Total Taiwan | | 23,810,943 |
| Comba Telecom Systems Holdings, Ltd. | 2,360,600 | 2,601,709 | SOUTH KOREA: 14.6% | | |
| Xinyi Glass Holdings Co., Ltd. | 6,792,000 | 2,552,270 | Dongbu Insurance Co., Ltd. | 104,270 | 2,992,249 |
| Minth Group, Ltd. | 1,726,000 | 2,039,334 | POSCO Chemtech Co., Ltd. | 38,105 | 2,870,470 |
| AAC Acoustic Technologies Holdings, Inc. | 1,288,000 | 1,841,035 | OCI Materials Co., Ltd. | 26,130 | 2,508,817 |
| Zhuzhou CSR Times Electric Co., Ltd. H Shares | 850,000 | 1,799,399 | Korea Plant Service & Engineering Co., Ltd. | 45,230 | 2,502,261 |
| Fook Woo Group Holdings, Ltd. ^b | 5,988,000 | 1,768,304 | YES24 Co., Ltd. | 358,101 | 2,303,895 |
| Xingda International Holdings, Ltd. | 3,049,000 | 1,701,592 | Cheil Worldwide, Inc. | 201,805 | 2,110,897 |
| Longtop Financial Technologies, Ltd. ADR ^b | 50,022 | 1,620,713 | Sung Kwang Bend Co., Ltd. | 119,350 | 1,936,258 |
| Shandong Weigao Group Medical Polymer Co., Ltd. H Shares | 364,000 | 1,585,636 | MegaStudy Co., Ltd. | 13,824 | 1,826,556 |
| TCL Multimedia Technology Holdings, Ltd. | 2,850,000 | 1,519,198 | Modetour Network, Inc. | 58,706 | 1,688,363 |
| Ming Fai International Holdings, Ltd. | 3,771,000 | 1,480,317 | Korea Zinc Co., Ltd. | 9,505 | 1,678,316 |
| Wasion Group Holdings, Ltd. | 2,014,000 | 1,261,627 | Kiwoom Securities Co., Ltd. | 32,885 | 1,100,887 |
| China Green Holdings, Ltd. | 1,176,000 | 1,179,967 | Total South Korea | | 23,518,969 |
| Lee's Pharmaceutical Holdings, Ltd. | 2,610,000 | 1,013,893 | SINGAPORE: 10.8% | | |
| Total China/Hong Kong | | 50,808,637 | Singapore Airport Terminal Services, Ltd. | 2,070,000 | 3,945,620 |
| INDIA: 21.1% | | | Ascendas India Trust | 3,776,000 | 2,528,636 |
| Ipca Laboratories, Ltd. | 597,548 | 3,734,521 | CSE Global, Ltd. | 3,656,000 | 2,273,962 |
| Exide Industries, Ltd. | 1,140,754 | 3,208,479 | Allgreen Properties, Ltd. | 2,914,000 | 2,124,950 |
| Jyothy Laboratories, Ltd. | 581,604 | 3,100,343 | Keppel Land, Ltd. | 732,000 | 2,019,923 |
| Federal Bank, Ltd. | 369,541 | 2,504,817 | Armstrong Industrial Corp., Ltd. | 6,045,000 | 1,885,761 |
| CMC, Ltd. | 77,205 | 2,366,166 | Asiatravel.com Holdings, Ltd. | 5,188,000 | 1,582,394 |
| Thermax, Ltd. | 132,383 | 2,137,131 | Kim Eng Holdings, Ltd. | 894,000 | 1,014,231 |
| Page Industries, Ltd. | 105,710 | 2,130,360 | Total Singapore | | 17,375,477 |
| Jain Irrigation Systems, Ltd. | 89,809 | 2,057,865 | MALAYSIA: 2.9% | | |
| Bajaj Electricals, Ltd. | 430,033 | 2,048,204 | Dialog Group BHD | 6,889,938 | 2,219,630 |
| Emami, Ltd. | 119,860 | 1,999,972 | Faber Group BHD | 1,545,200 | 1,262,828 |
| Sun TV Network, Ltd. | 191,534 | 1,790,763 | Alliance Financial Group BHD | 1,343,500 | 1,218,182 |
| Usha Martin, Ltd. | 981,030 | 1,747,825 | Total Malaysia | | 4,700,640 |
| CRISIL, Ltd. | 13,544 | 1,692,511 | INDONESIA: 2.4% | | |
| Container Corp. of India, Ltd. | 42,337 | 1,224,801 | PT Jasa Marga | 10,400,500 | 2,308,772 |
| Asian Paints, Ltd. | 22,808 | 1,124,131 | PT Bank Tabungan Pensiunan Nasional ^b | 1,801,500 | 1,627,712 |
| India Infoline, Ltd. | 501,011 | 1,032,425 | Total Indonesia | | 3,936,484 |
| Emami Infrastructure, Ltd. ^{b,c} | 35,091 | 36,192 | | | |
| Total India | | 33,936,506 | | | |

Schedule of Investments^a (unaudited) (continued)

COMMON EQUITIES *(continued)*

| | Shares | Value |
|------------------------------------|------------|-----------------------------|
| THAILAND: 0.9% | | |
| Quality Houses Public Co., Ltd. | 24,850,700 | \$1,534,097 |
| Total Thailand | | <u>1,534,097</u> |
| TOTAL INVESTMENTS: 99.0% | | |
| | | 159,621,753 |
| (Cost \$139,447,903 ^d) | | |
| CASH AND OTHER ASSETS, | | |
| LESS LIABILITIES: 1.0% | | |
| | | <u>1,570,647</u> |
| NET ASSETS: 100.0% | | |
| | | <u><u>\$161,192,400</u></u> |

a Certain securities were fair valued under the discretion of the Board of Trustees (Note 1-A).

b Non-income producing security.

c Illiquid security.

d Cost for federal income tax purposes is \$139,580,822 and net unrealized appreciation consists of:

| | |
|-------------------------------|---------------------|
| Gross unrealized appreciation | \$25,975,877 |
| Gross unrealized depreciation | <u>(5,934,946)</u> |
| Net unrealized appreciation | <u>\$20,040,931</u> |

ADR American Depositary Receipt

BHD Berhad

See accompanying notes to financial statements.



PORTFOLIO MANAGERS

J. Michael Oh
Lead Manager

Lydia So
Co-Manager

FUND FACTS

| | |
|----------------------|-----------------|
| Ticker | MATFX |
| Inception Date | 12/27/99 |
| Assets | \$134.5 million |
| NAV | \$7.81 |
| Total # of Positions | 57 |

Ratios

| | |
|---------------------|---------------------|
| Portfolio Turnover | 83.27% ¹ |
| Gross Expense Ratio | 1.39% ² |

Benchmark

MSCI/Matthews Asian Technology 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.

¹ The lesser of fiscal year 2009 long-term purchase costs or sales proceeds divided by the average monthly market value of long-term securities.

² Matthews Asia Funds does not charge 12b-1 fees.

Matthews Asia Science and Technology Fund

Portfolio Manager Commentary

For the first half of 2010, the Matthews Asia Science and Technology Fund returned -2.62%, while its benchmark, the MSCI/Matthews Asian Technology Index lost -3.65%. For the quarter ended June 30, the Fund dropped -7.13%, while its benchmark fell -8.27%.

It has been a very volatile period for Asia's technology sector. During the first quarter, the sector rallied on the back of the ongoing global recovery. However, the sector declined in the second quarter amid concerns over slowing demand for information technology products and rising labor costs in China. The issue of rising wages is not new to the region. China has seen average wage growth of about 15% to 20% over the last few years in technology-related manufacturing jobs, but this year has brought higher-than-average wage growth in China.

This has hurt the region's electronics manufacturing firms as most of their factories are based in China. One such firm that has been impacted is Hon Hai Precision Industry, which was the worst-performing holding in the Fund during the first half of the year. Despite rising wages, the company is still among the world's largest and lowest-cost manufacturers of consumer electronics. A leader in its field, Hon Hai began moving its manufacturing base from coastal to inland areas of China before most of its competitors, a move which should result in lower labor costs. Hon Hai should be one of the biggest beneficiaries of rising demand for technology products globally.

Not all firms have suffered from China's rising wages. In fact, some (mostly Japanese) factory automation companies based in Asia have benefited from this trend. Japan has long been a leader in this field as it first automated its factories in the 1980s, and since then has continued to innovate in the area of replacing human labor with machines. Industry experts compare China's current level of general automation to that of Japan in the 1970s and 1980s. Hence, this may provide growth opportunities for Japanese automation firms over the next decade. Fanuc, one such firm, was among the Fund's top-performing stocks during the first half of this year. We added Fanuc to the portfolio last year as valuations became very attractive following the global credit crisis. The Fund also added two other factory automation-related companies in the first half of 2010, while decreasing exposure to hardware companies.

Despite reasonable inventory levels during the period, we continued to see some shortages in the area of electronic components in the second quarter, as we did earlier this year. During last year's economic downturn, electronic component makers scaled back on investments, leaving them unprepared when demand recovered quickly at the start of this year. For some component makers these

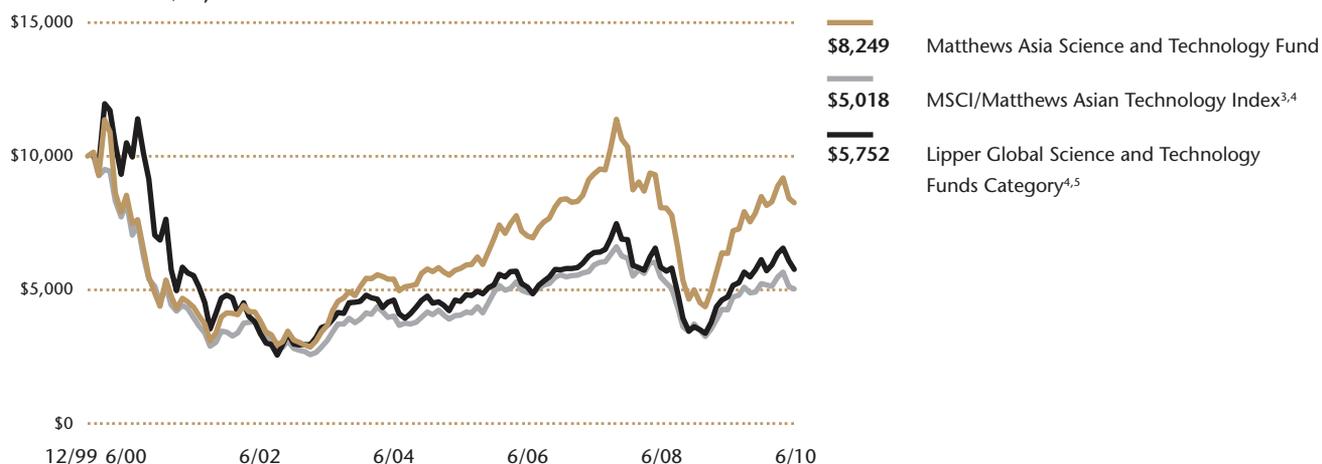
(continued)

PERFORMANCE AS OF JUNE 30, 2010

| | Average Annual Total Returns | | | | | Inception 12/27/99 |
|---|------------------------------|--------|---------|---------|----------|-----------------------|
| | 3 Months | 1 Year | 3 Years | 5 Years | 10 Years | |
| Matthews Asia Science and Technology Fund | -7.13% | 30.17% | -4.01% | 7.38% | -0.33% | -1.81% |
| MSCI/Matthews Asian Technology Index ³ | -8.27% | 18.70% | -5.29% | 4.47% | -4.87% | -6.35% ⁴ |
| Lipper Global Sciences and Technology Funds Category Average ⁵ | -10.31% | 20.30% | -4.56% | 3.78% | -8.86% | -5.27% ⁴ |

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.

GROWTH OF A \$10,000 INVESTMENT SINCE INCEPTION



Plotted monthly. The performance data and graph do 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\$.

³ 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 59 for index definition.

⁴ Calculated from 12/31/99.

⁵ 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 HOLDINGS⁶

| | Country | % of Net Assets |
|--|-----------------|-----------------|
| Baidu, Inc. | China/Hong Kong | 6.2% |
| Samsung Electronics Co., Ltd. | South Korea | 4.3% |
| China Mobile, Ltd. | China/Hong Kong | 3.0% |
| Taiwan Semiconductor Manufacturing Co., Ltd. | Taiwan | 2.9% |
| Canon, Inc. | Japan | 2.8% |
| Samsung Electro-Mechanics Co., Ltd. | South Korea | 2.4% |
| Hamamatsu Photonics, K.K. | Japan | 2.3% |
| Infosys Technologies, Ltd. | India | 2.2% |
| Fanuc, Ltd. | Japan | 2.1% |
| Disco Corp. | Japan | 2.1% |
| % OF ASSETS IN TOP TEN | | 30.3% |

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

Matthews Asia Science and Technology Fund

Portfolio Manager Commentary (continued)

shortages eased during the second quarter. But for manufacturers of LEDs and MLCCs (multilayered ceramic capacitors), which are found in virtually all electronic devices, shortages have continued.

On a country basis, China and India were the biggest contributors to performance during the first half of the year. Indian technology continued to perform very well, and have remained relatively unaffected by macro uncertainties. Their performance continued to climb during the second quarter. Fund performance was also helped by our focus on domestically oriented Chinese companies, as improved wages and a potential appreciation in the renminbi have benefited some of these firms.

European sovereign debt issues negatively affected Asia's technology sector as Europe remains a key source of revenue for many of the region's technology companies. The uncertain outlook and weak euro contributed to the market's decline in the second quarter. Europe's troubles, coupled with the potential for a slowdown in the global recovery, remain key risks for Asia's technology industries in the second half of the year. Despite these short-term challenges, we continue to focus on long-term growth opportunities. Not only is Asia the largest manufacturer of personal computers and mobile phones—key growth drivers for the global technology sector—but the region has become the largest market for these products, surpassing Western Europe and the U.S. Furthermore, the overall penetration rate of technology products in key Asian markets, mainly China and India, remains relatively low. As discretionary income levels rise in the region so should expenditure on technology products.

| COUNTRY ALLOCATION (%) ⁷ | |
|--|------|
| Japan | 26.9 |
| China/Hong Kong | 26.2 |
| Taiwan | 20.6 |
| South Korea | 14.6 |
| India | 6.0 |
| Indonesia | 2.0 |
| United States | 1.9 |
| Philippines | 1.8 |
| Cash and Other Assets, Less Liabilities | 0.0 |

| SECTOR ALLOCATION (%) | |
|--|------|
| Information Technology | 67.7 |
| Telecommunication Services | 10.0 |
| Consumer Discretionary | 9.5 |
| Health Care | 7.1 |
| Industrials | 4.5 |
| Materials | 1.2 |
| Cash and Other Assets, Less Liabilities | 0.0 |

| MARKET CAP EXPOSURE (%) ⁸ | |
|--|------|
| Large Cap (Over \$5B) | 66.3 |
| Mid Cap (\$1B-\$5B) | 25.1 |
| Small Cap (Under \$1B) | 8.6 |
| Cash and Other Assets, Less Liabilities | 0.0 |

⁷ The United States is not included in the MSCI/Matthews Asian Technology Index.

