

Matthews Asia Funds | Semi-Annual Report

30 September 2012



ASIA DIVIDEND FUND
PACIFIC TIGER FUND
CHINA FUND
INDIA FUND
CHINA SMALL COMPANIES FUND



Matthews Asia

Société d'investissement à Capital Variable
Luxembourg
RCS Luxembourg B 151 275

Special Notice to Investors

Please note that the Semi-Annual Report is a global document and therefore also contains information concerning the China Small Companies Fund which is not authorized by the Hong Kong Securities and Futures Commission and is not available for investment by Hong Kong retail investors. All Asia Dividend Fund distributions to date have been paid from income.



General Information

Matthews International Capital Management, LLC (“Matthews”) acts as Investment Manager to the Matthews Asia Funds (“the Fund”). Matthews believes in the long-term growth of Asia. Since Matthews was founded in 1991 by Paul Matthews, the firm has focused its efforts and expertise within the Asian region, investing through a variety of market environments. As an independent, privately owned firm, Matthews is the largest dedicated Asia investment specialist in the United States.

The Fund has an “umbrella” structure comprising a number of separate Sub-Funds. At the date of this report, five Sub-Funds were available for investment: Asia Dividend, Pacific Tiger, China, India and China Small Companies Funds. This report covers the period from 1 April 2012 to 30 September 2012. The last day on which official prices were calculated was 28 September 2012. The figures presented in the financial statements are as at 28 September 2012.

The annual general meeting of Shareholders will be held at the registered office of the Fund in Luxembourg on the third Tuesday of the month of June of each year at 2:00 p.m. or, if any such day is not a Business Day in Luxembourg, on the next following Business Day. Notices of all general meetings will be published to the extent required by Luxembourg Law, and in such other newspaper as the Board of Directors shall determine and will be sent to the Shareholders of registered Shares in accordance with Luxembourg Law to their addresses shown on the register of Shareholders. Such notices should include the agenda and will specify the time and place of the meeting, the conditions of admission, and refer to the rules of quorum and majorities required by Luxembourg Law.

Each Share confers the right to one vote. The vote on the payment of a dividend on a particular Class requires a separate majority vote from the meeting of Shareholders of the Class concerned. Any change in the Articles of Incorporation affecting the rights of a Sub-Fund must be approved by a resolution of both the general meeting of the Fund and the Shareholders of the Sub-Fund concerned.

Audited annual reports shall be published within four months following the end of the accounting year and unaudited semi-annual reports shall be published within two months following the period to which they refer. The annual reports and the semi-annual reports shall be made available at the registered offices of the Fund during ordinary office hours.

The Fund’s accounting year ends on 31 March in each year.

The Base Currency of the Fund is U.S. dollars (USD). The aforesaid reports will comprise consolidated accounts of the Fund expressed in USD as well as individual information on each Sub-Fund expressed in the Base Currency of each Sub-Fund.

Matthews was formed under the laws of Delaware and is regulated by the U.S. Securities and Exchange Commission.

Shares have not been registered under the United States Securities Act of 1933, as amended, nor the Investment Companies Act of 1940, as amended, and may not be offered directly or indirectly in the United States of America (including its territories and possessions) to nationals or residents thereof or to persons normally resident therein, or to any partnership or persons connected thereto unless pursuant to any applicable statute, rule or interpretation available under United States Law.

The Board of Directors confirms adherence to the ALFI Code of Conduct for Luxembourg investment funds.

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This report does not constitute or form part of any offer of shares or an invitation to apply for shares of the Matthews Asia Funds (the "Fund"). Subscriptions are to be made on the basis of the Key Investor Information Documents accompanied by the current full prospectus, and supplemented by the latest Annual Report or the most recent Semi-Annual Report.

The views and opinions in this report were current as at 30 September 2012. 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.

The subject matter contained herein has been derived from several sources believed to be reliable and accurate at the time of compilation. Matthews International Capital Management, LLC does not accept any liability for losses either direct or consequential caused by the use of this information.

The most current Key Investor Information Documents, full prospectus, and most recent Semi-Annual Report and Annual Report for each Sub-Fund can be found at global.matthewsasiasia.com. Please read the Key Investor Information Documents and current full prospectus carefully before investing.

Matthews Asia Funds

Management and Administration

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“We take the long-term view when it comes to making investment decisions, and, in so doing, believe we can ride out these short-term waves of changing macroeconomic policy.”

Investment Manager’s Report

In the current environment, it is understandable that macroeconomic news dominates the headlines: a jobless recovery in the U.S.; the potential of a break-up in the European Union; and central bankers as heroes and villains. However, I think that, while investors are right to talk about them to provide context for investment decisions, they may be placing too much emphasis on these events when it comes to decision-making. Recently, I shared a coffee below the skyscrapers of Hong Kong with some former colleagues and investors who have considerable experience investing in Asia. We chatted about the macroeconomic topics of the day: U.S. unemployment; the upcoming U.S. presidential election and the country’s fiscal cliff; problems in Greece and Europe; and China’s banking system and property markets. However, after much circular discussion, one of them said: “Stick to the micro! It’s best just sticking to the micro.” It’s tempting to see this as a sort of resignation—macroeconomics is too complex! But it is more than that. Sticking to the micro does not mean ignoring the macro.

What it means is that ultimately, even if you have a macro view, the “unit of investment” that you deal with is the security that you buy. If you are an equity investor with a short-term view, you might say it’s about “trading equities.” In that case, the business fundamentals probably interest you the least. Rather you focus on trading those equities that are most exposed to changes in monetary policy. However, I think some investors may get themselves into deep water by taking such an approach. For the effects of macroeconomic policy—whilst sometimes predictable—are often imprecise. Consider the U.S. Federal Reserve’s third round of quantitative easing, or QE3, for example, and Milton Friedman’s famous comment that monetary policy works with long and variable lags. In more detail, he believed: “Changes in money tend to affect output after something like about six to nine months, and inflation only after another 18 months, by which time the effect on output is negative rather than positive.” I am not an economist, let alone a monetary wonk, so what I take from this is that, if I try to base my views on monetary policy, I am implicitly taking no more than a nine-month view on real economic activity and perhaps a two-year view on inflation. That is before I have to take into account how much has been factored in by other market participants.

To make matters even more complex—those initial positive effects may turn out to be negative over the course of the next 24 months and so, if I choose to express my view on activity by buying companies for which I see no long-term investment horizon, I may end up with events going against me and holding businesses that I do not like for the long run and praying for another round of monetary stimulus.

This activity seems to be more of a game than anything else. And a difficult game to be playing at that! It is a game in the sense that there is no real way, as far as I can see, to try and assess the likely magnitude and length of the initial swell of optimism and the timing, extent or duration of the inflationary backwash. The best strategy would seem to be to “place your bets” and see where the momentum of the wave takes you. My advice to those looking for this kind of excitement would be to take up surfing.

Today, with depressed economic activity across much of the world and with tight monetary policy in China, many investors have been waiting for the next round of stimulus. What will the effects of QE3 be? What will be the impact of European Central Bank loosening? When will the Chinese loosen monetary policy and how will markets respond? I think these are inherently short-term questions from an investment point of view. They may have big implications for some groups of stocks over the short run—cyclical businesses, highly indebted companies, and distressed equities are probably best placed to rally strongly on positive announcements and positive impacts



from these government policies. But are they the companies you want to hold for the long run?

Even the question about how the European Union will evolve—will Greece leave?—seems to be inherently short term, too. For, despite the fact that there may be big long-term consequences for the political union itself, nevertheless, businesses that have strong market positions and are able to change and adapt to new situations will ultimately still have good long-term prospects. So, it seems far more worthwhile to focus on businesses for two reasons. First, they are ultimately the units of investment that count, and second, in an uncertain future, it is prudent to invest in those entities that can change and adapt and have the best chance of growing through different environments.

But there is a third reason, too: many investors seem to talk as if macroeconomic concepts such as money supply, government spending and exchange rates impact an individual's behaviour without recognising that these great magnitudes are also created by the actions of those same individuals. Even in our fixed income deliberations, where Portfolio Managers take a greater account of macroeconomic policy because they are buying the debt of governments as well as of companies, seeing the macro picture through the eyes of businesses is often instructive. Therefore, for us, a focus on the entrepreneur, and their decisions, is a way of better understanding the macroeconomic context of our decisions. How does the macro impinge on decision-making for us? At Matthews, both our Lead and Co-Portfolio Managers meet regularly to discuss portfolios and the macro environment. What we are not doing is taking a view on "India vs. China" or "consumer vs. industrials vs commodities." Rather, we are asking ourselves questions about the risk environment—what keeps us awake at night? What industries are struggling? Why? How will this impact the competitive environment and the survivability or sustainability of these businesses? And about opportunities—how do we think these markets and households are evolving over the next decade? Should a market decline precipitously or should a currency devalue, we will look at those markets very seriously as a source of new ideas. Ultimately, however, investment decisions still depend above all on the sustainability and value of the businesses that we buy. This is why we take the long-term view and, in so doing, believe we can ride out these short-term waves of changing macroeconomic policy.

We feel privileged to be your investment advisor for Asia and thank you for your support.

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



PORTFOLIO MANAGERS

Jesper O. Madsen, CFA
Lead Manager

Yu Zhang, CFA
Co-Manager

Asia Dividend Fund

Fund Manager Report

Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares (USD).

For the six months ending 30 September 2012, the Matthews Asia Dividend Fund returned 4.04% while its benchmark, the MSCI All Country Asia Pacific Index, fell -1.40%.