⁸ 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^a (unaudited)

COMMON EQUITIES: 100.0%

| | Shares | Value | | Shares | Value |
|--|-----------|-------------------|--|---------|-------------------|
| JAPAN: 26.9% | | | SOUTH KOREA: 14.6% | | |
| Canon, Inc. | 99,700 | \$3,715,764 | Samsung Electronics Co., Ltd. | 9,304 | \$5,835,601 |
| Hamamatsu Photonics, K.K. | 112,500 | 3,125,254 | Samsung Electro-Mechanics Co., Ltd. | 25,291 | 3,162,633 |
| Fanuc, Ltd. | 25,200 | 2,845,649 | LG Display Co., Ltd. ADR | 146,400 | 2,357,040 |
| Disco Corp. | 44,600 | 2,821,575 | SK Telecom Co., Ltd. ADR | 142,400 | 2,097,552 |
| Toshiba Corp. ^b | 559,000 | 2,769,047 | NHN Corp. ^b | 13,541 | 2,013,942 |
| Nintendo Co., Ltd. | 9,200 | 2,701,205 | LG Electronics, Inc. | 20,653 | 1,570,536 |
| Murata Manufacturing Co., Ltd. | 52,100 | 2,484,549 | JVM Co., Ltd. ^b | 77,006 | 1,429,894 |
| Hoya Corp. | 108,900 | 2,317,139 | MegaStudy Co., Ltd. | 5,651 | 746,663 |
| Omron Corp. | 101,100 | 2,203,921 | Uju Electronics Co., Ltd. | 21,867 | 496,220 |
| Keyence Corp. | 9,500 | 2,196,803 | Total South Korea | | 19,710,081 |
| Asahi Intecc Co., Ltd. | 117,400 | 2,046,363 | INDIA: 6.0% | | |
| Sony Corp. | 69,900 | 1,864,443 | Infosys Technologies, Ltd. | 48,944 | 2,920,153 |
| Nidec Corp. | 21,400 | 1,791,547 | Sun TV Network, Ltd. | 218,902 | 2,046,642 |
| Denki Kagaku Kogyo, K.K. | 361,000 | 1,680,299 | Exide Industries, Ltd. | 628,792 | 1,768,538 |
| TDK Corp. | 29,100 | 1,592,417 | Tata Consultancy Services, Ltd. | 85,761 | 1,376,192 |
| Total Japan | | 36,155,975 | Total India | | 8,111,525 |
| CHINA/HONG KONG: 26.2% | | | INDONESIA: 2.0% | | |
| Baidu, Inc. ADR ^b | 122,400 | 8,332,992 | PT Telekomunikasi Indonesia ADR | 78,200 | 2,676,786 |
| China Mobile, Ltd. ADR | 81,600 | 4,031,856 | Total Indonesia | | 2,676,786 |
| Mindray Medical International, Ltd. ADR | 77,700 | 2,441,334 | UNITED STATES: 1.9% | | |
| Ctrip.com International, Ltd. ADR ^b | 64,600 | 2,426,376 | Cognizant Technology Solutions Corp., Class A ^b | 50,500 | 2,528,030 |
| New Oriental Education & Technology Group, Inc. ADR ^b | 25,600 | 2,385,664 | Total United States | | 2,528,030 |
| Kingdee International Software Group Co., Ltd. | 6,282,000 | 2,366,770 | PHILIPPINES: 1.8% | | |
| China Communications Services Corp., Ltd. H Shares | 4,642,000 | 2,243,056 | Globe Telecom, Inc. | 124,880 | 2,380,937 |
| ZTE Corp. H Shares | 626,520 | 1,902,340 | Total Philippines | | 2,380,937 |
| Longtop Financial Technologies, Ltd. ADR ^b | 58,460 | 1,894,104 | TOTAL INVESTMENTS: 100.0% | | |
| Digital China Holdings, Ltd. | 1,215,000 | 1,856,234 | 134,541,514 | | |
| Shandong Weigao Group Medical Polymer Co., Ltd. H Shares | 372,000 | 1,620,486 | (Cost \$120,022,153 ^c) | | |
| Tencent Holdings, Ltd. | 93,300 | 1,545,724 | LIABILITIES IN EXCESS OF CASH AND OTHER ASSETS: 0.0% | | |
| AAC Acoustic Technologies Holdings, Inc. | 1,058,000 | 1,512,278 | (4,983) | | |
| Sinopharm Group Co., Ltd. H Shares | 189,200 | 689,373 | NET ASSETS: 100.0% | | |
| Total China/Hong Kong | | 35,248,587 | \$134,536,531 | | |
| TAIWAN: 20.6% | | | | | |
| Taiwan Semiconductor Manufacturing Co., Ltd. | 2,082,933 | 3,893,093 | a Certain securities were fair valued under the discretion of the Board of Trustees (Note 1-A). | | |
| Hon Hai Precision Industry Co., Ltd. ^b | 787,333 | 2,759,738 | b Non-income producing security. | | |
| St. Shine Optical Co., Ltd. | 339,000 | 2,700,181 | c Cost for federal income tax purposes is \$120,943,043 and net unrealized appreciation consists of: | | |
| Delta Electronics, Inc. | 743,000 | 2,371,771 | Gross unrealized appreciation \$21,912,046 | | |
| MediaTek, Inc. | 168,156 | 2,347,084 | Gross unrealized depreciation (8,313,575) | | |
| Synnex Technology International Corp. | 1,019,300 | 2,206,018 | Net unrealized appreciation <u>\$13,598,471</u> | | |
| Richtek Technology Corp. | 243,150 | 2,036,198 | ADR American Depositary Receipt | | |
| Nan Ya Printed Circuit Board Corp. | 501,000 | 2,029,604 | See accompanying notes to financial statements. | | |
| Acer, Inc. | 862,780 | 2,002,309 | | | |
| Tripod Technology Corp. | 539,000 | 1,993,089 | | | |
| TXC Corp. | 1,157,000 | 1,783,615 | | | |
| HTC Corp. | 121,000 | 1,606,893 | | | |
| Total Taiwan | | 27,729,593 | | | |

Disclosures and Index Definitions

Disclosures

Fund Holdings: The Fund holdings shown in this report are as of June 30, 2010. 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. 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 investment 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 12-month period ended June 30, 2010, is available upon request, at no charge, at the Funds' website at matthewsasiasia.com or by calling 1.800.789.ASIA (2742), or on the SEC's website at www.sec.gov.

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 and financial reports on our website. If you prefer to receive individual copies of the Funds' prospectus or financial reports, please call us at 1.800.789.ASIA (2742).

Index Definitions

The **MSCI All Country Asia ex Japan Index** is a free float-adjusted market capitalization-weighted index of the stock of 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 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.

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/Matthews Asian Technology 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 do 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.

June 30, 2010

| | Beginning Account Value 1/1/10 | Ending Account Value 6/30/10 | Expense Ratio ¹ | Operating Expenses Paid During Period 1/1/10–6/30/10 ² |
|--|-----------------------------------|---------------------------------|----------------------------|---|
| ASIA GROWTH AND INCOME STRATEGIES | | | | |
| Matthews Asian Growth and Income Fund | | | | |
| Actual Fund Return | \$1,000.00 | \$1,015.10 | 1.14% | \$5.70 |
| Hypothetical 5% Return | \$1,000.00 | \$1,019.14 | 1.14% | \$5.71 |
| Matthews Asia Dividend Fund | | | | |
| Actual Fund Return | \$1,000.00 | \$1,048.20 | 1.14% | \$5.79 |
| Hypothetical 5% Return | \$1,000.00 | \$1,019.14 | 1.14% | \$5.71 |
| Matthews China Dividend Fund | | | | |
| Actual Fund Return | \$1,000.00 | \$1,015.60 | 1.50% | \$7.50 |
| Hypothetical 5% Return | \$1,000.00 | \$1,017.36 | 1.50% | \$7.50 |
| ASIA GROWTH STRATEGIES | | | | |
| Matthews Asia Pacific Fund | | | | |
| Actual Fund Return | \$1,000.00 | \$1,021.00 | 1.21% | \$6.06 |
| Hypothetical 5% Return | \$1,000.00 | \$1,018.79 | 1.21% | \$6.06 |
| Matthews Pacific Tiger Fund | | | | |
| Actual Fund Return | \$1,000.00 | \$997.40 | 1.10% | \$5.45 |
| Hypothetical 5% Return | \$1,000.00 | \$1,019.34 | 1.10% | \$5.51 |
| Matthews China Fund | | | | |
| Actual Fund Return | \$1,000.00 | \$974.50 | 1.16% | \$5.68 |
| Hypothetical 5% Return | \$1,000.00 | \$1,019.04 | 1.16% | \$5.81 |
| Matthews India Fund | | | | |
| Actual Fund Return | \$1,000.00 | \$1,114.20 | 1.21% | \$6.34 |
| Hypothetical 5% Return | \$1,000.00 | \$1,018.79 | 1.21% | \$6.06 |
| Matthews Japan Fund | | | | |
| Actual Fund Return | \$1,000.00 | \$954.20 | 1.32% | \$6.40 |
| Hypothetical 5% Return | \$1,000.00 | \$1,018.25 | 1.32% | \$6.61 |
| Matthews Korea Fund | | | | |
| Actual Fund Return | \$1,000.00 | \$958.20 | 1.22% | \$5.92 |
| Hypothetical 5% Return | \$1,000.00 | \$1,018.74 | 1.22% | \$6.11 |
| ASIA SMALL COMPANY STRATEGY | | | | |
| Matthews Asia Small Companies Fund | | | | |
| Actual Fund Return | \$1,000.00 | \$1,032.90 | 1.78% | \$8.97 |
| Hypothetical 5% Return | \$1,000.00 | \$1,015.97 | 1.78% | \$8.90 |
| ASIA SPECIALTY STRATEGY | | | | |
| Matthews Asia Science and Technology Fund | | | | |
| Actual Fund Return | \$1,000.00 | \$973.80 | 1.27% | \$6.22 |
| Hypothetical 5% Return | \$1,000.00 | \$1,018.50 | 1.27% | \$6.36 |

1 Annualized, based on the Fund's most recent fiscal half-year expenses.

2 Operating expenses are equal to the Fund's annualized expense ratio multiplied by the average account value over the period, multiplied by 181 days, then divided by 365.

Statements of Assets and Liabilities (Unaudited)

| | Matthews Asian Growth and Income Fund | Matthews Asia Dividend Fund | Matthews China Dividend Fund | Matthews Asia Pacific Fund |
|--|---|--------------------------------|---------------------------------|-------------------------------|
| ASSETS: | | | | |
| Investments at value (A) (Note 1-A and 5): | | | | |
| Unaffiliated issuers | \$2,665,832,208 | \$803,517,531 | \$13,862,862 | \$225,240,036 |
| Affiliated issuers | 85,795,019 | — | — | — |
| Total investments | 2,751,627,227 | 803,517,531 | 13,862,862 | 225,240,036 |
| Cash | 71,746,356 | 32,057,506 | 585,394 | 1,672,461 |
| Segregated foreign currency at value (B) | 303,500 | — | — | 68,509 |
| Foreign currency at value (B) | 486,727 | — | — | 20,914 |
| Dividends, interest, and other receivables | 8,154,921 | 3,286,921 | 56,931 | 859,333 |
| Receivable for securities sold | 2,265,690 | — | — | — |
| Receivable for capital shares sold | 6,240,419 | 6,012,447 | 40,200 | 369,421 |
| Due from Advisor (Note 3) | — | — | 9,332 | — |
| Deferred offering costs (Note 1-E) | — | — | 21,230 | — |
| Prepaid expenses | 76,269 | 71,244 | — | 10,480 |
| TOTAL ASSETS | 2,840,901,109 | 844,945,649 | 14,575,949 | 228,241,154 |
| LIABILITIES: | | | | |
| Payable for securities purchased | 5,592,995 | 6,892,415 | 89,900 | 307,818 |
| Payable for capital shares redeemed | 4,629,472 | 1,824,292 | 52,205 | 192,994 |
| Deferred tax liability (Note 1-D) | 556,896 | — | — | — |
| Capital gains tax payable | 13,730 | — | — | — |
| Due to Advisor (Note 3) | 1,571,556 | 450,664 | 7,834 | 128,351 |
| Administration and accounting fees payable | 38,421 | 11,014 | 192 | 3,137 |
| Administration and shareholder servicing fees payable | 508,724 | 127,612 | 2,281 | 42,763 |
| Professional fees payable | 47,695 | 25,485 | 15,327 | 29,993 |
| Trustees fees payable | — | — | 62 | — |
| Offering costs | — | — | 20,946 | — |
| Accrued expenses payable | 512,006 | 67,195 | 11,841 | 46,236 |
| TOTAL LIABILITIES | 13,471,495 | 9,398,677 | 200,588 | 751,292 |
| NET ASSETS | \$2,827,429,614 | \$835,546,972 | \$14,375,361 | \$227,489,862 |
| SHARES OUTSTANDING: | | | | |
| (shares of beneficial interest issued and outstanding, respectively, unlimited number of shares authorized with a \$0.001 par value) | | | | |
| | 178,698,177 | 66,787,941 | 1,406,162 | 15,590,761 |
| Net asset value, offering price and redemption price | \$15.82 | \$12.51 | \$10.22 | \$14.59 |
| NET ASSETS CONSIST OF: | | | | |
| Capital paid-in | \$2,556,481,978 | \$803,171,961 | \$14,366,588 | \$246,673,816 |
| Undistributed (distributions in excess of) net investment income (loss) | (6,746,891) | (5,547,251) | (14,066) | 991,279 |
| Undistributed/accumulated net realized gain (loss) on investments and foreign currency related transactions | (2,382,992) | 2,920,986 | 128,527 | (75,167,169) |
| Net unrealized appreciation (depreciation) on investments, foreign currency transactions and deferred taxes | 280,077,519 | 35,001,276 | (105,688) | 54,991,936 |
| NET ASSETS | \$2,827,429,614 | \$835,546,972 | \$14,375,361 | \$227,489,862 |
| (A) Investments at cost: | | | | |
| Unaffiliated issuers | \$2,392,228,341 | \$768,529,663 | \$13,968,615 | \$170,257,479 |
| Affiliated issuers | 78,810,935 | — | — | — |
| Total investments at cost | \$2,471,039,276 | \$768,529,663 | \$13,968,615 | \$170,257,479 |
| (B) Foreign currency at cost | \$792,862 | \$— | \$— | \$89,612 |

See accompanying notes to financial statements.

June 30, 2010

| 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 |
|-----------------------------|------------------------|----------------------|---------------------|----------------------|------------------------------------|---|
| \$3,838,913,833 | \$2,244,414,861 | \$866,212,655 | \$59,374,280 | \$131,092,248 | \$159,621,753 | \$134,541,514 |
| 44,483,452 | 106,858,767 | — | — | — | — | — |
| 3,883,397,285 | 2,351,273,628 | 866,212,655 | 59,374,280 | 131,092,248 | 159,621,753 | 134,541,514 |
| 189,998,741 | 30,749,900 | 37,112,583 | 591,035 | 3,367,527 | 5,368,177 | 2,091,832 |
| 7,722,555 | — | — | — | — | — | — |
| 7,528,975 | — | 983,474 | — | 61,791 | 384,984 | 189,628 |
| 7,642,386 | 10,974,336 | 3,629,891 | 138,762 | 61,916 | 369,345 | 206,309 |
| — | 244,086 | — | — | — | — | 4,599,928 |
| 25,670,725 | 3,975,941 | 1,619,657 | 99,216 | 34,069 | 324,448 | 297,261 |
| — | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| 87,572 | 99,673 | 7,309 | 12,560 | 17,825 | 22,856 | 18,199 |
| 4,122,048,239 | 2,397,317,564 | 909,565,569 | 60,215,853 | 134,635,376 | 166,091,563 | 141,944,671 |
| 23,233,997 | — | 1,602,338 | — | 108,494 | 1,293,976 | 607,792 |
| 10,708,968 | 8,724,483 | 2,645,702 | 568,815 | 2,345,537 | 2,450,392 | 6,628,346 |
| 5,553,281 | — | — | — | — | 935,939 | — |
| — | — | — | — | — | — | — |
| 2,188,568 | 1,347,699 | 496,389 | 35,116 | 75,556 | 132,418 | 81,156 |
| 53,495 | 32,943 | 12,133 | 858 | 1,846 | 2,189 | 1,984 |
| 569,300 | 459,393 | 155,505 | 13,276 | 24,762 | 27,532 | 26,715 |
| 57,796 | 32,800 | 83,514 | 24,066 | 23,609 | 23,304 | 30,855 |
| — | — | — | 274 | — | — | — |
| — | — | — | — | — | — | — |
| 564,643 | 453,099 | 178,908 | 22,447 | 30,634 | 33,413 | 31,292 |
| 42,930,048 | 11,050,417 | 5,174,489 | 664,852 | 2,610,438 | 4,899,163 | 7,408,140 |
| \$4,079,118,191 | \$2,386,267,147 | \$904,391,080 | \$59,551,001 | \$132,024,938 | \$161,192,400 | \$134,536,531 |
| 212,642,174 | 96,019,344 | 49,817,083 | 5,719,615 | 31,987,091 | 9,885,432 | 17,226,012 |
| \$19.18 | \$24.85 | \$18.15 | \$10.41 | \$4.13 | \$16.31 | \$7.81 |
| \$3,400,038,374 | \$1,899,277,840 | \$760,809,227 | \$130,748,306 | \$103,374,252 | \$137,575,344 | \$147,872,131 |
| (14,123,470) | 14,090,719 | 346,732 | 1,176,359 | (254,941) | (51,124) | (278,497) |
| (147,943,787) | 11,709,771 | (89,515,442) | (75,343,054) | 8,685,103 | 4,429,370 | (27,584,549) |
| 841,147,074 | 461,188,817 | 232,750,563 | 2,969,390 | 20,220,524 | 19,238,810 | 14,527,446 |
| \$4,079,118,191 | \$2,386,267,147 | \$904,391,080 | \$59,551,001 | \$132,024,938 | \$161,192,400 | \$134,536,531 |
| \$2,982,269,345 | \$1,850,653,441 | \$633,464,012 | \$56,410,272 | \$110,871,611 | \$139,447,903 | \$120,022,153 |
| 54,491,246 | 39,434,025 | — | — | — | — | — |
| \$3,036,760,591 | \$1,890,087,466 | \$633,464,012 | \$56,410,272 | \$110,871,611 | \$139,447,903 | \$120,022,153 |
| \$15,250,946 | \$— | \$981,359 | \$— | \$61,791 | \$384,249 | \$189,628 |

Statements of Operations (Unaudited)

| | Matthews Asian Growth and Income Fund | Matthews Asia Dividend Fund | Matthews China Dividend Fund | Matthews Asia Pacific Fund |
|---|---|--------------------------------|---------------------------------|-------------------------------|
| INVESTMENT INCOME: | | | | |
| Dividends—Unaffiliated Issuers | \$35,381,392 | \$10,255,500 | \$245,562 | \$2,457,083 |
| Dividends—Affiliated Issuers (Note 5) | — | — | — | — |
| Interest | 16,161,263 | 106,673 | 395 | — |
| Foreign withholding tax | (1,948,153) | (635,511) | (6,598) | (182,486) |
| TOTAL INVESTMENT INCOME | 49,594,502 | 9,726,662 | 239,359 | 2,274,597 |
| EXPENSES: | | | | |
| Investment advisory fees (Note 3) | 9,192,913 | 2,042,940 | 40,057 | 775,694 |
| Administration and accounting fees (Note 3) | 227,233 | 50,503 | 990 | 19,179 |
| Administration and shareholder servicing fees (Note 3) | 3,216,838 | 667,105 | 13,338 | 265,868 |
| Custodian fees | 373,316 | 110,001 | 17,165 | 39,151 |
| Insurance fees | 14,193 | 1,684 | 24 | 1,291 |
| Printing fees | 147,635 | 40,526 | 1,333 | 21,430 |
| Professional fees | 37,613 | 22,977 | 19,918 | 25,384 |
| Registration fees | 74,208 | 34,788 | 10,245 | 15,441 |
| Transfer agent fees | 1,966,687 | 367,657 | 15,866 | 180,610 |
| Trustees fees | 54,887 | 8,247 | 232 | 4,853 |
| Offering costs (Note 1-E) | — | — | 22,114 | — |
| Other expenses | 62,960 | 27,935 | 19,840 | 25,384 |
| TOTAL EXPENSES | 15,368,483 | 3,374,363 | 161,122 | 1,374,285 |
| Advisory fees waived or recaptured and expenses waived or reimbursed (Note 3) | — | 34,648 | (73,032) | — |
| NET EXPENSES | 15,368,483 | 3,409,011 | 88,090 | 1,374,285 |
| NET INVESTMENT INCOME (LOSS) | 34,226,019 | 6,317,651 | 151,269 | 900,312 |
| REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, FOREIGN CURRENCY RELATED TRANSACTIONS AND DEFERRED TAXES: | | | | |
| Net realized gain (loss) on investments— | | | | |
| Unaffiliated Issuers | 66,284,510 | 21,432,690 | 130,242 | 7,717,542 |
| Affiliated Issuers | — | — | — | — |
| Net realized capital gain tax | (13,730) | (138) | — | — |
| Net realized gain (loss) on foreign currency related transactions | (124,898) | 267,775 | (1,715) | (54,224) |
| Net change in unrealized appreciation/depreciation on investments | (64,435,208) | (21,752,193) | (219,734) | (4,797,330) |
| Net change in deferred taxes on unrealized appreciation | (552,607) | — | — | — |
| Net change in unrealized appreciation/depreciation on foreign currency related transactions | 37,518 | 21,058 | 37 | 12,094 |
| Net realized and unrealized gain (loss) on investments, foreign currency related transactions and deferred taxes | 1,195,585 | (30,808) | (91,170) | 2,878,082 |
| NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS | \$35,421,604 | \$6,286,843 | \$60,099 | \$3,778,394 |

See accompanying notes to financial statements.

June 30, 2010

| 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 |
|-----------------------------|-----------------------|---------------------|----------------------|----------------------|------------------------------------|---|
| \$27,522,412 | \$28,814,858 | \$5,359,646 | \$534,697 | \$692,334 | \$1,627,562 | \$731,236 |
| — | 734,106 | — | — | — | — | — |
| 52 | — | 966,900 | 222 | — | 1,525 | 81 |
| (1,801,591) | (1,187,322) | — | (37,415) | (120,779) | (69,083) | (86,971) |
| 25,720,873 | 28,361,642 | 6,326,546 | 497,504 | 571,555 | 1,560,004 | 644,346 |
| 12,545,767 | 8,613,227 | 2,747,642 | 256,997 | 459,064 | 705,069 | 491,962 |
| 310,116 | 212,928 | 67,928 | 6,347 | 11,348 | 11,804 | 12,160 |
| 4,048,385 | 3,015,531 | 962,906 | 88,021 | 152,499 | 170,503 | 170,605 |
| 773,409 | 348,376 | 218,929 | 8,248 | 22,349 | 69,402 | 38,664 |
| 19,694 | 14,110 | 4,030 | 505 | 772 | 557 | 714 |
| 155,796 | 223,298 | 73,750 | 10,980 | 13,419 | 9,188 | 18,856 |
| 44,494 | 34,550 | 36,236 | 20,883 | 20,637 | 22,259 | 24,306 |
| 59,805 | 79,683 | 36,052 | 11,112 | 10,912 | 19,252 | 12,480 |
| 2,176,720 | 1,931,438 | 661,654 | 65,279 | 105,566 | 119,748 | 121,413 |
| 74,895 | 53,406 | 15,741 | 1,960 | 2,920 | 2,391 | 2,913 |
| — | — | — | — | — | — | — |
| 65,624 | 63,368 | 30,890 | 24,962 | 20,787 | 20,405 | 20,477 |
| 20,265,705 | 14,589,915 | 4,855,758 | 495,294 | 820,273 | 1,150,578 | 914,550 |
| — | — | — | — | — | 94,607 | — |
| 20,265,705 | 14,589,915 | 4,855,758 | 495,294 | 820,273 | 1,245,185 | 914,550 |
| 5,455,168 | 13,771,727 | 1,470,788 | 2,210 | (248,718) | 314,819 | (270,204) |
| 48,460,950 | 58,512,316 | (1,017,198) | 5,277,859 | 8,546,564 | 4,408,839 | 10,417,909 |
| — | 770,595 | — | — | — | — | — |
| — | — | — | — | — | (87,696) | — |
| (788,134) | (121,356) | 48,971 | (12,380) | 9,690 | (14,714) | (37,250) |
| (68,765,604) | (156,642,018) | 83,719,601 | (8,157,016) | (14,235,984) | (735,278) | (14,620,027) |
| 6,450,577 | — | — | — | — | (296,150) | — |
| 42,877 | 2,881 | (334) | 17,271 | (2,009) | 2,294 | 8,497 |
| (14,599,334) | (97,477,582) | 82,751,040 | (2,874,266) | (5,681,739) | 3,277,295 | (4,230,871) |
| \$(9,144,166) | \$(83,705,855) | \$84,221,828 | \$(2,872,056) | \$(5,930,457) | \$3,592,114 | \$(4,501,075) |

Statements of Changes in Net Assets

| MATTHEWS ASIAN GROWTH AND INCOME FUND | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, 2009 |
|---|--|---------------------------------|
| OPERATIONS: | | |
| Net investment income | \$34,226,019 | \$58,935,074 |
| Net realized gain (loss) on investments and foreign currency related transactions | 66,145,882 | (37,269,074) |
| Net change in unrealized appreciation/depreciation on investments and foreign currency related transactions | (64,397,690) | 553,007,216 |
| Net change on deferred taxes on unrealized appreciation | (552,607) | (4,289) |
| Net increase in net assets resulting from operations | 35,421,604 | 574,668,927 |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | |
| Net investment income | (33,482,738) | (60,961,205) |
| Net decrease in net assets resulting from distributions | (33,482,738) | (60,961,205) |
| CAPITAL SHARE TRANSACTIONS (net) (Note 2) | 277,746,683 | 943,643,994 |
| REDEMPTION FEES | 333,095 | 347,176 |
| Total increase in net assets | 280,018,644 | 1,457,698,892 |
| NET ASSETS: | | |
| Beginning of period | 2,547,410,970 | 1,089,712,078 |
| End of period (including distributions in excess of net investment income of (\$6,746,891) and (\$7,490,172), respectively) | \$2,827,429,614 | \$2,547,410,970 |

| MATTHEWS ASIA DIVIDEND FUND | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, 2009 |
|---|--|---------------------------------|
| OPERATIONS: | | |
| Net investment income | \$6,317,651 | \$5,662,564 |
| Net realized gain (loss) on investments and foreign currency related transactions | 21,700,327 | (13,062,275) |
| Net change in unrealized appreciation/depreciation on investments and foreign currency related transactions | (21,731,135) | 72,559,686 |
| Net increase in net assets resulting from operations | 6,286,843 | 65,159,975 |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | |
| Net investment income | (7,742,726) | (10,189,013) |
| Net decrease in net assets resulting from distributions | (7,742,726) | (10,189,013) |
| CAPITAL SHARE TRANSACTIONS (net) (Note 2) | 514,611,961 | 124,976,685 |
| REDEMPTION FEES | 387,548 | 104,220 |
| Total increase in net assets | 513,543,626 | 180,051,867 |
| NET ASSETS: | | |
| Beginning of period | 322,003,346 | 141,951,479 |
| End of period (including distributions in excess of net investment income of (\$5,547,251) and (\$4,122,176), respectively) | \$835,546,972 | \$322,003,346 |

See accompanying notes to financial statements.

| MATTHEWS CHINA DIVIDEND FUND | Six-Month Period Ended June 30, 2010 (unaudited) | Period Ended December 31, 2009* |
|--|--|------------------------------------|
| OPERATIONS: | | |
| Net investment income (loss) | \$151,269 | \$(2,899) |
| Net realized gain on investments and foreign currency related transactions | 128,527 | 747 |
| Net change in unrealized appreciation/depreciation on investments and foreign currency related transactions | (219,697) | 114,009 |
| Net increase in net assets resulting from operations | 60,099 | 111,857 |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | |
| Net investment income | (165,948) | — |
| Net decrease in net assets resulting from distributions | (165,948) | — |
| CAPITAL SHARE TRANSACTIONS (net) (Note 2) | 7,334,387 | 7,022,503 |
| REDEMPTION FEES | 12,365 | 98 |
| Total increase in net assets | 7,240,903 | 7,134,458 |
| NET ASSETS: | | |
| Beginning of period | 7,134,458 | — |
| End of period (including undistributed/(distributions in excess of) net investment income of (\$14,066) and \$613, respectively) | \$14,375,361 | \$7,134,458 |

* The Matthews China Dividend Fund commenced operations on November 30, 2009.

| MATTHEWS ASIA PACIFIC FUND | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, 2009 |
|---|--|---------------------------------|
| OPERATIONS: | | |
| Net investment income | \$900,312 | \$876,695 |
| Net realized gain (loss) on investments and foreign currency related transactions | 7,663,318 | (38,793,121) |
| Net change in unrealized appreciation/depreciation on investments and foreign currency related transactions | (4,785,236) | 98,158,273 |
| Net increase in net assets resulting from operations | 3,778,394 | 60,241,847 |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | |
| Net investment income | — | (3,712,448) |
| Net decrease in net assets resulting from distributions | — | (3,712,448) |
| CAPITAL SHARE TRANSACTIONS (net) (Note 2) | (3,993,835) | 3,023,527 |
| REDEMPTION FEES | 54,787 | 66,709 |
| Total increase (decrease) in net assets | (160,654) | 59,619,635 |
| NET ASSETS: | | |
| Beginning of period | 227,650,516 | 168,030,881 |
| End of period (including undistributed net investment income of \$991,279 and \$90,967, respectively) | \$227,489,862 | \$227,650,516 |

See accompanying notes to financial statements.