Asian equity markets were volatile during the past six months. An economic slowdown in China, coupled with prolonged uncertainty over the European sovereign debt crisis, triggered a sharp selloff of Asian equity markets during the first quarter, which was only to be followed by a strong rally in the second quarter as the European Central Bank became more accommodating in its ongoing attempt at addressing the European sovereign debt issue, alongside yet another round of quantitative easing in the U.S. The extended outlook for low interest rates set by the Federal Reserve helped the Fund's financial holdings, especially those exposed to real estate. As a result, the Fund's higher-yielding holdings in real estate investment trusts (REITs) all posted positive performance as investors sought out the combination of stable income growth and distribution yields offered by the REITs.

The Fund's holdings within the consumer staples sector were the second-best contributors to performance during the period. This was in large part due to Thai Beverages, Thailand's leading spirits and beer producer. The company was part of a bid to acquire a Singaporean conglomerate with a portfolio of beer and beverage businesses alongside a real estate unit. The market received the takeover news positively as it was believed that a breakup of the target conglomerate could create value in excess of the acquisition price.

Our holdings in Li Ning and Metcash were the main detractors to the performance for the period. Li Ning, a Chinese sportswear apparel company, continued to suffer from an industry-wide overhang of excess inventory and saw its profit margin deteriorate rapidly. We are closely monitoring the situation. Metcash, an Australian distribution and marketing company mainly within the grocery and liquor wholesaling industries, witnessed that the competition within Australia's supermarket industry had become increasingly fierce as two larger rivals have engaged in a price war to gain market share. In response, Metcash has attempted to apply its know-how as a wholesaler in other product categories. The company has previously engaged in acquisitions to support this type of expansion, and in recent months the company sold additional shares to fund further acquisitions. The uncertainty surrounding this broader business scope, alongside heightened competition, contributed to a sell-off in its shares.

Over the past six months, we added Cheung Kong Holdings and Tata Motors. Cheung Kong Holdings is a Hong Kong conglomerate with a global footprint spanning real estate, utilities and telecommunications assets. By our estimates Cheung Kong Holdings was priced at a significant discount to the underlying value of its various assets. Furthermore, the company has an unbroken track record of paying dividends dating back to 1986. Tata Motors is an Indian auto and commercial vehicle manufacturer. Besides being the leading maker of commercial vehicles in India, Tata Motors is the owner of the Jaguar Land Rover group, which it acquired in 2008 from the Ford Motor Company. The Fund acquired Tata Motors' A-shares, which sell at a significant discount to the common stock due to their limited voting rights. This discount and a claim to a higher dividend per share than the common stock led to an attractive yield alongside the potential for growth. During this period, the Fund exited Hokuto Corp, a Japanese mushroom producer as our expectations for dividend growth were not met.

The quest for yield has resulted in appreciation of higher-yielding equities that exhibit stability in dividends and/or dividend growth. That said, the MSCI Asia Pacific Index continues to offer a significantly higher estimated dividend yield than the MSCI U.S. Index. We continue to seek companies across the region that we believe are able to pay our investors an attractive dividend yield given the potential for dividend growth offered.

Schedule of Investments (Unaudited)

Transferable securities and money market instruments admitted to official exchange listing or dealt in on another regulated market. As at 30 September 2012, expressed in U.S. dollars.

COMMON EQUITIES: 94.7%

	Shares	Value	% of Net Assets		Shares	Value	% of Net Assets
CHINA/HONG KONG: 30.2%				AUSTRALIA: 7.3%			
China Mobile Ltd - ADR	74,200	4,101,248	3.06	Metcash Ltd	1,031,035	3,802,518	2.84
HSBC Holdings PLC - ADR	85,200	3,983,831	2.98	QBE Insurance Group Ltd	187,454	2,524,345	1.89
China Shenhua Energy Co Ltd - H Shares	903,000	3,489,868	2.61	Coca-Cola Amatil Ltd	126,254	1,784,243	1.33
Cheung Kong Holdings Ltd	228,000	3,331,691	2.49	David Jones Ltd	609,527	1,593,844	1.19
Cheung Kong Infrastructure Holdings Ltd	524,000	3,167,634	2.37	Total Australia		9,704,950	7.25
Television Broadcasts Ltd	417,000	3,077,193	2.30	TAIWAN: 7.2%			
Shenzhou International Group Holdings Ltd	1,572,000	2,689,775	2.01	Taiwan Semiconductor Manufacturing Co Ltd - ADR	193,300	2,994,165	2.24
Guangdong Investment Ltd	2,872,000	2,266,628	1.69	Johnson Health Tech Co Ltd	612,392	1,574,203	1.18
Link REIT	416,500	1,971,534	1.47	TXC Corp	908,219	1,515,014	1.13
Mintz Group Ltd	1,820,000	1,913,771	1.43	Chunghwa Telecom Co Ltd - ADR	40,160	1,269,919	0.95
Jiangsu Express Co Ltd - H Shares	2,266,000	1,874,426	1.40	Taiwan Hon Chuan Enterprise Co Ltd	523,754	1,145,038	0.85
Cafe de Coral Holdings Ltd	664,000	1,860,291	1.39	St Shine Optical Co Ltd	79,000	1,012,928	0.76
Yuexiu Transport Infrastructure Ltd	3,744,000	1,768,231	1.32	Cyberlink Corp	50,059	175,805	0.13
Haitian International Holdings Ltd	1,216,000	1,375,851	1.03	Total Taiwan		9,687,072	7.24
Xingda International Holdings Ltd	4,292,000	1,344,652	1.00	THAILAND: 5.0%			
Esprit Holdings Ltd	650,300	995,615	0.74	Thai Beverage Public PCL	8,771,000	2,898,641	2.17
Sichuan Expressway Co Ltd - H Shares	2,916,000	810,815	0.61	PTT Exploration & Production PCL - Foreign	404,000	2,127,384	1.59
Kingboard Laminates Holdings Ltd	823,500	340,991	0.25	Tisco Financial Group PCL - Foreign	1,151,200	1,716,543	1.28
Li Ning Co Ltd	72,000	38,254	0.03	Total Thailand		6,742,568	5.04
China Fishery Group Ltd	63,000	36,940	0.03	SOUTH KOREA: 3.4%			
Total China/Hong Kong		40,439,239	30.21	KT&G Corp	47,220	3,598,483	2.69
JAPAN: 23.2%				MegaStudy Co Ltd	8,360	555,574	0.42
Japan Tobacco Inc	181,400	5,466,790	4.08	Woongjin Thinkbig Co Ltd	72,880	394,969	0.29
ITOCHU Corp	497,900	5,052,295	3.77	Total South Korea		4,549,026	3.40
ORIX Corp	49,810	5,008,687	3.74	INDONESIA: 3.0%			
NTT DoCoMo Inc	1,846	3,006,631	2.25	PT Perusahaan Gas Negara	5,896,000	2,540,226	1.90
Pigeon Corp	62,000	2,844,508	2.12	PT Telekomunikasi Indonesia - ADR	33,500	1,293,629	0.97
Lawson Inc	33,800	2,612,729	1.95	PT Telekomunikasi Indonesia	170,000	167,843	0.12
Hisamitsu Pharmaceutical Co Inc	40,600	2,254,027	1.68	Total Indonesia		4,001,698	2.99
Miraca Holdings Inc	44,800	2,018,701	1.51	PHILIPPINES: 1.5%			
EPS Co Ltd	614	1,761,211	1.32	Globe Telecom Inc	70,770	1,958,864	1.46
Shinko Plantech Co Ltd	131,400	1,073,832	0.80	Total Philippines		1,958,864	1.46
Total Japan		31,099,411	23.22	INDIA: 1.2%			
SINGAPORE: 12.7%				Tata Motors Ltd - A DVR	535,500	1,635,277	1.22
Singapore Technologies Engineering Ltd	1,290,500	3,721,658	2.78	Total India		1,635,277	1.22
Ascendas Real Estate Investment Trust REIT	1,685,000	3,309,806	2.47	TOTAL COMMON EQUITIES			
United Overseas Bank Ltd	175,000	2,797,753	2.09				127,703,993
CapitaRetail China Trust	1,844,000	2,204,392	1.65	(Cost \$117,153,861)			
ARA Asset Management Ltd 144A	1,662,100	2,138,403	1.60				
Super Group Ltd	862,000	1,540,429	1.15				
Ascendas India Trust - REIT	2,047,000	1,276,331	0.95				
Total Singapore		16,988,772	12.69				

Schedule of Investments (Unaudited) (continued)**CLOSED ENDED FUND: 0.7%**

	Shares	Value	% of Net Assets
THAILAND: 0.7%			
Tesco Lotus Retail Growth Freehold & Leasehold Property Fund	1,854,600	897,116	0.67
Total Thailand		897,116	0.67
TOTAL CLOSED ENDED FUND		897,116	
(Cost \$663,488)			

	Shares	Value	% of Net Assets
TOTAL INVESTMENTS: 95.4%		127,703,993	
(Cost \$117,817,349)			
CASH AND OTHER ASSETS, LESS LIABILITIES: 4.6%		6,165,432	
NET ASSETS: 100.0%		133,869,425	

144A: security may be offered and sold only to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933

ADR: American Depositary Receipt

H Shares: Mainland Chinese companies listed on the Hong Kong exchange but incorporated in mainland China

REIT: Real Estate Investment Trust

DVR: Differential Voting Rights



PORTFOLIO MANAGERS

Richard H. Gao
Lead Manager

Sharat Shroff, CFA
Lead Manager

Pacific Tiger Fund

Fund Manager Report

Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares (USD).

For the six months ending 30 September 2012, the Matthews Pacific Tiger Fund returned 3.55% while its benchmark, the MSCI All Country Asia ex Japan Index, gained 2.05%.

Asian equities gained marginally during the period with some of the markets regaining highs following more accommodative monetary policies in the West. In contrast to the rest of the region, China's domestic equity markets posted negative returns as signs of overcapacity seemed to spread across many sectors.

The financial results of many Chinese companies point to a tough operating environment as profitability continues to get squeezed and cash flows are pressured. Dongfeng Motors, a long-term portfolio holding, continued to struggle with these challenges, which were exacerbated by a rise in anti-Japanese sentiment during the most recent quarter following a territorial island dispute between China and Japan. Notably with Dongfeng Motors, we suspect that some of the demand for passenger cars had been pulled forward in 2011 following China's massive 2010 stimulus programme, and hence progress in sales this year has been more difficult. We believe Dongfeng's recent sharp drop in sales may prove to be a temporary reaction to anti-Japan protests; but a more important gauge of Dongfeng's long-term outlook, which we continue to monitor, is its competition with its European peers.

Overall, stock selection in China and Hong Kong negatively impacted portfolio performance offset by favourable gains in South Korea and India. By far the largest detractor during the period was New Oriental Education & Technology Group, which came under scrutiny by the Securities and Exchange Commission (SEC) possibly related to the consolidation of the financial results of some of its subsidiaries in China. Details of the SEC investigation are still unavailable and at the time of writing, the company has delayed filing its annual report. We ultimately exited this position during the most recent quarter, which was a difficult decision. However, it was a decision predicated on the belief that such an investigation can take considerable time and there is much uncertainty over the outcome.

In general, our decision to add to the smaller to mid-size companies in China over the past year has yielded mixed results. By contrast, the Fund's Korean holdings provided significant gains. As we discussed earlier this year, the government's micro-management of prices in insurance and health care hurt sentiment toward some of the portfolio's holdings. However, given recently reported operating results, it has become apparent that the real impact on their business has been more limited than was feared.

Indian equities have typically enjoyed a significant premium to their peers in the region. However, last year presented an opportunity to initiate and accumulate Indian securities at more reasonable prices. Recent policy initiatives undertaken by the government to rejuvenate India's investment climate have been noteworthy, and helped drive gains for some of the portfolio's holdings.

Looking ahead, the structural changes occurring across many parts of Asia are shifting the investment landscape. While there is a concerted effort to boost consumption-led growth in China, other economies such as India and parts of the Southeast Asia are launching initiatives to spur investment activity. The launch of the third phase of quantitative easing in the U.S. complicates matters as valuations can become bid up. We remain focused on finding businesses that are addressing some of these longer-term opportunities, and are run by motivated management teams that function transparently, while keeping a keen eye on valuations.

Schedule of Investments (Unaudited)

Transferable securities and money market instruments admitted to official exchange listing or dealt in on another regulated market. As at 30 September 2012, expressed in U.S. dollars.

COMMON EQUITIES: 97.4%

	Shares	Value	% of Net Assets		Shares	Value	% of Net Assets
CHINA/HONG KONG: 29.0%				SOUTH KOREA: 15.5%			
Hang Lung Group Ltd	35,000	221,239	2.49	Samsung Electronics Co Ltd	174	209,834	2.36
Dairy Farm International Holdings Ltd	19,800	219,978	2.47	Dongbu Insurance Co Ltd	4,824	209,261	2.35
Ping An Insurance Group Co - H Shares	26,500	199,263	2.24	NHN Corp	622	162,253	1.82
China Resources Land Ltd	86,000	188,510	2.12	Cheil Worldwide Inc	7,174	152,336	1.71
Sinopharm Group Co Ltd - H Shares	53,200	170,014	1.91	Green Cross Corp	940	143,147	1.61
China Mobile Ltd - ADR	2,800	154,764	1.74	Hyundai Mobis	439	122,108	1.37
Digital China Holdings Ltd	95,000	151,026	1.70	Posco	302	98,929	1.11
Tingyi (Cayman Islands) Holding Corp	50,000	149,975	1.69	Yuhan Corp	705	96,960	1.09
Dongfeng Motor Group Co Ltd - H Shares	100,000	116,058	1.30	MegaStudy Co Ltd	1,452	96,494	1.09
China Resources Enterprise Ltd	34,000	113,204	1.27	Amorepacific Corp	87	92,366	1.04
Tencent Holdings Ltd	3,200	108,637	1.22	Total South Korea		1,383,688	15.55
Swire Pacific Ltd - A Shares	8,500	103,923	1.17	INDONESIA: 8.4%			
China Vanke Co Ltd - B Shares	82,690	103,723	1.17	PT Perusahaan Gas Negara	535,500	230,714	2.59
Li & Fung Ltd	62,000	95,773	1.08	PT Astra International	187,500	144,765	1.63
Hong Kong Exchanges and Clearing Ltd	5,900	88,827	1.00	PT Bank Central Asia	170,000	140,269	1.58
Shangri-La Asia Ltd	45,666	88,379	0.99	PT Indofood CBP Sukses Makmur	188,000	124,725	1.40
Baidu Inc - ADR	770	87,604	0.98	PT Telekomunikasi Indonesia	60,000	59,239	0.66
Hengan International Group Co Ltd	8,500	80,170	0.90	PT Telekomunikasi Indonesia - ADR	1,200	46,339	0.52
Lenovo Group Ltd	96,000	79,235	0.89	Total Indonesia		746,051	8.38
Ctrip.com International - ADR	1,350	23,310	0.26	TAIWAN: 8.0%			
China Merchants Bank Co Ltd - H Shares	12,000	20,118	0.23	Delta Electronics Inc	60,000	231,646	2.60
Li Ning Co Ltd	37,500	19,924	0.22	Synnex Technology International Corp	72,297	163,492	1.84
Total China/Hong Kong		2,583,654	29.04	President Chain Store Corp	26,000	139,009	1.56
INDIA: 17.6%				Taiwan Semiconductor Manufacturing Co Ltd	29,000	88,593	1.00
Tata Power Co Ltd	130,379	264,317	2.97	Yuanta Financial Holding Co Ltd	168,962	88,466	0.99
Kotak Mahindra Bank Ltd	13,595	167,183	1.88	Total Taiwan		711,206	7.99
GAIL India Ltd	21,651	157,083	1.77	THAILAND: 7.9%			
Housing Development Finance Corp	9,365	137,470	1.54	Central Pattana PCL - Foreign	101,300	197,117	2.21
HDFC Bank Ltd	11,502	137,172	1.54	Bank of Ayudhya PCL - Foreign	181,800	184,199	2.07
ITC Ltd	26,308	135,841	1.53	Siam Cement PCL	14,300	161,855	1.82
Sun Pharmaceutical Industries Ltd	8,587	113,216	1.27	PTT Exploration & Production PCL - Foreign	29,700	156,394	1.76
Container Corp of India Ltd	6,002	108,737	1.22	Total Thailand		699,565	7.86
Thermax Ltd	8,989	95,666	1.08	MALAYSIA: 4.9%			
Dabur India Ltd	38,350	93,049	1.05	Genting - BHD	70,800	201,460	2.26
Titan Industries Ltd	15,360	76,036	0.85	Public Bank - BHD	26,800	126,012	1.42
Sun TV Network Ltd	7,580	50,152	0.56	Top Glove Corp - BHD	47,400	75,849	0.85
Infosys Ltd - ADR	600	28,415	0.32	IHH Healthcare - BHD	27,200	28,477	0.32
Total India		1,564,337	17.58	IHH Healthcare - BHD	2,000	2,097	0.03
				Total Malaysia		433,895	4.88

*Schedule of Investments (Unaudited) (continued)***COMMON EQUITIES (continued)**

	Shares	Value	% of Net Assets
SINGAPORE: 3.1%			
Keppel Land Ltd	52,000	150,083	1.69
Hyflux Ltd	108,000	123,489	1.39
Total Singapore		273,572	3.08
PHILIPPINES: 2.4%			
SM Prime Holdings Inc	625,675	212,558	2.39
Total Philippines		212,558	2.39
VIETNAM: 0.6%			
Vietnam Dairy Products JSC	9,925	55,511	0.62
Total Vietnam		55,511	0.62

Shares	Value	% of Net Assets
TOTAL COMMON EQUITIES		
	8,664,037	
(Cost \$8,130,533)		
TOTAL INVESTMENTS: 97.4%		
	8,664,037	
(Cost \$8,130,533)		
CASH AND OTHER ASSETS, LESS LIABILITIES: 2.6%		
	234,254	
NET ASSETS: 100.0%		
	8,898,291	

ADR: American Depositary Receipt

B Shares: Mainland Chinese companies listed on the Shanghai and Shenzhen stock exchanges, available to both Chinese and non-Chinese investors

BHD: Berhad

H Shares: Mainland Chinese companies listed on the Hong Kong exchange but incorporated in mainland China

The accompanying notes form an integral part of these financial statements.



PORTFOLIO MANAGERS

Richard H. Gao
Lead Manager

Henry Zhang, CFA
Co-Manager

China Fund

Fund Manager Report

Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares (USD).

For the six months ending September 30, 2012, the Matthews China Fund declined -5.13% while the MSCI China Index lost -0.78%.

During the six-month period, China's economy continued to slow amid a weak global environment and lower domestic consumption. Earlier this year, the government adjusted down its Gross Domestic Product (GDP) growth target to 7.5% for the next five years, focusing on rebalancing the economy toward consumption and growth quality. Although the government accelerated approvals for some new investment projects during the period, it has generally been cautious in rolling out massive stimulus programmes as it did during the 2008 global financial crisis. The government has also noted from the previous stimulus program that there can be side effects to such large injections including high inflation, surging property prices and a deterioration of bank asset quality.