Statements of Changes in Net Assets

| MATTHEWS PACIFIC TIGER FUND | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, 2009 |
|---|--|---------------------------------|
| OPERATIONS: | | |
| Net investment income | \$5,455,168 | \$9,137,790 |
| Net realized gain (loss) on investments and foreign currency related transactions | 47,672,816 | (24,529,624) |
| Net change in unrealized appreciation/depreciation on investments and foreign currency related transactions | (68,722,727) | 1,192,679,495 |
| Net change on deferred taxes on unrealized appreciation | 6,450,577 | (11,832,470) |
| Net increase (decrease) in net assets resulting from operations | (9,144,166) | 1,165,455,191 |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | |
| Net investment income | — | (26,580,408) |
| Net decrease in net assets resulting from distributions | — | (26,580,408) |
| CAPITAL SHARE TRANSACTIONS (net) (Note 2) | 522,166,971 | 1,223,811,012 |
| REDEMPTION FEES | 350,375 | 618,672 |
| Total increase in net assets | 513,373,180 | 2,363,304,467 |
| NET ASSETS: | | |
| Beginning of period | 3,565,745,011 | 1,202,440,544 |
| End of period (including distributions in excess of net investment income of (\$14,123,470) and (\$19,578,638), respectively) | \$4,079,118,191 | \$3,565,745,011 |

| MATTHEWS CHINA FUND | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, 2009 |
|---|--|---------------------------------|
| OPERATIONS: | | |
| Net investment income | \$13,771,727 | \$7,039,626 |
| Net realized gain (loss) on investments and foreign currency related transactions | 59,161,555 | (29,260,718) |
| Net change in unrealized appreciation/depreciation on investments and foreign currency related transactions | (156,639,137) | 862,559,099 |
| Net increase (decrease) in net assets resulting from operations | (83,705,855) | 840,338,007 |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | |
| Net investment income | — | (6,595,986) |
| Net decrease in net assets resulting from distributions | — | (6,595,986) |
| CAPITAL SHARE TRANSACTIONS (net) (Note 2) | (97,182,683) | 949,569,226 |
| REDEMPTION FEES | 1,150,376 | 1,589,585 |
| Total increase (decrease) in net assets | (179,738,162) | 1,784,900,832 |
| NET ASSETS: | | |
| Beginning of period | 2,566,005,309 | 781,104,477 |
| End of period (including undistributed net investment income of \$14,090,719 and \$318,992, respectively) | \$2,386,267,147 | \$2,566,005,309 |

See accompanying notes to financial statements.

| MATTHEWS INDIA FUND | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, 2009 |
|---|--|---------------------------------|
| OPERATIONS: | | |
| Net investment income | \$1,470,788 | \$2,833,094 |
| Net realized loss on investments and foreign currency related transactions | (968,227) | (42,336,542) |
| Net change in unrealized appreciation/depreciation on investments and foreign currency related transactions | 83,719,267 | 359,067,162 |
| Net increase in net assets resulting from operations | 84,221,828 | 319,563,714 |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | |
| Net investment income | — | (4,170,390) |
| Realized gains on investments | — | (5,361,117) |
| Net decrease in net assets resulting from distributions | — | (9,531,507) |
| CAPITAL SHARE TRANSACTIONS (net) (Note 2) | 98,869,669 | 93,020,027 |
| REDEMPTION FEES | 374,220 | 357,124 |
| Total increase in net assets | 183,465,717 | 403,409,358 |
| NET ASSETS: | | |
| Beginning of period | 720,925,363 | 317,516,005 |
| End of period (including undistributed/(distributions in excess of) net investment income of \$346,732 and (\$1,124,056), respectively) | \$904,391,080 | \$720,925,363 |

| MATTHEWS JAPAN FUND | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, 2009 |
|---|--|---------------------------------|
| OPERATIONS: | | |
| Net investment income | \$2,210 | \$1,039,780 |
| Net realized gain (loss) on investments and foreign currency related transactions | 5,265,479 | (25,080,335) |
| Net change in unrealized appreciation/depreciation on investments and foreign currency related transactions | (8,139,745) | 34,352,192 |
| Net increase (decrease) in net assets resulting from operations | (2,872,056) | 10,311,637 |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | |
| Net investment income | — | (2,466,218) |
| Net decrease in net assets resulting from distributions | — | (2,466,218) |
| CAPITAL SHARE TRANSACTIONS (net) (Note 2) | (25,927,970) | (43,296,044) |
| REDEMPTION FEES | 17,291 | 110,632 |
| Total decrease in net assets | (28,782,735) | (35,339,993) |
| NET ASSETS: | | |
| Beginning of period | 88,333,736 | 123,673,729 |
| End of period (including undistributed net investment income of \$1,176,359 and \$1,174,149, respectively) | \$59,551,001 | \$88,333,736 |

See accompanying notes to financial statements.

Statements of Changes in Net Assets

| MATTHEWS KOREA FUND | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, 2009 |
|--|--|---------------------------------|
| OPERATIONS: | | |
| Net investment loss | \$(248,718) | \$(383,266) |
| Net realized gain on investments and foreign currency related transactions | 8,556,254 | 1,204,933 |
| Net change in unrealized appreciation/depreciation on investments and foreign currency related transactions | (14,237,993) | 51,583,156 |
| Net increase (decrease) in net assets resulting from operations | (5,930,457) | 52,404,823 |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | |
| Realized gains on investments | — | (5,234,879) |
| Net decrease in net assets resulting from distributions | — | (5,234,879) |
| CAPITAL SHARE TRANSACTIONS (net) (Note 2) | (439,662) | 3,895,556 |
| REDEMPTION FEES | 24,489 | 51,933 |
| Total increase (decrease) in net assets | (6,345,630) | 51,117,433 |
| NET ASSETS: | | |
| Beginning of period | 138,370,568 | 87,253,135 |
| End of period (including accumulated (distributions in excess of) net investment income (loss) of (\$254,941) and (\$6,223), respectively) | \$132,024,938 | \$138,370,568 |

| MATTHEWS ASIA SMALL COMPANIES FUND | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, 2009 |
|--|--|---------------------------------|
| OPERATIONS: | | |
| Net investment income | \$314,819 | \$46,377 |
| Net realized gain on investments and foreign currency related transactions | 4,306,429 | 1,067,704 |
| Net change in unrealized appreciation/depreciation on investments and foreign currency related transactions | (732,984) | 21,072,949 |
| Net change on deferred taxes on unrealized appreciation | (296,150) | (635,975) |
| Net increase in net assets resulting from operations | 3,592,114 | 21,551,055 |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | |
| Net investment income | — | (303,466) |
| Realized gains on investments | — | (947,544) |
| Net decrease in net assets resulting from distributions | — | (1,251,010) |
| CAPITAL SHARE TRANSACTIONS (net) (Note 2) | 47,776,562 | 86,137,752 |
| REDEMPTION FEES | 98,163 | 114,406 |
| Total increase in net assets | 51,466,839 | 106,552,203 |
| NET ASSETS: | | |
| Beginning of period | 109,725,561 | 3,173,358 |
| End of period (including distributions in excess of net investment income of (\$51,124) and (\$365,943), respectively) | \$161,192,400 | \$109,725,561 |

See accompanying notes to financial statements.

MATTHEWS ASIA SCIENCE AND TECHNOLOGY FUND

Six-Month Period
Ended June 30, 2010
(unaudited)

Year Ended
December 31, 2009

| | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, 2009 |
|---|--|---------------------------------|
| OPERATIONS: | | |
| Net investment income (loss) | \$(270,204) | \$24,355 |
| Net realized gain (loss) on investments and foreign currency related transactions | 10,380,659 | (9,852,216) |
| Net change in unrealized appreciation/depreciation on investments and foreign currency related transactions | (14,611,530) | 58,604,586 |
| Net increase (decrease) in net assets resulting from operations | (4,501,075) | 48,776,725 |
| CAPITAL SHARE TRANSACTIONS (net) (Note 2) | 8,602,311 | 7,072,491 |
| REDEMPTION FEES | 68,184 | 41,571 |
| Total increase in net assets | 4,169,420 | 55,890,787 |
| NET ASSETS: | | |
| Beginning of period | 130,367,111 | 74,476,324 |
| End of period (including accumulated net investment loss of (\$278,497) and (\$8,293), respectively) | \$134,536,531 | \$130,367,111 |

See accompanying notes to financial statements.

Financial Highlights

Matthews Asian Growth and Income Fund

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

| | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, | | | | |
|---|---|-------------------------|-------------------|----------------|----------------|----------------|
| | | 2009 | 2008 | 2007 | 2006 | 2005 |
| Net Asset Value, beginning of period | \$15.77 | \$11.50 | \$19.78 | \$18.68 | \$17.14 | \$15.82 |
| INCOME (LOSS) FROM INVESTMENT OPERATIONS: | | | | | | |
| Net investment income | 0.20 ¹ | 0.48 ¹ | 0.54 ¹ | 1.07 | 0.46 | 0.45 |
| Net realized gain (loss) and unrealized appreciation/ depreciation on investments and foreign currency | 0.04 | 4.23 | (6.73) | 2.93 | 3.47 | 2.02 |
| Total from investment operations | 0.24 | 4.71 | (6.19) | 4.00 | 3.93 | 2.47 |
| LESS DISTRIBUTIONS FROM: | | | | | | |
| Net investment income | (0.19) | (0.44) | (0.42) | (0.90) | (0.62) | (0.43) |
| Net realized gains on investments | — | — | (1.67) | (2.00) | (1.77) | (0.72) |
| Total distributions | (0.19) | (0.44) | (2.09) | (2.90) | (2.39) | (1.15) |
| Paid-in capital from redemption fees (Note 2) | — ² | — ² | — ² | — ² | — ² | — ² |
| Net Asset Value, end of period | \$15.82 | \$15.77 | \$11.50 | \$19.78 | \$18.68 | \$17.14 |
| TOTAL RETURN | 1.51%³ | 41.44% | (32.07%) | 21.54% | 23.38% | 15.76% |
| RATIOS/SUPPLEMENTAL DATA | | | | | | |
| Net assets, end of period (in 000's) | \$2,827,430 | \$2,547,411 | \$1,089,712 | \$2,273,408 | \$2,021,363 | \$1,676,559 |
| Ratio of expenses to average net assets before reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 3) | 1.14% ⁴ | 1.18% | 1.16% | 1.16% | 1.20% | 1.28% |
| Ratio of expenses to average net assets after reimbursement, waiver or recapture of expenses by Advisor and Administrator | 1.14% ⁴ | 1.18% | 1.16% | 1.15% | 1.19% | 1.27% |
| Ratio of net investment income to average net assets | 2.54% ⁴ | 3.47% | 3.19% | 2.59% | 2.27% | 2.60% |
| Portfolio turnover | 9.54% ³ | 17.51% | 25.16% | 27.93% | 28.37% | 20.16% |

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 Not annualized.

4 Annualized.

See accompanying notes to financial statements.

Matthews Asia Dividend Fund

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

| | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, | | | Period Ended Dec. 31, 2006 ¹ |
|---|---|-------------------------|-------------------|---------------|--|
| | | 2009 | 2008 | 2007 | |
| Net Asset Value, beginning of period | \$12.06 | \$8.61 | \$12.00 | \$10.77 | \$10.00 |
| INCOME (LOSS) FROM INVESTMENT OPERATIONS: | | | | | |
| Net investment income | 0.13 ² | 0.32 ² | 0.38 ² | 0.27 | 0.02 |
| Net realized gain (loss) and unrealized appreciation/ depreciation on investments and foreign currency | 0.44 | 3.67 | (3.47) | 1.67 | 0.77 |
| Total from investment operations | 0.57 | 3.99 | (3.09) | 1.94 | 0.79 |
| LESS DISTRIBUTIONS FROM: | | | | | |
| Net investment income | (0.13) | (0.55) | (0.30) | (0.27) | (0.02) |
| Net realized gains on investments | — | — | (0.02) | (0.45) | — |
| Total distributions | (0.13) | (0.55) | (0.32) | (0.72) | (0.02) |
| Paid-in capital from redemption fees (Note 2) | 0.01 | 0.01 | 0.02 | 0.01 | — ³ |
| Net Asset Value, end of period | \$12.51 | \$12.06 | \$8.61 | \$12.00 | \$10.77 |
| TOTAL RETURN | 4.82%⁴ | 47.59% | (25.97%) | 18.05% | 7.90%⁴ |
| RATIOS/SUPPLEMENTAL DATA | | | | | |
| Net assets, end of period (in 000's) | \$835,547 | \$322,003 | \$141,951 | \$81,624 | \$25,740 |
| Ratio of expenses to average net assets before reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 3) | 1.13% ⁵ | 1.28% | 1.35% | 1.42% | 2.93% ⁵ |
| Ratio of expenses to average net assets after reimbursement, waiver or recapture of expenses by Advisor and Administrator | 1.14% ⁵ | 1.30% | 1.32% | 1.39% | 1.50% ⁵ |
| Ratio of net investment income to average net assets | 2.11% ⁵ | 3.16% | 3.74% | 2.66% | 1.34% ⁵ |
| Portfolio turnover | 9.33% ⁴ | 32.41% | 25.07% | 26.95% | 0.00% ⁴ |

1 The Matthews Asia Dividend Fund commenced operations on October 31, 2006.

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

Matthews China Dividend Fund

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

| | Six-Month Period Ended June 30, 2010 (unaudited) | Period Ended Dec. 31, 2009 ¹ |
|--|---|--|
| Net Asset Value, beginning of period | \$10.18 | \$10.00 |
| INCOME (LOSS) FROM INVESTMENT OPERATIONS: | | |
| Net investment income (loss) ² | 0.13 | (0.01) |
| Net realized gain and unrealized appreciation/depreciation on investments and foreign currency | 0.02 | 0.19 |
| Total from investment operations | 0.15 | 0.18 |
| LESS DISTRIBUTIONS FROM: | | |
| Net investment income | (0.12) | — |
| Net realized gains on investments | — | — |
| Total distributions | (0.12) | — |
| Paid-in capital from redemption fees (Note 2) | 0.01 | — ³ |
| Net Asset Value, end of period | \$10.22 | \$10.18 |
| TOTAL RETURN | 1.56%⁴ | 1.80%⁴ |
| RATIOS/SUPPLEMENTAL DATA | | |
| Net assets, end of period (in 000's) | \$14,375 | \$7,134 |
| Ratio of expenses to average net assets before reimbursement or waiver of expenses by Advisor (Note 3) | 2.74% ⁵ | 10.50% ⁵ |
| Ratio of expenses to average net assets after reimbursement or waiver of expenses by Advisor | 1.50% ⁵ | 1.50% ⁵ |
| Ratio of net investment income (loss) to average net assets | 2.58% ⁵ | (0.81)% ⁵ |
| Portfolio turnover | 2.74% ⁴ | 0.00% ⁴ |

1 The Matthews China Dividend Fund 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.

See accompanying notes to financial statements.

Matthews Asia Pacific Fund

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

| | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, | | | | |
|---|---|-------------------------|-------------------|---------------|---------------|----------------|
| | | 2009 | 2008 | 2007 | 2006 | 2005 |
| Net Asset Value, beginning of period | \$14.29 | \$10.03 | \$17.29 | \$16.92 | \$14.89 | \$12.58 |
| INCOME (LOSS) FROM INVESTMENT OPERATIONS: | | | | | | |
| Net investment income | 0.06 ¹ | 0.06 ¹ | 0.13 ¹ | 0.09 | 0.07 | 0.07 |
| Net realized gain (loss) and unrealized appreciation/ depreciation on investments and foreign currency | 0.24 | 4.44 | (6.64) | 2.02 | 2.50 | 2.30 |
| Total from investment operations | 0.30 | 4.50 | (6.51) | 2.11 | 2.57 | 2.37 |
| LESS DISTRIBUTIONS FROM: | | | | | | |
| Net investment income | — | (0.24) | — | (0.09) | (0.07) | (0.06) |
| Net realized gains on investments | — | — | (0.76) | (1.66) | (0.48) | — |
| Total distributions | — | (0.24) | (0.76) | (1.75) | (0.55) | (0.06) |
| Paid-in capital from redemption fees (Note 2) | — ² | — ² | 0.01 | 0.01 | 0.01 | — ² |
| Net Asset Value, end of period | \$14.59 | \$14.29 | \$10.03 | \$17.29 | \$16.92 | \$14.89 |
| TOTAL RETURN | 2.10%³ | 44.82% | (37.44%) | 11.92% | 17.39% | 18.84% |
| RATIOS/SUPPLEMENTAL DATA | | | | | | |
| Net assets, end of period (in 000's) | \$227,490 | \$227,651 | \$168,031 | \$471,054 | \$449,699 | \$285,169 |
| Ratio of expenses to average net assets before reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 3) | 1.21% ⁴ | 1.28% | 1.23% | 1.20% | 1.26% | 1.35% |
| Ratio of expenses to average net assets after reimbursement, waiver or recapture of expenses by Advisor and Administrator | 1.21% ⁴ | 1.28% | 1.23% | 1.20% | 1.24% | 1.34% |
| Ratio of net investment income to average net assets | 0.79% ⁴ | 0.50% | 0.93% | 0.60% | 0.47% | 0.67% |
| Portfolio turnover | 12.64% ³ | 58.10% | 37.10% | 40.49% | 40.45% | 15.84% |

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 Not annualized.

4 Annualized.

See accompanying notes to financial statements.

Financial Highlights

Matthews Pacific Tiger Fund

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

| | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, | | | | |
|---|---|-------------------------|-------------------|----------------|----------------|---------------|
| | | 2009 | 2008 | 2007 | 2006 | 2005 |
| Net Asset Value, beginning of period | \$19.23 | \$11.05 | \$27.86 | \$23.71 | \$19.27 | \$15.90 |
| INCOME (LOSS) FROM INVESTMENT OPERATIONS: | | | | | | |
| Net investment income | 0.03 ¹ | 0.06 ¹ | 0.24 ¹ | 0.30 | 0.22 | 0.14 |
| Net realized gain (loss) and unrealized appreciation/ depreciation on investments and foreign currency | (0.08) | 8.27 | (13.31) | 7.78 | 5.01 | 3.43 |
| Total from investment operations | (0.05) | 8.33 | (13.07) | 8.08 | 5.23 | 3.57 |
| LESS DISTRIBUTIONS FROM: | | | | | | |
| Net investment income | — | (0.15) | (0.30) | (0.31) | (0.21) | (0.12) |
| Net realized gains on investments | — | — | (3.44) | (3.62) | (0.58) | (0.09) |
| Total distributions | — | (0.15) | (3.74) | (3.93) | (0.79) | (0.21) |
| Paid-in capital from redemption fees (Note 2) | — ² | — ² | — ² | — ² | — ² | 0.01 |
| Net Asset Value, end of period | \$19.18 | \$19.23 | \$11.05 | \$27.86 | \$23.71 | \$19.27 |
| TOTAL RETURN | (0.26%)³ | 75.37% | (46.12%) | 33.66% | 27.22% | 22.51% |
| RATIOS/SUPPLEMENTAL DATA | | | | | | |
| Net assets, end of period (in 000's) | \$4,079,118 | \$3,565,745 | \$1,202,441 | \$3,806,714 | \$3,303,717 | \$2,031,995 |
| Ratio of expenses to average net assets before reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 3) | 1.10% ⁴ | 1.13% | 1.12% | 1.11% | 1.18% | 1.31% |
| Ratio of expenses to average net assets after reimbursement, waiver or recapture of expenses by Advisor and Administrator | 1.10% ⁴ | 1.13% | 1.12% | 1.10% | 1.16% | 1.31% |
| Ratio of net investment income to average net assets | 0.30% ⁴ | 0.41% | 1.10% | 1.12% | 1.12% | 1.10% |
| Portfolio turnover | 5.49% ³ | 13.22% | 16.76% | 24.09% | 18.80% | 3.03% |

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 Not annualized.

4 Annualized.

See accompanying notes to financial statements.

Matthews China Fund

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

| | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, | | | | |
|---|---|-------------------------|-------------------|---------------|----------------|--------------|
| | | 2009 | 2008 | 2007 | 2006 | 2005 |
| Net Asset Value, beginning of period | \$25.50 | \$14.34 | \$39.73 | \$24.16 | \$14.76 | \$14.01 |
| INCOME (LOSS) FROM INVESTMENT OPERATIONS: | | | | | | |
| Net investment income | 0.14 ¹ | 0.09 ¹ | 0.30 ¹ | 0.12 | 0.15 | 0.22 |
| Net realized gain (loss) and unrealized appreciation/depreciation on investments and foreign currency | (0.80) | 11.12 | (19.78) | 16.85 | 9.39 | 0.74 |
| Total from investment operations | (0.66) | 11.21 | (19.48) | 16.97 | 9.54 | 0.96 |
| LESS DISTRIBUTIONS FROM: | | | | | | |
| Net investment income | — | (0.07) | (0.33) | (0.11) | (0.15) | (0.22) |
| Net realized gains on investments | — | — | (5.62) | (1.37) | — | — |
| Return of capital | — | — | — | — | — ² | — |
| Total distributions | — | (0.07) | (5.95) | (1.48) | (0.15) | (0.22) |
| Paid-in capital from redemption fees (Note 2) | 0.01 | 0.02 | 0.04 | 0.08 | 0.01 | 0.01 |
| Net Asset Value, end of period | \$24.85 | \$25.50 | \$14.34 | \$39.73 | \$24.16 | \$14.76 |
| TOTAL RETURN | (2.55%)³ | 78.30% | (48.95%) | 70.14% | 64.81% | 6.91% |
| RATIOS/SUPPLEMENTAL DATA | | | | | | |
| Net assets, end of period (in 000's) | \$2,386,267 | \$2,566,005 | \$781,104 | \$2,335,402 | \$966,528 | \$388,950 |
| Ratio of expenses to average net assets before reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 3) | 1.16% ⁴ | 1.21% | 1.23% | 1.18% | 1.27% | 1.31% |
| Ratio of expenses to average net assets after reimbursement, waiver or recapture of expenses by Advisor and Administrator | 1.16% ⁴ | 1.21% | 1.23% | 1.17% | 1.26% | 1.30% |
| Ratio of net investment income to average net assets | 1.09% ⁴ | 0.46% | 1.03% | 0.49% | 0.96% | 1.46% |
| Portfolio turnover | 6.45% ³ | 5.28% | 7.91% | 22.13% | 11.65% | 11.82% |

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 Not annualized.

4 Annualized.

See accompanying notes to financial statements.

Financial Highlights

Matthews India Fund

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

| | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, | | | | Period Ended Dec. 31 2005 ¹ |
|---|---|-------------------------|-------------------|---------------|---------------|---|
| | | 2009 | 2008 | 2007 | 2006 | |
| Net Asset Value, beginning of period | \$16.29 | \$8.37 | \$24.44 | \$15.45 | \$11.32 | \$10.00 |
| INCOME (LOSS) FROM INVESTMENT OPERATIONS: | | | | | | |
| Net investment income (loss) | 0.03 ² | 0.07 ² | 0.03 ² | (0.01) | (0.01) | (0.01) |
| Net realized gain (loss) and unrealized appreciation/ depreciation on investments and foreign currency | 1.82 | 8.06 | (15.33) | 9.87 | 4.11 | 1.33 |
| Total from investment operations | 1.85 | 8.13 | (15.30) | 9.86 | 4.10 | 1.32 |
| LESS DISTRIBUTIONS FROM: | | | | | | |
| Net investment income | — | (0.10) | (0.11) | (0.21) | — | — |
| Net realized gains on investments | — | (0.12) | (0.69) | (0.68) | — | — |
| Total distributions | — | (0.22) | (0.80) | (0.89) | — | — |
| Paid-in capital from redemption fees (Note 2) | 0.01 | 0.01 | 0.03 | 0.02 | 0.03 | — ³ |
| Net Asset Value, end of period | \$18.15 | \$16.29 | \$8.37 | \$24.44 | \$15.45 | \$11.32 |
| TOTAL RETURN | 11.42%⁴ | 97.25% | (62.32%) | 64.13% | 36.48% | 13.20%⁴ |
| RATIOS/SUPPLEMENTAL DATA | | | | | | |
| Net assets, end of period (in 000's) | \$904,391 | \$720,925 | \$317,516 | \$1,311,072 | \$669,643 | \$80,897 |
| Ratio of expenses to average net assets before reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 3) | 1.21% ⁵ | 1.27% | 1.29% | 1.29% | 1.41% | 2.75% ⁵ |
| Ratio of expenses to average net assets after reimbursement, waiver or recapture of expenses by Advisor and Administrator | 1.21% ⁵ | 1.27% | 1.29% | 1.28% | 1.41% | 2.00% ⁵ |
| Ratio of net investment income (loss) to average net assets | 0.37% ⁵ | 0.59% | 0.16% | (0.04%) | (0.08%) | (1.17%) ⁵ |
| Portfolio turnover | 5.13% ⁴ | 18.09% | 26.68% | 25.59% | 21.57% | 0.00% ⁴ |

1 The Matthews India Fund commenced operations on October 31, 2005.

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.

Matthews Japan Fund

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

| | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, | | | | |
|---|---|-------------------------|-------------------|-----------------|----------------|---------------|
| | | 2009 | 2008 | 2007 | 2006 | 2005 |
| Net Asset Value, beginning of period | \$10.91 | \$10.19 | \$14.55 | \$17.29 | \$18.48 | \$16.12 |
| INCOME (LOSS) FROM INVESTMENT OPERATIONS: | | | | | | |
| Net investment income (loss) | — ^{1,2} | 0.10 ¹ | 0.11 ¹ | 0.03 | (0.08) | 0.02 |
| Net realized gain (loss) and unrealized appreciation/ depreciation on investments and foreign currency | (0.50) | 0.92 | (4.26) | (1.86) | (1.12) | 2.36 |
| Total from investment operations | (0.50) | 1.02 | (4.15) | (1.83) | (1.20) | 2.38 |
| LESS DISTRIBUTIONS FROM: | | | | | | |
| Net investment income | — | (0.31) | — | (0.01) | — | (0.03) |
| Net realized gains on investments | — | — | (0.22) | (0.91) | — | — |
| Total distributions | — | (0.31) | (0.22) | (0.92) | — | (0.03) |
| Paid-in capital from redemption fees (Note 2) | — ² | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Net Asset Value, end of period | \$10.41 | \$10.91 | \$10.19 | \$14.55 | \$17.29 | \$18.48 |
| TOTAL RETURN | (4.58%)³ | 10.06% | (28.38%) | (10.96%) | (6.44%) | 14.83% |
| RATIOS/SUPPLEMENTAL DATA | | | | | | |
| Net assets, end of period (in 000's) | \$59,551 | \$88,334 | \$123,674 | \$166,860 | \$276,656 | \$367,618 |
| Ratio of expenses to average net assets before reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 3) | 1.32% ⁴ | 1.31% | 1.23% | 1.24% | 1.25% | 1.29% |
| Ratio of expenses to average net assets after reimbursement, waiver or recapture of expenses by Advisor and Administrator | 1.32% ⁴ | 1.31% | 1.23% | 1.23% | 1.24% | 1.28% |
| Ratio of net investment income (loss) to average net assets | 0.01% ⁴ | 0.97% | 0.84% | (0.01%) | (0.29%) | (0.10%) |
| Portfolio turnover | 27.24% ³ | 126.75% | 88.97% | 45.51% | 59.95% | 20.88% |

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 Not annualized.