The Fund's relative underperformance during the period was primarily due to the portfolio's overweight in both the consumer discretionary and consumer staples sectors. China's economic slowdown has been hurting consumer sentiment and consequently there has been a widespread negative impact to our consumer-related holdings. Among our consumer holdings, department stores, supermarkets, beverages and sporting goods companies continued to report weak quarterly earnings. While near-term growth momentum may still be under pressure for these consumer names, we believe they are fundamentally solid companies that can weather this economic downturn and ultimately be beneficiaries of China's long-term consumption growth. We are also encouraged to see that these companies have been actively entering into the country's smaller cities and rural areas where income levels have been catching up with those in urban areas.

Within the portfolio's consumer sector, two companies were negatively affected by company-specific issues during the period. New Oriental Education & Technology Group, an education service provider in China that is listed on New York Stock Exchange, had been a solid performer in the portfolio until mid-July, when it fell under the scrutiny of the U.S. Securities and Exchange Commission (SEC) because of accounting practices related to its variable interest entity, or VIE, structure. While we still believe in the company management and business model, the uncertainty of the SEC investigation and the likely lengthy nature of this process led us to exit our position.

Dongfeng Motor Group, a Chinese auto manufacturer, runs joint-venture operations with major Japanese auto makers to sell passenger vehicles in China. During the period, the company saw its auto sales revenue decline sharply and its stock price come under pressure as a result of recent anti-Japanese sentiment surrounding a territorial dispute with Japan. We are closely monitoring the political situation and believe that the relationship between China and Japan will ultimately be normalised.

In recent months we consolidated our consumer sector holdings and exited some positions that we believe are losing their competitive edge. We have maintained our focus on companies that we believe have solid management and a strong business model. We also increased our weighting in the health care sector where we see compelling long-term growth.

Economic indicators are currently still quite mixed given uncertainties surrounding the timing and strength of China's economic recovery. China's GDP may no longer grow at the double-digit rates that it experienced over the past two decades. However, this does not mean that China is no longer a growth market. The growth pattern of China is gradually shifting—from a reliance on exports and fixed asset investments—toward domestic consumption. We believe this evolution will benefit our long-term investment focus on China's more domestic areas.

Schedule of Investments (Unaudited)

Transferable securities and money market instruments admitted to official exchange listing or dealt in on another regulated market. As at 30 September 2012, expressed in U.S. dollars.

COMMON EQUITIES: CHINA/HONG KONG: 98.7%

	Shares	Value	% of Net Assets		Shares	Value	% of Net Assets
FINANCIALS: 23.3%				INFORMATION TECHNOLOGY: 12.2%			
Real Estate Management & Development: 8.8%				Internet Software & Services: 5.5%			
Hang Lung Group Ltd	7,000	44,248	2.52	Sina Corp	550	35,805	2.04
China Resources Land Ltd	20,000	43,840	2.50	Tencent Holdings Ltd	900	30,554	1.74
China Vanke Co Ltd - B Shares	33,800	42,397	2.41	NetEase Inc - ADR	550	30,164	1.72
Swire Pacific Ltd - A Shares	2,000	24,452	1.39			96,523	5.50
		154,937	8.82	Electronic Equipment, Instruments & Components: 2.5%			
Commercial Banks: 7.0%				Digital China Holdings Ltd			
China Merchants Bank Co Ltd				28,000	44,513	2.53	
- H Shares	20,955	35,131	2.00		44,513	2.53	
BOC Hong Kong Holdings Ltd	11,000	34,858	1.98	Computers & Peripherals: 1.7%			
China Construction Bank - H Shares	44,340	30,653	1.75	Lenovo Group Ltd			
Agricultural Bank of China Ltd				36,000	29,713	1.69	
- H Shares	56,000	21,705	1.24		29,713	1.69	
		122,347	6.97	Communications Equipment: 1.4%			
Insurance: 5.8%				ZTE Corp - H Shares			
Ping An Insurance Group Co				15,280	24,444	1.39	
- H Shares	6,000	45,116	2.57		24,444	1.39	
China Life Insurance Co Ltd - H Shares	14,000	40,251	2.29	Software: 1.1%			
China Life Insurance Co Ltd - ADR	400	17,265	0.98	Kingdee International Software			
		102,632	5.84	Group Co Ltd			
				94,800	19,468	1.11	
Diversified Financial Services: 1.7%					19,468	1.11	
Hong Kong Exchanges and				Total Information Technology			
Clearing Ltd	2,000	30,111	1.71		214,661	12.22	
		30,111	1.71	CONSUMER STAPLES: 12.2%			
Total Financials		410,027	23.34	Food Products: 4.3%			
CONSUMER DISCRETIONARY: 17.8%				Tingyi (Cayman Islands)			
Hotels, Restaurants & Leisure: 7.4%				Holding Corp			
Cafe de Coral Holdings Ltd	16,000	44,826	2.55	16,000	47,992	2.73	
Shangri-La Asia Ltd	16,000	30,965	1.77	China Mengniu Dairy Co Ltd	9,000	26,868	1.53
Home Inns & Hotels Management					74,860	4.26	
Inc - ADR	1,100	27,028	1.54	Food & Staples Retailing: 3.9%			
Sands China Ltd	7,200	26,754	1.52	China Resources Enterprise Ltd			
		129,573	7.38	10,000	33,295	1.90	
Multiline Retail: 2.7%				Lianhua Supermarket Holdings Co			
Golden Eagle Retail Group Ltd	16,000	31,336	1.78	Ltd - H Shares	22,800	18,071	1.03
Parkson Retail Group Ltd	19,000	15,893	0.91	Sun Art Retail Group Ltd	13,500	16,774	0.95
		47,229	2.69		68,140	3.88	
Specialty Retail: 2.0%				Personal Products: 2.1%			
Belle International Holdings Ltd	20,000	36,075	2.05	Hengan International Group Co Ltd			
		36,075	2.05	4,000	37,727	2.15	
Distributors: 1.8%					37,727	2.15	
Li & Fung Ltd	20,000	30,894	1.76	Beverages: 1.9%			
		30,894	1.76	Tsingtao Brewery Co Ltd - H Shares			
Media: 1.7%				6,000			
Television Broadcasts Ltd	4,000	29,517	1.68		33,055	1.88	
		29,517	1.68		33,055	1.88	
Automobiles: 1.4%				Total Consumer Staples			
Dongfeng Motor Group Co Ltd					213,782	12.17	
- H Shares	22,000	25,533	1.45	INDUSTRIALS: 9.0%			
		25,533	1.45	Machinery: 3.2%			
Textiles, Apparel & Luxury Goods: 0.8%				CSR Corp Ltd - H Shares			
Ports Design Ltd	12,000	9,248	0.52	42,000	27,656	1.57	
Li Ning Co Ltd	9,500	5,047	0.29	Sany Heavy Equipment International			
		14,295	0.81	Holdings Co Ltd	30,500	16,534	0.94
Total Consumer Discretionary							
		313,116	17.82	China National Materials Co Ltd			
				- H Shares	43,000	12,031	0.69
					56,221	3.20	
				Transportation Infrastructure: 3.0%			
				China Merchants Holdings			
				International Co Ltd			
				10,000	30,707	1.75	
				Yuexiu Transport Infrastructure Ltd	46,000	21,725	1.24
					52,432	2.99	

*Schedule of Investments (Unaudited) (continued)***COMMON EQUITIES: CHINA/HONG KONG (continued)**

	Shares	Value	% of Net Assets		Shares	Value	% of Net Assets
Airlines: 1.4%							
Air China Ltd - H Shares	40,000	25,070	1.43				
		25,070	1.43				
Industrial Conglomerates: 1.4%							
NWS Holdings Ltd	15,500	24,851	1.41				
		24,851	1.41				
Total Industrials		158,574	9.03				
ENERGY: 7.8%							
Oil, Gas & Consumable Fuels: 5.7%							
CNOOC Ltd	18,000	36,723	2.09				
China Shenhua Energy Co Ltd - H Shares	8,500	32,850	1.87				
China Petroleum & Chemical Corp - H Shares	32,000	29,786	1.70				
		99,359	5.66				
Energy Equipment & Services: 2.1%							
China Oilfield Services Ltd - H Shares	20,000	36,261	2.06				
		36,261	2.06				
Total Energy		135,620	7.72				
TELECOMMUNICATION SERVICES: 6.2%							
Wireless Telecommunication Services: 3.8%							
China Mobile Ltd	3,500	38,707	2.21				
China Mobile Ltd - ADR	500	27,636	1.57				
		66,343	3.78				
Diversified Telecommunication Services: 2.4%							
China Communications Services Corp Ltd - H Shares	74,000	42,732	2.43				
		42,732	2.43				
Total Telecommunication Services		109,075	6.21				
UTILITIES: 5.4%							
Electric Utilities: 2.7%							
Cheung Kong Infrastructure Holdings Ltd	8,000	48,361	2.75				
		48,361	2.75				
Gas Utilities: 2.1%							
Hong Kong & China Gas Co Ltd	14,534	36,830	2.10				
		36,830	2.10				
Independent Power Producers & Energy Traders: 0.6%							
China Longyuan Power Group Corp - H Shares	16,000	10,493	0.60				
		10,493	0.60				
Total Utilities		95,684	5.45				
HEALTH CARE: 4.8%							
Health Care Providers & Services: 2.4%							
Sinopharm Group Co Ltd - H Shares	13,200	42,184	2.40				
		42,184	2.40				
Health Care Equipment & Supplies: 2.4%							
Mindray Medical International Ltd - ADR	1,250	41,464	2.36				
		41,464	2.36				
Total Health Care		83,648	4.76				
TOTAL COMMON EQUITIES					1,734,187	98.72	
(Cost \$ 1,742,794)							
TOTAL INVESTMENTS: 98.7%					1,734,187		
(Cost \$ 1,742,794)							
CASH AND OTHER ASSETS, LESS LIABILITIES: 1.3%					22,429		
NET ASSETS: 100.0%					1,756,616		

ADR: American Depositary Receipt

B Shares: Mainland Chinese companies listed on the Shanghai and Shenzhen stock exchanges, available to both Chinese and non-Chinese investors

H Shares: Mainland Chinese companies listed on the Hong Kong exchange but incorporated in mainland China



PORTFOLIO MANAGERS

Sharat Shroff, CFA

Lead Manager

Sunil Asnani

Co-Manager

India Fund

Fund Manager Report

Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares (USD).

For the six months ending 30 September 2012, the Matthews India Fund gained 5.78%, while its benchmark, the Bombay Stock Exchange 100 Index, gained 4.94%.

The rupee was among the region's best-performing currencies in the most recent quarter, appreciating more than 5% in U.S. dollar terms, after being one of the worst-performing ones in the previous quarter. The Indian market has been quite volatile throughout the year and has come full circle since January. The majority of the market gains were made in September following the introduction of several government policy measures that are designed to attract foreign capital and improve state finances. These reform efforts, which likely sent much-needed positive signals to investors, happened to coincide with liquidity injections worldwide. Not surprisingly, nearly half of the year-to-date foreign institutional investor inflows of USD 15.9 billion came during the most recent quarter.

The portfolio's relative performance, for both the semi-annual and most recent quarterly period, was in line with the benchmark. However, performance was mixed across sectors. Also, larger capitalisation stocks did better than smaller ones during the six-month period. Our lack of exposure to telecom stocks, which continue to suffer from regulatory issues, and stock specific factors within materials also drove relative performance. Within materials, our relatively new position in Supreme Industries, India's largest plastic processor, has done well to capitalise on the domestic rise in plastic consumption. Its management is conscious of the commodity-like characteristics of its business and has plans to move toward more value-added products such as composite pipes and cylinders.

By contrast, the portfolio's largest sector overweight, industrials, hurt relative performance during the six-month period. Since the Fund's inception in June 2011, we have been overweight in industrials, but investment activity in this area has not picked up as we had expected. This has resulted primarily from lethargic policymaking and an uncertain regulatory environment. Our approach to investing in the sector has been to scout for businesses that are addressing critical bottlenecks, most notably in the infrastructure segment. Gujarat Pipavav Port, a developer and operator of a multipurpose port on India's west coast, is one such example. The port is strategically located, has back-end infrastructure in place and should benefit from northern India's rising consumption over the long term. However, the recent lull in global trade and some market share loss hampered its stock during the period. While its near-term performance may have been weaker than we anticipated, the company's strengthening balance sheet and continued investments in its facilities should provide a competitive advantage vis-à-vis its peers on India's western coast. Hence, we have continued to add to this position.

India's recent spate of reforms aimed at facilitating the flow of foreign capital, controlling budgetary deficits and resolving certain problems in the electrical power sector took market participants by surprise. While this was a welcome surprise, it was unpredictable and therefore not within investors' control. What remains within our control, however, is the ability to analyse business models that we believe are geared to benefit profitably from a pickup in investment spending. As such, many of the portfolio's holdings in the industrials sector are smaller to mid-sized companies with more transparent businesses, and visible cash flows. Our efforts continue to avoid the euphoria, and to stay anchored in our bottom-up approach to stock selection with a keen eye on valuations.

Schedule of Investments (Unaudited)

Transferable securities and money market instruments admitted to official exchange listing or dealt in on another regulated market. As at 30 September 2012, expressed in U.S. dollars.

COMMON EQUITIES: INDIA: 95.9%

	Shares / Units	Value	% of Net Assets		Shares / Units	Value	% of Net Assets		
FINANCIALS: 19.6%				CONSUMER DISCRETIONARY: 12.2%					
Commercial Banks: 10.6%				Media: 5.9%					
HDFC Bank Ltd	49,763	593,468	4.48	Jagran Prakashan Ltd	206,841	362,869	2.74		
ICICI Bank Ltd	23,291	467,454	3.53	Sun TV Network Ltd	49,969	330,616	2.50		
Allahabad Bank	76,389	212,493	1.61	Dish TV India Ltd	50,611	79,195	0.60		
Axis Bank Ltd	6,051	130,299	0.98			772,680	5.84		
		1,403,714	10.60	Auto Components: 5.0%					
Diversified Financial Services: 6.5%				Exide Industries Ltd					
Kotak Mahindra Bank Ltd	38,191	469,650	3.55	229,178	665,965	5.03			
Infrastructure Development Finance Co Ltd	109,540	320,699	2.42		665,965	5.03			
Multi Commodity Exchange of India Ltd	2,984	72,500	0.55	Textiles, Apparel & Luxury Goods: 1.3%					
		862,849	6.52	Titan Industries Ltd					
Thrifts & Mortgage Finance: 2.5%				35,533				175,897	1.33
Housing Development Finance Corp	22,241	326,480	2.47			175,897	1.33		
		326,480	2.47	Total Consumer Discretionary					
Total Financials		2,593,043	19.59			1,614,542	12.20		
INDUSTRIALS: 16.9%				MATERIALS: 12.2%					
Machinery: 7.6%				Chemicals: 10.8%					
Ashok Leyland Ltd	730,242	333,596	2.52	Asian Paints Ltd					
Thermax Ltd	29,859	317,777	2.40	7,475				557,533	4.21
AIA Engineering Ltd	42,589	288,125	2.18	Castrol India Ltd					
Jain Irrigation Systems Ltd	49,954	65,999	0.50	73,024				430,835	3.26
		1,005,497	7.60	Grasim Industries Ltd					
Industrial Conglomerates: 2.7%				36,795				197,349	1.49
MAX India Ltd	84,566	359,552	2.72			1,427,524	10.79		
		359,552	2.72	Metals & Mining: 1.4%					
Road & Rail: 2.7%				NMDC Ltd					
Container Corp of India Ltd	19,564	354,436	2.68	50,875	186,990	1.41			
		354,436	2.68		186,990	1.41			
Electrical Equipment: 2.2%				Total Materials					
Crompton Greaves Ltd	123,136	294,331	2.22			1,614,514	12.20		
		294,331	2.22	INFORMATION TECHNOLOGY: 8.9%					
Transportation Infrastructure: 1.7%				IT Services: 5.5%					
Gujarat Pipavav Port Ltd	231,783	229,564	1.73	Infosys Ltd					
		229,564	1.73	7,674				368,746	2.78
Total Industrials		2,243,380	16.95	CMC Ltd					
CONSUMER STAPLES: 13.9%				12,749				159,897	1.21
Personal Products: 10.4%								724,457	5.47
Emami Ltd	63,098	596,115	4.50	Internet Software & Services: 3.5%					
Dabur India Ltd	215,781	523,552	3.96	Info Edge India Ltd					
Bajaj Corp Ltd	77,070	262,013	1.98	69,052				456,813	3.45
		1,381,680	10.44			456,813	3.45		
Tobacco: 3.5%				Total Information Technology					
ITC Ltd	89,629	462,799	3.49			1,181,270	8.92		
		462,799	3.49	HEALTH CARE: 6.1%					
Total Consumer Staples		1,844,479	13.93	Pharmaceuticals: 6.1%					
CONSUMER DISCRETIONARY: 12.2%				Sun Pharmaceutical Industries Ltd					
Media: 5.9%				51,428				678,054	5.12
Jagran Prakashan Ltd				Cipla Ltd					
206,841				17,531				126,311	0.96
Sun TV Network Ltd								804,365	6.08
49,969								804,365	6.08
Dish TV India Ltd				Total Health Care					
50,611								804,365	6.08
				UTILITIES: 5.0%					
				Gas Utilities: 3.3%					
				GAIL India Ltd					
				60,590				439,595	3.32
								439,595	3.32
				Electric Utilities: 1.7%					
				CESC Ltd					
				34,580				217,391	1.64
								217,391	1.64
				Total Utilities					
								656,986	4.96

*Schedule of Investments (Unaudited) (continued)***COMMON EQUITIES: INDIA (continued)**

	Shares / Units	Value	% of Net Assets
ENERGY: 1.1%			
Oil, Gas & Consumable Fuels: 1.1%			
Reliance Industries Ltd	9,223	146,365	1.11
		<u>146,365</u>	<u>1.11</u>
Total Energy		146,365	1.11

TOTAL COMMON EQUITIES: INDIA	12,698,944	95.94
(Cost \$13,233,406)		

COMMON EQUITIES: SINGAPORE: 3.0%

FINANCIALS: 3.0%			
Real Estate Management & Development: 3.0%			
Ascendas India Trust REIT	638,000	397,801	3.00
		<u>397,801</u>	<u>3.00</u>
Total Financials		397,801	3.00

TOTAL COMMON EQUITIES: SINGAPORE	397,801	3.00
(Cost \$450,478)		

TOTAL COMMON EQUITIES	13,096,745
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CONVERTIBLE BONDS: INDIA: 1.5%

	Shares / Units	Value	% of Net Assets
UTILITIES: 0.8%			
Electric Utilities: 0.8%			
Tata Power Company Ltd 1.75%			
21/11/2014	100,000	102,750	0.78
		<u>102,750</u>	<u>0.78</u>
Total Utilities		102,750	0.78

MATERIALS: 0.7%			
Metals & Mining: 0.7%			
Welspun Corp Ltd 4.5%			
17/10/2014	100,000	92,000	0.69
		<u>92,000</u>	<u>0.69</u>
Total Materials		92,000	0.69

TOTAL CONVERTIBLE BONDS	194,750
(Cost \$197,500)	

TOTAL INVESTMENTS: 100.4%	13,291,495
(Cost \$13,881,384)	

CASH AND OTHER ASSETS, LESS LIABILITIES: (0.4%)	(54,614)
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NET ASSETS: 100.0%	13,236,881
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REIT: Real Estate Investment Trust



PORTFOLIO MANAGERS

Richard Gao
Lead Manager

Henry Zhang, CFA
Co-Manager

China Small Companies Fund*

Fund Manager Report

Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares (USD).