4 Annualized.

See accompanying notes to financial statements.

Financial Highlights

Matthews Korea Fund

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

| | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, | | | | |
|--|---|-------------------------|---------------------|----------------|---------------|----------------|
| | | 2009 | 2008 | 2007 | 2006 | 2005 |
| Net Asset Value, beginning of period | \$4.31 | \$2.75 | \$6.56 | \$6.23 | \$6.37 | \$4.08 |
| INCOME (LOSS) FROM INVESTMENT OPERATIONS: | | | | | | |
| Net investment income (loss) | (0.01) ¹ | (0.01) ¹ | (0.02) ¹ | 0.07 | 0.01 | 0.01 |
| Net realized gain (loss) and unrealized appreciation/ depreciation on investments and foreign currency | (0.17) | 1.74 | (3.48) | 1.15 | 0.80 | 2.39 |
| Total from investment operations | (0.18) | 1.73 | (3.50) | 1.22 | 0.81 | 2.40 |
| LESS DISTRIBUTIONS FROM: | | | | | | |
| Net investment income | — | — | (0.06) | (0.02) | (0.01) | — |
| Net realized gains on investments | — | (0.17) | (0.25) | (0.87) | (0.95) | (0.11) |
| Total distributions | — | (0.17) | (0.31) | (0.89) | (0.96) | (0.11) |
| Paid-in capital from redemption fees (Note 2) | — ² | — ² | — ² | — ² | 0.01 | — ² |
| Net Asset Value, end of period | \$4.13 | \$4.31 | \$2.75 | \$6.56 | \$6.23 | \$6.37 |
| TOTAL RETURN | (4.18%)³ | 62.92% | (52.66%) | 18.90% | 12.99% | 58.76% |
| RATIOS/SUPPLEMENTAL DATA | | | | | | |
| Net assets, end of period (in 000's) | \$132,025 | \$138,371 | \$87,253 | \$250,421 | \$241,003 | \$269,925 |
| Ratio of expenses to average net assets before reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 3) | 1.22% ⁴ | 1.30% | 1.27% | 1.21% | 1.30% | 1.35% |
| Ratio of expenses to average net assets after reimbursement, waiver or recapture of expenses by Advisor and Administrator | 1.22% ⁴ | 1.30% | 1.27% | 1.21% | 1.28% | 1.35% |
| Ratio of net investment income (loss) to average net assets | (0.37%) ⁴ | (0.36%) | (0.34%) | 1.17% | (0.09%) | 0.27% |
| Portfolio turnover | 21.77% ³ | 52.47% | 28.70% | 24.20% | 25.82% | 10.13% |

¹ Calculated using the average daily shares method.

² Less than \$0.01 per share.

³ Not annualized.

⁴ Annualized.

See accompanying notes to financial statements.

Matthews Asia Small Companies Fund

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

| | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended Dec. 31, 2009 | Period Ended Dec. 31, 2008 ¹ |
|--|---|-----------------------------|--|
| Net Asset Value, beginning of period | \$15.79 | \$7.89 | \$10.00 |
| INCOME (LOSS) FROM INVESTMENT OPERATIONS: | | | |
| Net investment income ² | 0.04 | 0.02 | 0.01 |
| Net realized gain (loss) and unrealized appreciation/ depreciation on investments and foreign currency | 0.47 | 8.04 | (2.16) |
| Total from investment operations | 0.51 | 8.06 | (2.15) |
| LESS DISTRIBUTIONS FROM: | | | |
| Net investment income | — | (0.05) | (0.02) |
| Net realized gains on investments | — | (0.15) | — |
| Total distributions | — | (0.20) | (0.02) |
| Paid-in capital from redemption fees (Note 2) | 0.01 | 0.04 | 0.06 |
| Net Asset Value, end of period | \$16.31 | \$15.79 | \$7.89 |
| TOTAL RETURN | 3.29%³ | 103.00% | (21.03%)³ |
| RATIOS/SUPPLEMENTAL DATA | | | |
| Net assets, end of period (in 000's) | \$161,192 | \$109,726 | \$3,173 |
| Ratio of expenses to average net assets before reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 3) | 1.64% ⁴ | 2.90% | 14.31% ⁴ |
| Ratio of expenses to average net assets after reimbursement, waiver or recapture of expenses by Advisor and Administrator | 1.78% ⁴ | 2.00% | 2.00% ⁴ |
| Ratio of net investment income to average net assets | 0.45% ⁴ | 0.13% | 0.15% ⁴ |
| Portfolio turnover | 21.63% ³ | 21.39% | 3.10% ³ |

1 The Matthews Asia Small Companies Fund commenced operations on September 15, 2008.

2 Calculated using the average daily shares method.

3 Not annualized.

4 Annualized.

See accompanying notes to financial statements.

Financial Highlights

Matthews Asia Science and Technology Fund*

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

| | Six-Month Period Ended June 30, 2010 (unaudited) | Year Ended December 31, | | | | |
|---|---|-------------------------|-------------------|----------------|---------------|----------------|
| | | 2009 | 2008 | 2007 | 2006 | 2005 |
| Net Asset Value, beginning of period | \$8.02 | \$4.71 | \$9.80 | \$7.92 | \$6.53 | \$5.45 |
| INCOME (LOSS) FROM INVESTMENT OPERATIONS: | | | | | | |
| Net investment income (loss) | (0.02) ¹ | — ^{1,2} | 0.01 ¹ | — ² | (0.02) | — ² |
| Net realized gain (loss) and unrealized appreciation/ depreciation on investments and foreign currency | (0.19) | 3.31 | (5.11) | 1.87 | 1.40 | 1.08 |
| Total from investment operations | (0.21) | 3.31 | (5.10) | 1.87 | 1.38 | 1.08 |
| Paid-in capital from redemption fees (Note 2) | — ² | — ² | 0.01 | 0.01 | 0.01 | — ² |
| Net Asset Value, end of period | \$7.81 | \$8.02 | \$4.71 | \$9.80 | \$7.92 | \$6.53 |
| TOTAL RETURN | (2.62%)³ | 70.28% | (51.94%) | 23.74% | 21.29% | 19.82% |
| RATIOS/SUPPLEMENTAL DATA | | | | | | |
| Net assets, end of period (in 000's) | \$134,537 | \$130,367 | \$74,476 | \$252,304 | \$129,819 | \$50,426 |
| Ratio of expenses to average net assets before reimbursement, waiver or recapture of expenses by Advisor and Administrator (Note 3) | 1.27% ⁴ | 1.40% | 1.33% | 1.26% | 1.41% | 1.49% |
| Ratio of expenses to average net assets after reimbursement, waiver or recapture of expenses by Advisor and Administrator | 1.27% ⁴ | 1.40% | 1.33% | 1.25% | 1.39% | 1.48% |
| Ratio of net investment income (loss) to average net assets | (0.37%) ⁴ | 0.30% | 0.08% | (0.30%) | (0.29%) | 0.08% |
| Portfolio turnover | 45.43% ³ | 83.27% | 44.84% | 33.21% | 34.77% | 29.76% |

* The Fund's name changed from Matthews Asian Technology Fund to Matthews Asia Science and Technology Fund on April 30, 2010.

1 Calculated using the average daily shares method.

2 Less than \$0.01 per share.

3 Not annualized.

4 Annualized.

See accompanying notes to financial statements.

Notes to Financial Statements *(unaudited)*

1. SIGNIFICANT ACCOUNTING POLICIES

Matthews Asia Funds (the "Trust") is an open-end management investment company registered under the Investment Company Act of 1940, as amended (the "Act"). The Trust currently issues eleven separate series of shares (each a "Fund" and collectively, the "Funds"): Matthews Asian Growth and Income Fund, Matthews Asia Dividend Fund, Matthews China Dividend Fund, Matthews Asia Pacific Fund, Matthews Pacific Tiger Fund, Matthews China Fund, Matthews India Fund, Matthews Japan Fund, Matthews Korea Fund, Matthews Asia Small Companies Fund and Matthews Asia Science and Technology Fund (formerly known as Matthews Asian Technology Fund). Matthews Pacific Tiger Fund, Matthews China Fund and Matthews Korea Fund are authorized to offer two classes of shares: Class I shares and Class A shares. Currently, only Class I shares are offered. The following is a summary of significant accounting policies consistently followed by the Funds in preparation of their financial statements.

A. SECURITY VALUATION: The Funds' equity securities are valued based on market quotations, or at fair value as determined in good faith by or under the direction of the Board of Trustees (the "Board") when no market quotations are available or when market quotations have become unreliable. Securities that trade in over-the-counter markets, including most debt securities (bonds), may be valued using indicative bid and ask quotations from bond dealers or market makers, or other available market information, or on their fair value as determined by or under the direction of the Board. 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 NAV 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.

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 New York Stock Exchange ("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 equity securities.

Market values for equity securities are determined based on quotations from the principal (or most advantageous) market on which the security is traded. Market quotations used by the Funds include last reported sale prices, or, if such prices are not reported or available, bid and asked prices. Securities are valued through valuations obtained from a commercial pricing service or by securities dealers in accordance with procedures established by the Board.

Events affecting the value of foreign investments occur between the time at which they are determined and the close of trading on the NYSE. If the Funds believe that 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. The fair value of a security held by the Funds may be determined using the services of third-party pricing services retained by the Funds or by the Valuation Committee, in either case subject to the Board's oversight.

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 ("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).

As of June 30, 2010, Level 3 Securities consist primarily of international bonds that trade in over-the-counter markets. As described in Note 1-A, these securities are valued using indicative bid and ask quotations from bond dealers and market makers, or on their fair value as determined under the direction of the Board. Indicative quotations and other information used by the Funds may not always be directly observable in the marketplace due to the nature of these markets and the manner of execution. These 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.

Notes to Financial Statements *(continued)*

The summary of inputs used to determine the fair valuation of the Fund's investments as of June 30, 2010 is as follows:

| | Matthews Asian Growth and Income Fund | Matthews Asia Dividend Fund | Matthews Asia Pacific Fund | Matthews Pacific Tiger Fund |
|--|---|--------------------------------|-------------------------------|--------------------------------|
| Level 1: Quoted Prices | | | | |
| Common Equities: | | | | |
| China/Hong Kong | \$45,012,509 | \$26,483,760 | \$10,173,328 | \$437,987,199 |
| India | — | — | — | 22,292,678 |
| Indonesia | 36,759,597 | 16,605,042 | — | 9,437,211 |
| Japan | — | — | 1,549,031 | — |
| Singapore | 1,556,879 | — | — | — |
| South Korea | 32,231,381 | 14,131,226 | — | — |
| Taiwan | 57,593,301 | 36,055,988 | — | — |
| United Kingdom | 59,601,311 | 21,098,642 | — | — |
| Warrants: | | | | |
| India | 8,682,369 | — | — | — |
| Level 2: Other Significant Observable Inputs | | | | |
| Common Equities: | | | | |
| Australia | 39,883,918 | 42,271,206 | 12,795,208 | — |
| China/Hong Kong | 520,651,258 | 166,752,770 | 53,635,424 | 897,210,286 |
| India | 40,093,359 | — | 15,056,930 | 763,035,736 |
| Indonesia | — | 38,501,653 | 15,107,507 | 301,132,800 |
| Japan | 296,438,775 | 198,337,568 | 67,029,157 | — |
| Malaysia | 17,415,427 | 13,538,673 | 3,533,887 | 181,752,581 |
| Philippines | 33,224,246 | 21,178,667 | — | 69,387,062 |
| Singapore | 325,655,404 | 31,958,565 | 8,844,105 | 136,726,626 |
| South Korea | 86,660,892 | 73,096,896 | 7,546,921 | 584,075,160 |
| Taiwan | 111,897,693 | 46,372,676 | 15,714,241 | 283,417,077 |
| Thailand | 110,517,598 | 50,920,308 | 8,061,637 | 167,638,068 |
| United Kingdom | — | 2,348,314 | — | — |
| Vietnam | 27,987,089 | — | 2,247,435 | 29,304,801 |
| Preferred Equities: | | | | |
| South Korea | 88,188,220 | — | 3,945,225 | — |
| Level 3: Significant Unobservable Inputs | | | | |
| International Bonds | 811,576,001 | 3,865,577 | — | — |
| Total Market Value of Investments | \$2,751,627,227 | \$803,517,531 | \$225,240,036 | \$3,883,397,285 |

| | Matthews China Dividend Fund | Matthews China Fund | Matthews India Fund | Matthews Japan Fund | Matthews Korea Fund |
|--|---------------------------------|------------------------|------------------------|------------------------|------------------------|
| Level 1: Quoted Prices | | | | | |
| Common Equities: | | | | | |
| Consumer Discretionary | \$— | \$97,381,463 | \$— | \$— | \$— |
| Consumer Staples | — | — | — | — | 2,571,528 |
| Energy | 541,633 | — | — | — | — |
| Financials | 487,813 | 8,886,760 | 23,917,942 | — | 1,475,929 |
| Health Care | — | 30,580,080 | — | — | — |
| Information Technology | — | 54,948,496 | 12,771,554 | — | 2,150,960 |
| Materials | — | — | 8,179,582 | — | 3,565,296 |
| Telecommunication Services | 1,262,440 | 21,305,592 | — | — | 1,763,181 |
| Rights: | | | | | |
| Financials | — | 1,178,399 | — | — | — |
| Level 2: Other Significant Observable Inputs | | | | | |
| Common Equities: | | | | | |
| Consumer Discretionary | 1,914,264 | 445,551,085 | 92,364,570 | 9,077,979 | 25,555,599 |
| Consumer Staples | 801,912 | 326,031,637 | 78,850,531 | 3,698,062 | 8,480,583 |
| Energy | 178,581 | 146,994,830 | 36,047,167 | — | 1,998,500 |
| Financials | 2,110,501 | 443,969,332 | 187,997,126 | 13,518,328 | 21,341,011 |
| Health Care | 845,888 | 29,615,336 | 59,578,701 | 3,354,956 | 4,576,059 |
| Industrials | 1,061,891 | 286,326,170 | 175,371,997 | 14,707,400 | 14,145,722 |
| Information Technology | 1,918,152 | 225,545,055 | 63,764,142 | 9,664,089 | 23,786,887 |
| Materials | 367,437 | — | 41,205,050 | 3,008,260 | 10,420,826 |
| Telecommunication Services | 430,056 | 88,098,458 | 12,354,426 | 2,345,206 | 3,470,056 |
| Utilities | 1,942,294 | 144,860,935 | 46,464,511 | — | — |
| Preferred Equities: | | | | | |
| Consumer Discretionary | — | — | — | — | 2,467,090 |
| Financials | — | — | — | — | 1,768,746 |
| Information Technology | — | — | — | — | 1,554,275 |
| Level 3: Significant Unobservable Inputs | | | | | |
| Common Equities: | | | | | |
| Financials | — | — | 219,356 | — | — |
| International Bonds | — | — | 27,126,000 | — | — |
| Total Market Value of Investments | \$13,862,862 | \$2,351,273,628 | \$866,212,655 | \$59,374,280 | \$131,092,248 |

| | Matthews Asia Small Companies Fund | Matthews Asia Science and Technology Fund |
|--|--|---|
| Level 1: Quoted Prices | | |
| Common Equities: | | |
| China/Hong Kong | \$1,620,713 | \$21,512,326 |
| India | 2,130,360 | — |
| Indonesia | — | 2,676,786 |
| South Korea | — | 4,454,591 |
| United States | — | 2,528,030 |
| Level 2: Other Significant Observable Inputs | | |
| Common Equities: | | |
| China/Hong Kong | 49,187,924 | 13,736,261 |
| India | 31,769,954 | 8,111,525 |
| Indonesia | 3,936,484 | — |
| Japan | — | 36,155,975 |
| Malaysia | 4,700,640 | — |
| Philippines | — | 2,380,937 |
| Singapore | 17,375,477 | — |
| South Korea | 23,518,969 | 15,255,490 |
| Taiwan | 23,810,943 | 27,729,593 |
| Thailand | 1,534,097 | — |
| Level 3: Significant Unobservable Inputs | | |
| Common Equities: | | |
| India | 36,192 | — |
| Total Market Value of Investments | \$159,621,753 | \$134,541,514 |

Notes to Financial Statements *(continued)*

Following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

| | Matthews Asian Growth and Income Fund | Matthews Asia Dividend Fund | Matthews India Fund | Matthews India Fund | Matthews Asia Small Companies Fund |
|---|---|--------------------------------|------------------------|-----------------------------------|---|
| | International Bonds | International Bonds | International Bonds | Common Equities: Financials | Common Equities: India |
| Balance as of 12/31/09 (market value) | \$745,395,183 | \$8,325,971 | \$20,755,640 | \$326,609 | \$53,889 |
| Accrued discounts/premiums | 11,169,573 | 52,678 | 687,213 | — | — |
| Realized gain/(loss) | 2,783,020 | 1,191,726 | (1,027,233) | — | — |
| Change in unrealized appreciation/ depreciation | (6,428,210) | (843,065) | 452,255 | (107,253) | (17,697) |
| Net purchases/(sales) | 58,656,435 | (4,861,733) | 6,258,125 | — | — |
| Transfers in to Level 3* | — | — | — | — | — |
| Transfers out of Level 3* | — | — | — | — | — |
| Balance as of 6/30/10 (market value) | \$811,576,001 | \$3,865,577 | \$27,126,000 | \$219,356 | \$36,192 |
| Net change in unrealized appreciation/ depreciation on Level 3 investments held as of 6/30/10** | (\$141,623) | \$215,117 | (\$643,398) | (\$107,253) | (\$17,697) |

* The Fund's policy is to recognize transfers in and transfers out as of the beginning of the reporting period.

** Included in the related amounts on the Statements of Operations.

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, economical, social and religious instability of the country of the issuer or other countries in the region, adverse diplomatic developments and the possibility of disruption to international trade patterns. 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. Foreign securities may be subject to greater fluctuations in price than securities of domestic corporations or the U.S. government. Securities of many foreign companies may be less liquid and their prices more volatile. Foreign securities are generally denominated and pay distributions in foreign currencies, exposing the Funds to changes in foreign currency exchange rates. Individual foreign economies may differ from the economy of the United States in many ways, including the growth of gross domestic products, rates of inflation, capital reinvestments, resource self-sufficiency, and balance of payments positions. Some 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 U.S., 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.

D. FEDERAL INCOME 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 the period ended June 30, 2010. Therefore, no federal income tax provision is required. Income and capital gains of the Funds are determined in accordance with both tax regulations and GAAP. Such treatment may result in temporary and permanent differences between tax basis earnings and earnings reported for financial statement purposes. These reclassifications, which have no impact on the net asset value of the Funds, are primarily attributable to certain differences in computation of distributable income and capital gains under federal tax rules versus GAAP, and the use of the tax accounting practice known as equalization.

In addition to the requirements of the Code, the Funds may be subject to short-term capital gains tax in India on gains realized upon disposition of Indian securities held less than one year. The tax is computed on net realized gains; any realized losses in excess of gains may be carried forward for a period of up to eight years to offset future gains. Any net taxes payable must be remitted to the Indian government prior to repatriation of sales proceeds. The Funds that invest in Indian securities accrue a deferred tax liability for net unrealized short-term gains in excess of available carryforwards on Indian securities. This accrual may reduce a Fund's net asset value. As of June 30, 2010, the Matthews Asian Growth and Income Fund, Matthews Pacific Tiger Fund and Matthews Asia Small Companies Fund have recorded a payable of \$556,896, \$5,553,281 and \$935,939 respectively, as an estimate for potential future India capital gains taxes.

China has recently adopted certain revisions to its tax laws and regulations that may result in holdings of the Funds in companies headquartered in China (whether A shares, B shares, H shares or shares traded in depositary receipt form) being subject to withholding taxes on dividends and other income. While the application of these changes to the Funds' remains subject to clarification, to the extent that such taxes are imposed on holdings of the Funds in companies headquartered in China, or withholding is imposed, the Funds' returns would be adversely impacted. The Funds consider the impact of a country's tax laws and regulations, as well as withholding, when considering investment decisions.

Management has analyzed the Funds' tax positions taken on federal income tax returns for all open tax years (2007-2010), 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.

Under current tax law, capital and currency losses realized after October 31 and prior to the Fund's fiscal year end may be deferred as occurring on the first day of the following fiscal year. Post-October losses at fiscal year end December 31, 2009 were as follows:

| | Post October Capital Losses | Post October Currency Losses |
|---|--------------------------------|---------------------------------|
| Matthews Asian Growth and Income Fund | \$— | \$150,834 |
| Matthews Asia Dividend Fund | — | 14,963 |
| Matthews Asia Pacific Fund | 251,590 | 3,181 |
| Matthews Pacific Tiger Fund | — | 103,768 |
| Matthews China Fund | — | 416 |
| Matthews India Fund | 549,463 | 5,874 |
| Matthews Korea Fund | — | 6,223 |
| Matthews Asia Small Companies Fund | — | 24,010 |
| Matthews Asia Science and Technology Fund | — | 8,293 |

For federal income tax purposes, the Funds indicated below have capital loss carryforwards as of December 31, 2009, which expire in the year indicated, which are available to offset future capital gains, if any:

| | 2010 | 2016 | 2017 | Total |
|---|-----------|------------|--------------|--------------|
| Matthews Asian Growth and Income Fund | \$— | \$— | \$64,043,804 | \$64,043,804 |
| Matthews Asia Dividend Fund | — | 1,466,788 | 16,105,466 | 17,572,254 |
| Matthews Asia Pacific Fund | — | 24,090,517 | 58,248,975 | 82,339,492 |
| Matthews Pacific Tiger Fund | — | — | 194,447,297 | 194,447,297 |
| Matthews China Fund | — | — | 44,320,615 | 44,320,615 |
| Matthews India Fund | — | — | 84,698,767 | 84,698,767 |
| Matthews Japan Fund | — | 36,495,378 | 44,032,426 | 80,527,804 |
| Matthews Asia Science and Technology Fund | 3,461,198 | 17,493,413 | 15,057,062 | 36,011,673 |

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 to distribute net investment income on a quarterly basis and capital gains, if any, annually. Matthews Asia Pacific Fund, Matthews Pacific Tiger Fund, Matthews China Fund, Matthews India Fund, Matthews Japan Fund, Matthews Korea Fund, Matthews Asia Small Companies Fund and Matthews Asia Science and Technology Fund 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 GAAP. Net investment losses may not be utilized to offset net investment income in future periods for tax purposes.

The tax character of distributions paid for the fiscal year ended December 31, 2009 was as follows:

| YEAR ENDED DECEMBER 31, 2009 | Ordinary Income | Net Long-Term Capital Gains | Total Taxable Distributions |
|---------------------------------------|-----------------|--------------------------------|--------------------------------|
| Matthews Asian Growth and Income Fund | \$60,961,205 | \$— | \$60,961,205 |
| Matthews Asia Dividend Fund | 10,189,013 | — | 10,189,013 |
| Matthews Asia Pacific Fund | 3,712,448 | — | 3,712,448 |
| Matthews Pacific Tiger Fund | 26,580,408 | — | 26,580,408 |
| Matthews China Fund | 6,595,986 | — | 6,595,986 |
| Matthews India Fund | 4,170,406 | 5,361,101 | 9,531,507 |
| Matthews Japan Fund | 2,466,218 | — | 2,466,218 |
| Matthews Korea Fund | — | 5,234,879 | 5,234,879 |
| Matthews Asia Small Companies Fund | 1,251,010 | — | 1,251,010 |

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 recorded on the ex-dividend date.

Notes to Financial Statements *(continued)*

H. FUND EXPENSE ALLOCATIONS: The Funds account separately for the assets, liabilities and operations of each Fund. Direct expenses of each Fund are charged to the Fund 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 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.

2. 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.

| MATTHEWS ASIAN GROWTH AND INCOME FUND | Six Month Period Ended June 30, 2010 (Unaudited) | | Year Ended December 31, 2009 | |
|---|---|---------------|------------------------------|-----------------|
| | Shares | Amount | Shares | Amount |
| Shares sold | 38,515,718 | \$619,310,726 | 90,611,648 | \$1,251,164,099 |
| Shares issued through reinvestment of distributions | 1,910,481 | 30,625,006 | 3,866,007 | 56,619,667 |
| Shares redeemed | (23,265,356) | (372,189,049) | (27,730,103) | (364,139,772) |
| Net increase | 17,160,843 | \$277,746,683 | 66,747,552 | \$943,643,994 |

| MATTHEWS ASIA DIVIDEND FUND | Six Month Period Ended June 30, 2010 (Unaudited) | | Year Ended December 31, 2009 | |
|---|---|---------------|------------------------------|---------------|
| | Shares | Amount | Shares | Amount |
| Shares sold | 47,276,362 | \$604,752,096 | 18,522,977 | \$197,768,100 |
| Shares issued through reinvestment of distributions | 563,680 | 7,202,458 | 892,613 | 9,454,356 |
| Shares redeemed | (7,743,888) | (97,342,593) | (9,206,330) | (82,245,771) |
| Net increase | 40,096,154 | \$514,611,961 | 10,209,260 | \$124,976,685 |

| MATTHEWS CHINA DIVIDEND FUND | Six Month Period Ended June 30, 2010 (Unaudited) | | Period Ended December 31, 2009* | |
|---|---|-------------|---------------------------------|-------------|
| | Shares | Amount | Shares | Amount |
| Shares sold | 868,509 | \$8,992,341 | 701,503 | \$7,027,389 |
| Shares issued through reinvestment of distributions | 15,349 | 158,862 | — | — |
| Shares redeemed | (178,702) | (1,816,816) | (497) | (4,886) |
| Net increase | 705,156 | \$7,334,387 | 701,006 | \$7,022,503 |

* The Matthews China Dividend Fund commenced operations on November 30, 2009.