For the six months ending 30 September 2012, the Matthews China Small Companies Fund declined -8.81%, while its benchmark, the MSCI China Small Cap Index, fell -7.51%.

For the six-month period, investors showed continued concerns over the slowing Chinese economy as well as the lacklustre external environment. During the most recent quarter, investors were somewhat disappointed as a much-anticipated rate cut failed to materialise. China's currency strength also continued to put pressure on manufacturing and export-related industries. However, on the positive side, in response to the slower growth climate, China accelerated approvals for about US\$156 billion in new investment projects. Inflation in China was at 1.9% in September, below the government's target of 4%.

On a sector basis, health care performed well during the period. Our holdings in this area delivered solid operating results and China Kanghui Holdings, a prominent medical device company, was one of the Fund's top contributors. Its stock soared at the end of the most recent quarter, following news of an acquisition plan with Medtronic, a U.S. medical device company.

While China's property sector continued to face challenges and show negative returns, the portfolio's property holdings performed well in recent months. China Overseas Grand Oceans Group, a Hong Kong-based property developer, was among the top contributors to performance. The firm reported positive results for the first half of this year, with a focus on expanding into smaller cities. We continue to view the company as a major beneficiary of the ongoing trend of inland urbanisation and growing household income.

Conversely, our consumer staples holdings were among the hardest hit during the period and were a major detractor to Fund performance. These companies faced strong headwinds as China's low inflation environment limited sales growth while wage inflation squeezed margins. Wumart Stores, one of Beijing's dominant supermarket chains, tumbled after the company delivered flat profits, below market expectations. Despite its recent sluggish performance, we continue to hold this position as we believe the company is among the most efficient firms in this fast-growing industry and we believe its business fundamentals and leading market position remain intact.

During the most recent quarter we initiated a position in an integrated human resources service provider, 51job, which we like for its well-known brand, scalable online service platform and strong management track record in China. The company should benefit from both the growing number of Internet users and the increasing demand for talented job candidates and human resource services.

With China's 18th Party Congress and a once-in-a-decade leadership transition forthcoming, many investors are awaiting signs of more supportive government policies. While small- and medium-size enterprises still face some near-term challenges, current valuations for small companies seem to have already accounted for many of these risks. We will continue to employ our bottom-up, fundamental research and focus on identifying companies with the potential for long-term sustainable growth at reasonable valuations.

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

*Not authorized in Hong Kong and not available for investment by Hong Kong retail investors.

China Small Companies Fund

30 September 2012

Schedule of Investments (Unaudited)

Transferable securities and money market instruments admitted to official exchange listing or dealt in on another regulated market. As at 30 September 2012, expressed in U.S. dollars.

COMMON EQUITIES: CHINA/HONG KONG: 94.2%

	Shares	Value	% of Net Assets		Shares	Value	% of Net Assets
CONSUMER DISCRETIONARY: 22.3%				INFORMATION TECHNOLOGY: 12.2%			
Hotels, Restaurants & Leisure: 4.4%				Electronic Equipment, Instruments & Components: 4.8%			
Home Inns & Hotels Management Inc - ADR	1,000	24,570	2.64	Digital China Holdings Ltd	28,000	44,513	4.79
Ajisen China Holdings Ltd	24,000	15,908	1.71			44,513	4.79
		40,478	4.35	Internet Software & Services: 3.2%			
Textiles, Apparel & Luxury Goods: 4.2%				21Vianet Group Inc - ADR			
Trinity Ltd	40,000	26,728	2.87	2,700	30,055	3.23	
Anta Sports Products Ltd	16,000	12,251	1.32		30,055	3.23	
		38,979	4.19	Semiconductors & Semiconductor Equipment: 2.5%			
Media: 4.0%				Spreadtrum Communications Inc - ADR			
Television Broadcasts Ltd	5,000	36,897	3.97	600	12,123	1.30	
		36,897	3.97	RDA Microelectronics Inc - ADR	1,000	10,750	1.16
Auto Components: 3.2%							
Minth Group Ltd	28,000	29,443	3.17		22,873	2.46	
		29,443	3.17	Communications Equipment: 1.7%			
Specialty Retail: 2.3%				Comba Telecom Systems Holdings Ltd			
Hengdeli Holdings Ltd	76,000	21,945	2.36	47,000	15,706	1.69	
		21,945	2.36		15,706	1.69	
Leisure Equipment & Products: 1.5%				Total Information Technology			
Goodbaby International Holdings Ltd	44,000	14,240	1.53		113,147	12.17	
		14,240	1.53	CONSUMER STAPLES: 9.8%			
Distributors: 1.4%				Household Products: 3.5%			
Dah Chong Hong Holdings Ltd	14,000	12,706	1.37	Vinda International Holdings Ltd	24,000	32,966	3.54
		12,706	1.37		32,966	3.54	
Diversified Consumer Services: 1.3%				Food Products: 3.5%			
TAL Education Group - ADR	1,500	12,280	1.32	Shenguan Holdings Group Ltd	32,000	17,588	1.89
		12,280	1.32	Tenfu Cayman Holdings Co Ltd	23,000	14,810	1.59
Total Consumer Discretionary							
		206,968	22.26		32,398	3.48	
INDUSTRIALS: 19.8%				Food & Staples Retailing: 2.8%			
Electrical Equipment: 6.0%				Wumart Stores Inc - H Share			
Zhuzhou CSR Times Electric Co Ltd - H Share	12,000	30,734	3.31	11,000	16,396	1.76	
Hangzhou Steam Turbine Co - B Share	23,760	24,892	2.68	Lianhua Supermarket Holdings Co Ltd - H Share	12,000	9,511	1.02
		55,626	5.99		25,907	2.78	
Machinery: 4.7%				Total Consumer Staples			
Haitian International Holdings Ltd	26,000	29,418	3.16		91,271	9.80	
Sany Heavy Equipment International Holdings Co Ltd	26,000	14,095	1.52	HEALTH CARE: 9.5%			
		43,513	4.68	Health Care Equipment & Supplies: 3.2%			
Transportation Infrastructure: 4.2%				China Kanghui Holdings Inc - ADR			
Yuexiu Transport Infrastructure Ltd	62,000	29,282	3.15	1,200	30,063	3.23	
Dalian Port PDA Co Ltd - H Share	48,000	9,451	1.02		30,063	3.23	
		38,733	4.17	Pharmaceuticals: 3.2%			
Professional Services: 2.4%				Sino Biopharmaceutical			
51job Inc - ADR	500	22,551	2.42	80,000	29,454	3.17	
		22,551	2.42		29,454	3.17	
Industrial Conglomerates: 1.3%				Life Sciences Tools & Services: 3.1%			
Chongqing Machinery & Electric Co Ltd - H Share	94,000	12,312	1.32	WuXi PharmaTech Cayman Inc - ADR	2,000	29,305	3.15
		12,312	1.32		29,305	3.15	
Marine: 1.2%				Total Health Care			
SITC International Holdings Co Ltd	46,000	11,001	1.18		88,822	9.55	
		11,001	1.18	FINANCIALS: 9.5%			
Total Industrials				Real Estate Management & Development: 9.5%			
		183,736	19.76	China Overseas Grand Oceans Group Ltd			
				51,000	50,316	5.41	
				Franshion Properties China Ltd	124,000	37,766	4.06
					88,082	9.47	
				Total Financials			
					88,082	9.47	

*Schedule of Investments (Unaudited) (continued)***COMMON EQUITIES: CHINA/HONG KONG (continued)**

	Shares	Value	% of Net Assets
UTILITIES: 5.1%			
Gas Utilities: 5.1%			
Towngas China Co Ltd	64,000	47,298	5.09
		<u>47,298</u>	<u>5.09</u>
Total Utilities		<u>47,298</u>	<u>5.09</u>
MATERIALS: 4.1%			
Chemicals: 1.5%			
Yip's Chemical Holdings Ltd	22,000	14,339	1.54
		<u>14,339</u>	<u>1.54</u>
Containers & Packaging: 2.6%			
Greatview Aseptic Packaging Co Ltd	44,000	23,936	2.57
		<u>23,936</u>	<u>2.57</u>
Total Materials		<u>38,275</u>	<u>4.11</u>
ENERGY: 1.9%			
Oil, Gas and Consumable Fuel: 1.9%			
Sinopec Kantons Holdings Ltd	22,000	18,135	1.95
		<u>18,135</u>	<u>1.95</u>
Total Energy		<u>18,135</u>	<u>1.95</u>
TOTAL COMMON EQUITIES: CHINA/HONG KONG		<u>875,734</u>	
(Cost \$947,062)			

COMMON EQUITIES: TAIWAN: 3.3%

	Shares	Value	% of Net Assets
CONSUMER DISCRETIONARY: 1.7%			
Hotels, Restaurants & Leisure: 1.7%			
Gourmet Master Co Ltd	2,100	15,830	1.70
		<u>15,830</u>	<u>1.70</u>
Total Consumer Discretionary		<u>15,830</u>	<u>1.70</u>
MATERIALS: 1.6%			
Containers & Packaging: 1.6%			
Taiwan Hon Chuan Enterprise Co Ltd	7,000	15,303	1.65
		<u>15,303</u>	<u>1.65</u>
Total Materials		<u>15,303</u>	<u>1.65</u>
TOTAL COMMON EQUITIES: TAIWAN		<u>31,133</u>	
(Cost \$34,235)			
TOTAL COMMON EQUITIES		<u>906,867</u>	
TOTAL INVESTMENTS: 97.5%		<u>906,867</u>	
(Cost \$981,297)			
CASH AND OTHER ASSETS, LESS LIABILITIES: 2.5%		<u>23,178</u>	
NET ASSETS: 100.0%		<u>930,045</u>	

ADR: American Depositary Receipt

B Shares: Mainland Chinese companies listed on the Shanghai and Shenzhen stock exchanges, available to both Chinese and non-Chinese investors

H Shares: Mainland Chinese companies listed on the Hong Kong exchange but incorporated in mainland China

Statement of Assets and Liabilities

As at 30 September 2012

	Asia Dividend Fund (USD)	Pacific Tiger Fund (USD)	China Fund (USD)	India Fund (USD)	China Small Companies Fund (USD)	Combined (USD)
ASSETS						
Investment in securities at value	127,703,993	8,664,037	1,734,187	13,291,495	906,867	152,300,579
At cost	117,817,349	8,130,533	1,742,794	13,881,384	981,297	142,553,357
Cash at bank	5,434,290	246,589	33,688	3,437	14,058	5,732,062
Amount receivable on sales of investments	151,949	–	–	–	20	151,969
Interests and dividends receivable	571,317	7,092	4,026	20,758	2,443	605,636
Subscriptions receivable	420,313	–	–	–	5,628	425,941
Formation expenses (note 2I)	20,289	20,289	18,995	29,473	–	89,046
Prepaid expenses and other receivables (note 2H)	146,068	57,156	53,740	52,606	19,358	328,928
TOTAL ASSETS	134,448,219	8,995,163	1,844,636	13,397,769	948,374	159,634,161
LIABILITIES						
Bank overdraft	66,981	–	–	8,547	–	75,528
Amounts payable on purchases of investments	238,162	–	–	–	–	238,162
Management fees (note 4)	95,035	5,209	1,180	7,168	882	109,474
Payable for foreign taxes (note 7B)	–	4,436	–	48,460	–	52,896
Accrued expenses and other payables	178,616	87,227	86,840	96,713	17,447	466,843
TOTAL LIABILITIES	578,794	96,872	88,020	160,888	18,329	942,903
TOTAL NET ASSETS	133,869,425	8,898,291	1,756,616	13,236,881	930,045	158,691,258

The accompanying notes form an integral part of these financial statements.

Statement of Operations and Changes in Net Assets

For the period ended 30 September 2012

	Asia Dividend Fund (USD)	Pacific Tiger Fund (USD)	China Fund (USD)	India Fund (USD)	China Small Companies Fund (USD)	Combined (USD)
NET ASSETS AT THE BEGINNING OF THE PERIOD	96,240,286	4,111,734	3,152,037	12,510,339	953,349	116,967,745
INCOME						
Dividends income, net	2,675,803	58,234	57,536	148,237	21,086	2,960,896
Interest income, net	20	31	–	4,979	–	5,030
TOTAL INCOME	2,675,823	58,265	57,536	153,216	21,086	2,965,926
EXPENSES						
Overdraft interest on bank accounts	–	–	7	11	18	36
Management fees (note 4)	527,739	22,842	10,933	58,253	6,724	626,491
Domiciliation, Administration and Transfer agency fees	47,343	30,673	30,396	16,535	9,905	134,852
Professional fees	108,708	16,951	16,396	39,067	6,540	187,662
Printing fees	36,915	1,297	1,153	4,607	339	44,311
Custodian fees	10,214	10,214	10,214	10,208	2,923	43,773
Amortization of formation expenses (note 2I)	3,902	3,902	3,902	3,902	–	15,608
Taxe d'abonnement (note 7A)	14,473	312	174	585	136	15,680
Other fees	102,834	17,073	11,507	22,154	7,099	160,667
TOTAL EXPENSES	852,128	103,264	84,682	155,322	33,684	1,229,080
Fee waiver (note 2H)	292,316	69,125	63,787	69,044	24,799	519,071
NET INVESTMENT INCOME/(LOSS)	2,116,011	24,126	36,641	66,938	12,201	2,255,917
Net realised gain/(loss) on investments	(2,513,816)	(69,984)	(315,808)	(305,968)	(65,838)	(3,271,414)
Net realised gain/(loss) on forward foreign exchange contracts	12,156	1,043	–	–	(30)	13,169
Net realised gain/(loss) on foreign exchanges	(18,277)	(15,995)	(60)	(2,998)	71	(37,259)
Net realised gain/(loss) for the period	(2,519,937)	(84,936)	(315,868)	(308,966)	(65,797)	(3,295,504)
Net change in unrealised gain/(loss) on investments	5,515,844	454,950	57,919	976,471	(30,501)	6,974,683
Net change in unrealised gain/(loss) on foreign tax provision (note 7B)	–	(4,436)	–	8,385	–	3,948
Net change in unrealised gain/(loss) on foreign exchanges	1,904	(70)	–	567	–	2,402
Net change in unrealised gain/(loss) for the period	5,517,748	450,444	57,919	985,423	(30,501)	6,981,033
Increase/(decrease) in net assets as a result of operations	5,113,822	389,634	(221,308)	743,395	(84,097)	5,941,446
Subscriptions	33,138,292	5,809,867	–	304,023	60,793	39,312,975
Redemptions	(489,366)	(1,412,944)	(1,174,113)	(320,876)	–	(3,397,299)
Dividend distributions (note 10)	(133,609)	–	–	–	–	(133,609)
NET ASSETS AT THE END OF THE PERIOD	133,869,425	8,898,291	1,756,616	13,236,881	930,045	158,691,258

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Number of Shares

For the period ended 30 September 2012

	I Acc (USD)	I Dist (USD)	A Acc (USD)	A Dist (USD)	C Acc (USD)	I Acc (GBP)	I Dist (GBP)	A Acc (GBP)	A Dist (GBP)
ASIA DIVIDEND FUND									
Shares outstanding at the beginning of the period	291,873	473,401	29,635	49,453	8,004,916	44,657	15,174	6,199	219
Shares subscribed	1,174,769	138,256	1,305,023	73,398	–	107,335	73,246	6,312	25,403
Shares redeemed	3,600	6,408	7,617	499	–	15,925	–	1,529	–
Shares outstanding at the end of the period	1,463,042	605,249	1,327,041	122,352	8,004,916	136,067	88,420	10,982	25,622
PACIFIC TIGER FUND									
Shares outstanding at the beginning of the period	251,540	n.a.	37,062	n.a.	n.a.	51,551	n.a.	215	n.a.
Shares subscribed	490,529	n.a.	36,752	n.a.	n.a.	–	n.a.	825	n.a.
Shares redeemed	46,815	n.a.	3,693	n.a.	n.a.	51,336	n.a.	825	n.a.
Shares outstanding at the end of the period	695,254	n.a.	70,121	n.a.	n.a.	215	n.a.	215	n.a.
CHINA FUND									
Shares outstanding at the beginning of the period	272,673	n.a.	27,864	n.a.	n.a.	215	n.a.	215	n.a.
Shares subscribed	–	n.a.	–	n.a.	n.a.	–	n.a.	–	n.a.
Shares redeemed	114,673	n.a.	9,268	n.a.	n.a.	–	n.a.	–	n.a.
Shares outstanding at the end of the period	158,000	n.a.	18,596	n.a.	n.a.	215	n.a.	215	n.a.
INDIA FUND									
Shares outstanding at the beginning of the period	1,502,272	n.a.	1,000	n.a.	n.a.	622	n.a.	630	n.a.
Shares subscribed	40,059	n.a.	–	n.a.	n.a.	–	n.a.	–	n.a.
Shares redeemed	38,835	n.a.	–	n.a.	n.a.	–	n.a.	8	n.a.
Shares outstanding at the end of the period	1,503,496	n.a.	1,000	n.a.	n.a.	622	n.a.	622	n.a.
CHINA SMALL COMPANIES FUND									
Shares outstanding at the beginning of the period	50,000	n.a.	50,000	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shares subscribed	–	n.a.	7,086	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shares redeemed	–	n.a.	–	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shares outstanding at the end of the period	50,000	n.a.	57,086	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

The accompanying notes form an integral part of these financial statements.