| MATTHEWS ASIA PACIFIC FUND | Six Month Period Ended June 30, 2010 (Unaudited) | | Year Ended December 31, 2009 | |
|---|---|---------------|------------------------------|---------------|
| | Shares | Amount | Shares | Amount |
| Shares sold | 2,948,222 | \$43,939,914 | 8,060,298 | \$99,703,728 |
| Shares issued through reinvestment of distributions | — | — | 235,615 | 3,411,707 |
| Shares redeemed | (3,290,040) | (47,933,749) | (9,119,800) | (100,091,908) |
| Net increase (decrease) | (341,818) | (\$3,993,835) | (823,887) | \$3,023,527 |

| MATTHEWS PACIFIC TIGER FUND | Six Month Period Ended June 30, 2010 (Unaudited) | | Year Ended December 31, 2009 | |
|---|---|---------------|------------------------------|-----------------|
| | Shares | Amount | Shares | Amount |
| Shares sold | 47,534,014 | \$905,776,097 | 110,513,779 | \$1,710,149,408 |
| Shares issued through reinvestment of distributions | — | — | 964,998 | 18,306,012 |
| Shares redeemed | (20,320,630) | (383,609,126) | (34,894,575) | (504,644,408) |
| Net increase | 27,213,384 | \$522,166,971 | 76,584,202 | \$1,223,811,012 |

| MATTHEWS CHINA FUND | Six Month Period Ended June 30, 2010 (Unaudited) | | Year Ended December 31, 2009 | |
|---|---|----------------|------------------------------|-----------------|
| | Shares | Amount | Shares | Amount |
| Shares sold | 21,345,409 | \$545,211,877 | 67,632,449 | \$1,395,811,306 |
| Shares issued through reinvestment of distributions | — | — | 253,434 | 6,406,676 |
| Shares redeemed | (25,948,659) | (642,394,560) | (21,738,238) | (452,648,756) |
| Net increase (decrease) | (4,603,250) | (\$97,182,683) | 46,147,645 | \$949,569,226 |

| MATTHEWS INDIA FUND | Six Month Period Ended June 30, 2010 (Unaudited) | | Year Ended December 31, 2009 | |
|---|---|---------------|------------------------------|---------------|
| | Shares | Amount | Shares | Amount |
| Shares sold | 13,701,561 | \$238,269,262 | 16,867,471 | \$216,332,772 |
| Shares issued through reinvestment of distributions | — | — | 569,533 | 9,186,402 |
| Shares redeemed | (8,150,300) | (139,399,593) | (11,092,885) | (132,499,147) |
| Net increase | 5,551,261 | \$98,869,669 | 6,344,119 | \$93,020,027 |

| MATTHEWS JAPAN FUND | Six Month Period Ended June 30, 2010 (Unaudited) | | Year Ended December 31, 2009 | |
|---|---|----------------|------------------------------|----------------|
| | Shares | Amount | Shares | Amount |
| Shares sold | 1,069,555 | \$11,909,401 | 4,372,850 | \$41,047,221 |
| Shares issued through reinvestment of distributions | — | — | 196,404 | 2,164,373 |
| Shares redeemed | (3,445,789) | (37,837,371) | (8,609,002) | (86,507,638) |
| Net decrease | (2,376,234) | (\$25,927,970) | (4,039,748) | (\$43,296,044) |

| MATTHEWS KOREA FUND | Six Month Period Ended June 30, 2010 (Unaudited) | | Year Ended December 31, 2009 | |
|---|---|--------------|------------------------------|--------------|
| | Shares | Amount | Shares | Amount |
| Shares sold | 5,308,674 | \$22,298,564 | 6,981,091 | \$25,016,110 |
| Shares issued through reinvestment of distributions | — | — | 1,182,569 | 5,014,485 |
| Shares redeemed | (5,408,592) | (22,738,226) | (7,765,520) | (26,135,039) |
| Net increase (decrease) | (99,918) | (\$439,662) | 398,140 | \$3,895,556 |

| MATTHEWS ASIA SMALL COMPANIES FUND | Six Month Period Ended June 30, 2010 (Unaudited) | | Year Ended December 31, 2009 | |
|---|---|--------------|------------------------------|--------------|
| | Shares | Amount | Shares | Amount |
| Shares sold | 5,979,902 | \$96,119,423 | 7,498,692 | \$97,918,511 |
| Shares issued through reinvestment of distributions | — | — | 78,594 | 1,216,628 |
| Shares redeemed | (3,041,945) | (48,342,861) | (1,032,135) | (12,997,387) |
| Net increase | 2,937,957 | \$47,776,562 | 6,545,151 | \$86,137,752 |

| MATTHEWS ASIA SCIENCE AND TECHNOLOGY FUND | Six Month Period Ended June 30, 2010 (Unaudited) | | Year Ended December 31, 2009 | |
|---|---|--------------|------------------------------|--------------|
| | Shares | Amount | Shares | Amount |
| Shares sold | 5,048,314 | \$41,634,086 | 4,939,270 | \$33,834,530 |
| Shares redeemed | (4,079,220) | (33,031,775) | (4,484,328) | (26,762,039) |
| Net increase | 969,094 | \$8,602,311 | 454,942 | \$7,072,491 |

Notes to Financial Statements *(continued)*

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 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 redemption fees returned to the assets of the Funds are stated in the Statements of Changes in Net Assets.

3. INVESTMENT ADVISORY FEES AND OTHER TRANSACTIONS WITH AFFILIATES

Matthews International Capital Management, LLC ("Matthews"), a registered investment advisor under the Investment Advisers Act of 1940, as amended, 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 the Matthews Asia Small Companies Fund, pays Matthews 0.75% of their annual aggregate average daily net assets from \$0 to \$2 billion, 0.6834% on their annual aggregate average daily net assets between \$2 billion and \$5 billion, and 0.65% on their annual aggregate average daily net assets over \$5 billion. The Matthews Asia Small Companies Fund pays Matthews an annual fee of 1.00% of its 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 for each month in arrears.

Under a written agreement between the Funds and Matthews, Matthews agrees to reimburse money 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 and Matthews Asia Science and Technology Fund, the level is 2.00%. For Matthews Asian Growth and Income Fund, Matthews Asia Pacific Fund and Matthews Pacific Tiger Fund, the level is 1.90%. For Matthews Asia Dividend Fund and Matthews China Dividend Fund, the level is 1.50%. 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 not to exceed its expense limitation. For each Fund, other than Matthews Asia Small Companies Fund and Matthews China Dividend Fund, this agreement will continue through at least August 31, 2010. For the Matthews Asia Small Companies Fund and Matthews China Dividend Fund, this agreement will continue through at least April 30, 2012 and November 30, 2012, respectively. These agreements may be extended for additional periods for each of the Funds. At June 30, 2010, Matthews China Dividend Fund had \$103,694 available for recoupment, of which \$30,662 expires in 2012 and \$73,032 expires in 2013.

Investment advisory fees charged and waived and fees recaptured for the six-month period ended June 30, 2010, 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 |
|---|---------------------|---|---|------------------|
| Matthews Asian Growth and Income Fund | \$9,192,913 | \$— | \$— | \$9,192,913 |
| Matthews Asia Dividend Fund | 2,042,940 | — | 34,648 | 2,077,588 |
| Matthews China Dividend Fund | 40,057 | (73,032) | — | (32,975) |
| Matthews Asia Pacific Fund | 775,694 | — | — | 775,694 |
| Matthews Pacific Tiger Fund | 12,545,767 | — | — | 12,545,767 |
| Matthews China Fund | 8,613,227 | — | — | 8,613,227 |
| Matthews India Fund | 2,747,642 | — | — | 2,747,642 |
| Matthews Japan Fund | 256,997 | — | — | 256,997 |
| Matthews Korea Fund | 459,064 | — | — | 459,064 |
| Matthews Asia Small Companies Fund | 705,069 | — | 94,607 | 799,676 |
| Matthews Asia Science and Technology Fund | 491,962 | — | — | 491,962 |

Certain officers and Trustees of the Funds are also officers and directors of Matthews. All such officers and Trustees serve without compensation from the Funds. The Funds paid the Independent Trustees \$227,500 in aggregate for regular compensation during the six-month period ended June 30, 2010.

The Funds have an administration and shareholder servicing agreement, pursuant to which the Funds pay Matthews for Administration and shareholder servicing activities based on each Fund's aggregate average daily net assets. The fee is charged at a rate of 0.25% of the aggregate average daily net assets in the Trust between \$0 and \$2 billion, 0.1834% of aggregate average daily net assets in the Trust between \$2 billion and \$5 billion, 0.15% of the aggregate average daily net assets in the Trust between \$5 billion and \$7.5 billion and 0.125% of aggregate average daily net assets in the Trust over \$7.5 billion.

Administration and shareholder servicing fees charged, for the six-month period ended June 30, 2010, were as follows:

| | Administration and Shareholder Servicing Fees |
|---|---|
| Matthews Asian Growth and Income Fund | \$2,292,329 |
| Matthews Asia Dividend Fund | 508,337 |
| Matthews China Dividend Fund | 9,977 |
| Matthews Asia Pacific Fund | 193,414 |
| Matthews Pacific Tiger Fund | 3,127,994 |
| Matthews China Fund | 2,148,130 |
| Matthews India Fund | 684,841 |
| Matthews Japan Fund | 64,177 |
| Matthews Korea Fund | 114,487 |
| Matthews Asia Small Companies Fund | 118,986 |
| Matthews Asia Science and Technology Fund | 122,666 |

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 Fund's prospectus. Fees accrued to pay to such service providers for the six-month period ended June 30, 2010 are a component of Transfer Agent fees and Administration and Shareholder Servicing Fees in the Statements of Operations as follows:

| | Transfer Agent Fees | Administration & Shareholder Servicing Fees | Total |
|---|---------------------|---|-------------|
| Matthews Asian Growth and Income Fund | \$1,849,017 | \$924,509 | \$2,773,526 |
| Matthews Asia Dividend Fund | 317,537 | 158,768 | 476,305 |
| Matthews China Dividend Fund | 6,723 | 3,361 | 10,084 |
| Matthews Asia Pacific Fund | 144,907 | 72,454 | 217,361 |
| Matthews Pacific Tiger Fund | 1,840,781 | 920,391 | 2,761,172 |
| Matthews China Fund | 1,734,801 | 867,401 | 2,602,202 |
| Matthews India Fund | 556,129 | 278,065 | 834,194 |
| Matthews Japan Fund | 47,687 | 23,844 | 71,531 |
| Matthews Korea Fund | 76,024 | 38,012 | 114,036 |
| Matthews Asia Small Companies Fund | 103,035 | 51,517 | 154,552 |
| Matthews Asia Science and Technology Fund | 95,879 | 47,939 | 143,818 |

PNC Global Investment Servicing (US) Inc. ("PNC GIS"), an indirect wholly owned subsidiary of The PNC Financial Services Group, serves as the Trust's administrator, and in that capacity, performs various administrative and accounting services for each Fund. PNC GIS also serves as the Trust's transfer agent, dividend disbursing agent and registrar. An officer of PNC GIS serves as Assistant Treasurer to the Trust. Total fees accrued by the Funds for administration and accounting services for the six-month period ended June 30, 2010 were as follows:

| | Administration and Accounting Fees |
|---|---------------------------------------|
| Matthews Asian Growth and Income Fund | \$227,233 |
| Matthews Asia Dividend Fund | 50,503 |
| Matthews China Dividend Fund | 990 |
| Matthews Asia Pacific Fund | 19,179 |
| Matthews Pacific Tiger Fund | 310,116 |
| Matthews China Fund | 212,928 |
| Matthews India Fund | 67,928 |
| Matthews Japan Fund | 6,347 |
| Matthews Korea Fund | 11,348 |
| Matthews Asia Small Companies Fund | 11,804 |
| Matthews Asia Science and Technology Fund | 12,160 |

Brown Brothers Harriman & Co. serves as custodian to the Trust. PFPC Distributors, Inc., (the "Distributor"), an indirect wholly owned subsidiary of The PNC Financial Services Group, serves as the Funds' Distributor pursuant to an Underwriting Agreement.

Notes to Financial Statements *(continued)*

On July 1, 2010, The PNC Financial Services Group, Inc. sold the outstanding stock of PNC Global Investment Servicing Inc. to The Bank of New York Mellon Corporation. At the closing of the sale, PNC GIS and PFPC Distributors, Inc. changed their names to BNY Mellon Investment Servicing (US) Inc. and BNY Mellon Distributors Inc., respectively.

4. INVESTMENT TRANSACTIONS

The value of investment transactions made for affiliated and unaffiliated holdings for the six-month period ended June 30, 2010, excluding short-term investments, were as follows:

| | Affiliated Purchases | Proceeds from Affiliated Sales | Unaffiliated Purchases | Proceeds from Unaffiliated Sales |
|---|----------------------|--------------------------------|------------------------|----------------------------------|
| Matthews Asian Growth and Income Fund | \$3,238,997 | \$— | \$510,138,035 | \$251,247,730 |
| Matthews Asia Dividend Fund | — | — | 548,347,878 | 54,424,106 |
| Matthews China Dividend Fund | — | — | 7,485,261 | 308,279 |
| Matthews Asia Pacific Fund | — | — | 28,438,411 | 31,798,910 |
| Matthews Pacific Tiger Fund | 21,952,971 | — | 574,599,484 | 198,815,725 |
| Matthews China Fund | — | 1,173,701 | 159,755,369 | 231,097,253 |
| Matthews India Fund | — | — | 119,451,421 | 39,955,491 |
| Matthews Japan Fund | — | — | 19,882,116 | 45,268,589 |
| Matthews Korea Fund | — | — | 29,837,740 | 28,626,448 |
| Matthews Asia Small Companies Fund | — | — | 79,116,666 | 29,361,776 |
| Matthews Asia Science and Technology Fund | — | — | 73,856,458 | 63,645,244 |

5. HOLDINGS OF 5% VOTING SHARES OF PORTFOLIO COMPANIES

The 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 six-month period ended June 30, 2010, 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 six-month period ended June 30, 2010 is set forth below:

| | Shares Held at December 31, 2009 | Shares Purchased | Shares Sold | Shares Held at June 30, 2010 | Value at June 30, 2010 | Dividend Income January 1, 2010–June 30, 2010 | Net Realized Gain January 1, 2010–June 30, 2010 |
|---|----------------------------------|------------------|-------------|------------------------------|------------------------|---|---|
| MATTHEWS ASIAN GROWTH AND INCOME FUND | | | | | | | |
| Name of Issuer: | | | | | | | |
| I-CABLE Communications, Ltd. | 128,079,000 | — | — | 128,079,000 | \$19,418,552 | \$— | \$— |
| GS Home Shopping, Inc. | 388,299 | 44,120 | — | 432,419 | 27,022,032 | — | — |
| Vitasoy International Holdings, Ltd. | 51,297,000 | 376,000 | — | 51,673,000 | 39,354,435 | — | — |
| Total Affiliates | | | | | <u>\$85,795,019</u> | <u>\$—</u> | <u>\$—</u> |
| MATTHEWS PACIFIC TIGER FUND | | | | | | | |
| Name of Issuer: | | | | | | | |
| MegaStudy Co., Ltd. | 193,231 | 143,435 | — | 336,666 | \$44,483,452 | \$— | \$— |
| Total Affiliates | | | | | <u>\$44,483,452</u> | <u>\$—</u> | <u>\$—</u> |
| MATTHEWS CHINA FUND | | | | | | | |
| Name of Issuer: | | | | | | | |
| Kingdee International Software Group Co., Ltd. | 120,330,000 | — | — | 120,330,000 | \$45,334,844 | \$340,845 | \$— |
| Lianhua Supermarket Holdings Co., Ltd. H Shares | 17,150,000 | — | 354,000 | 16,796,000 | 61,523,923 | 393,261 | 770,595 |
| Total Affiliates | | | | | <u>\$106,858,767</u> | <u>\$734,106</u> | <u>\$770,595</u> |

6. SUBSEQUENT EVENTS

Management has evaluated the impact of all subsequent events on the Funds through the date the financial statements were issued, and has noted no additional events that require recognition or disclosure in the financial statements.

Matthews Asia Funds

BOARD OF TRUSTEES

Independent Trustees:

Geoffrey H. Bobroff, Chairman

Richard K. Lyons

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Interested Trustee:¹

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INVESTMENT ADVISOR

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¹As defined under the Investment Company Act of 1940, as amended.



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