Statement of NAV per Share and Net Asset Statistics

	Inception Dates	As at 30 September 2012			As at 31 March 2012		
		Net Assets	NAV per Share	Shares Outstanding	Net Assets	NAV per Share	Shares Outstanding
ASIA DIVIDEND FUND							
I Acc (USD)	30 April 2010	USD 16,960,451	USD 11.59	1,463,042	USD 3,252,785	USD 11.14	291,873
I Dist (USD)	26 August 2010	USD 6,755,384	USD 11.16	605,249	USD 5,166,215	USD 10.91	473,401
A Acc (USD)	26 August 2010	USD 15,215,647	USD 11.47	1,327,041	USD 327,371	USD 11.05	29,635
A Dist (USD)	26 August 2010	USD 1,366,740	USD 11.17	122,352	USD 539,544	USD 10.91	49,453
C Acc (USD)	20 September 2010	USD 89,566,333	USD 11.19	8,004,916	USD 85,850,265	USD 10.72	8,004,916
I Acc (GBP)	28 February 2011	GBP 1,465,363	GBP 10.77	136,067	GBP 467,210	GBP 10.46	44,657
I Dist (GBP)	28 February 2011	GBP 913,468	GBP 10.33	88,420	GBP 155,095	GBP 10.22	15,174
A Acc (GBP)	28 February 2011	GBP 117,333	GBP 10.68	10,982	GBP 64,510	GBP 10.41	6,199
A Dist (GBP)	28 February 2011	GBP 265,714	GBP 10.37	25,622	GBP 2,241	GBP 10.23	219
PACIFIC TIGER FUND							
I Acc (USD)	30 April 2010	USD 8,111,809	USD 11.67	695,254	USD 2,834,141	USD 11.27	251,540
A Acc (USD)	26 August 2010	USD 778,940	USD 11.11	70,121	USD 398,656	USD 10.76	37,062
I Acc (GBP)	28 February 2011	GBP 2,336	GBP 10.85	215	GBP 546,260	GBP 10.60	51,551
A Acc (GBP)	28 February 2011	GBP 2,320	GBP 10.77	215	GBP 2,270	GBP 10.54	215
CHINA FUND							
I Acc (USD)	26 February 2010	USD 1,577,755	USD 9.99	158,000	USD 2,871,942	USD 10.53	272,673
A Acc (USD)	26 August 2010	USD 172,724	USD 9.29	18,596	USD 273,614	USD 9.82	27,864
I Acc (GBP)	28 February 2011	GBP 1,902	GBP 8.83	215	GBP 2,028	GBP 9.42	215
A Acc (GBP)	28 February 2011	GBP 1,887	GBP 8.76	215	GBP 2,017	GBP 9.36	215
INDIA FUND							
I Acc (USD)	30 June 2011	USD 13,210,705	USD 8.79	1,503,496	USD 12,485,436	USD 8.31	1,502,272
A Acc (USD)	30 June 2011	USD 8,727	USD 8.73	1,000	USD 8,277	USD 8.28	1,000
I Acc (GBP)	30 June 2011	GBP 5,403	GBP 8.69	622	GBP 5,167	GBP 8.31	622
A Acc (GBP)	30 June 2011	GBP 5,370	GBP 8.63	622	GBP 5,209	GBP 8.27	630
CHINA SMALL COMPANIES FUND							
I Acc (USD)	29 February 2012	USD 434,926	USD 8.70	50,000	USD 476,776	USD 9.54	50,000
A Acc (USD)	29 February 2012	USD 495,120	USD 8.67	57,086	USD 476,573	USD 9.53	50,000

The accompanying notes form an integral part of these financial statements.

Notes to Financial Statements *(Unaudited)*

As at 30 September 2012

1. GENERAL

MATTHEWS ASIA FUNDS (the “Fund”) is a self-managed investment company organised under the laws of the Grand Duchy of Luxembourg as a “société d’investissement à capital variable” (SICAV) and is authorised under Part I of the Luxembourg Law of 20 December 2002 until 30 June 2011 and under Part I of the Luxembourg Law of 17 December 2010 since 1 July 2011 relating to collective investment undertakings. The Fund was incorporated on 5 February 2010.

The Fund’s articles of incorporation have been deposited with the Luxembourg Trade and Companies Register and were published in the *Mémorial C, Recueil des Sociétés et Associations* (the “Mémorial”) on 25 February 2010.

The Fund has been registered under number B-151275 with the Luxembourg Trade and Companies Register.

The objective of the Fund is to achieve long-term capital appreciation through diversification of investments. Each Sub-Fund will have a specific investment objective.

At the date of the report, five Sub-Funds were available for investment.

The Fund offers the following Classes of Shares; Shares may further be made available as accumulation and for distribution Shares:

SHARE CLASS	MATTHEWS ASIA FUNDS				
	ASIA DIVIDEND FUND	PACIFIC TIGER FUND	CHINA FUND	INDIA FUND	CHINA SMALL COMPANIES FUND
I Acc (USD)	x	x	x	x	x
I Dist (USD)	x				
A Acc (USD)	x	x	x	x	x
C Acc (USD)	x				
A Dist (USD)	x				
I Acc (GBP)	x	x	x	x	
I Dist (GBP)	x				
A Acc (GBP)	x	x	x	x	
A Dist (GBP)	x				

The Fund may offer both accumulation (“Acc”) and distribution Shares (“Dist”), but in relation to Shares referenced as “Acc” Shares, no distributions will be made and all interests and other income earned by the Sub-Fund will be reflected in the Net Asset Value of such Shares. In relation to Shares referenced as “Dist” Shares, it is the intention of the Board of Directors to periodically distribute substantially all the net income earned on investment. All classes belonging to the same Sub-Fund will be commonly invested in adherence with the specific investment objective of the relevant Sub-Fund but may differ with regard to fee structure, minimum subscription amount, dividend policy or other particular features described in the Fund’s prospectus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) PRESENTATION OF FINANCIAL STATEMENTS

The financial statements are prepared in accordance with Luxembourg regulations relating to Undertakings for Collective Investment.

B) COMBINED FINANCIAL STATEMENTS

The Combined Statement of Assets and Liabilities and Combined Statements of Operations and Changes in Net Assets are expressed in USD.

C) VALUATION OF THE INVESTMENTS IN SECURITIES AND MONEY MARKET INSTRUMENTS

The Fund’s 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 Directors (the “Board”) when no market quotations are available or when market quotations have become unreliable.

Market values for equity securities are determined based on the last sale price on the principal (or most advantageous) market on which the security is traded. If a reliable last sale price is not available, market values for equity securities are determined using the mean between the last available bid and asked price. Securities are valued through valuations obtained from a commercial pricing service or at the most recent mean of the bid and asked prices provided by investment dealers in accordance with the Fund’s Pricing Policies.

Events affecting the value of foreign investments may occur between the time at which they are determined and the Fund’s valuation point of 2:00 p.m. Luxembourg. When such events occur, the Fund may fair value its securities if the impact of such events can be reasonably determined. Notwithstanding the foregoing, the Fund may determine not to fair value securities where it believes that the impact of doing so would not have a material impact on the calculation of a Fund’s NAV on that day.

Notes to Financial Statements *(Unaudited) (Continued)*

As at 30 September 2012

The Board has delegated the responsibility of making fair value determinations to the Investment Manager's Valuation Committee (the "Valuation Committee"), subject to the Fund's Pricing Policies. The Fund has retained third-party pricing services that may be utilised by the Valuation Committee under circumstances described in the Pricing Policies to provide fair value prices for certain securities held by the Fund. When fair value pricing is employed, the prices of securities used by a Sub-Fund to calculate its NAV differ from quoted or published prices for the same securities for that day. All fair value determinations are made subject to the Board's oversight.

D) NET REALISED AND UNREALISED GAIN/(LOSS) ON SALES OF INVESTMENTS

Realised and unrealised gains or losses on sales of investments are calculated on the basis of first in first out cost method of the investments sold.

E) CONVERSION OF FOREIGN CURRENCIES

The books and records of the Fund are maintained in USD.

Transactions denominated in foreign currencies are recorded at the current prevailing exchange rates. All assets and liabilities denominated in foreign currencies are translated into USD at the current exchange rate.

Translation gains or losses resulting from changes in the exchange rate during the reporting year/period and realised gains and losses on the settlement of foreign currency transactions are reported in the results of operations for the current year/period.

The Fund does not isolate that portion of gains and losses on investments in equity securities that are due to changes in the foreign exchange rate from those that are due to changes in market prices of equity securities.

The accounting records and the financial statements of each Sub-Fund are expressed in the currency indicated below:

MATTHEWS ASIA FUNDS	CURRENCY
Asia Dividend Fund	USD
Pacific Tiger Fund	USD
China Fund	USD
India Fund	USD
China Small Companies Fund	USD

Bank accounts, other net assets and market value of the investments in securities expressed in currencies other than the currency of a Sub-Fund are converted at the exchange rates prevailing on the date of the balance sheet. Income and expenses in currencies other than the currency of a Sub-Fund are converted at the rate of exchange prevailing at payment date.

Net realised and unrealised gains and losses on foreign exchange transactions represent: (i) foreign exchange gains and losses from the sale and holding of foreign currencies; (ii) gains and losses between trade date and settlement date on securities transactions and (iii) gains and losses arising from the difference between amounts of dividends and interest recorded and the amounts actually received.

The Vietnamese dong ("VND") trades within an established exchange rate with the USD. Upon the sale of a Vietnamese asset, the Fund may not be able to exchange significant amounts of VND directly for USD. However, the Investment Manager believes that the Fund would be able to exchange significant amounts of VND for Hong Kong dollars, which it can exchange directly for USD. Accordingly, the Fund values its Vietnamese assets in terms of USD taking into account the VND/Hong Kong dollar and Hong Kong dollar/USD exchange rates (a "triangulated exchange rate"), which it believes is more representative of the net value it would actually receive in connection with a significant sale of Vietnamese assets and the repatriation of the proceeds to Luxembourg.

F) COST OF INVESTMENTS IN SECURITIES

Cost of investments in securities in currencies other than the currency of a Sub-Fund is converted into the Sub-Fund's currency at the exchange rate applicable at purchase date.

G) INCOME

Interest income is accrued on a daily basis and may include the amortisation of premiums and accretions of discounts. Bank and time deposits interest income is recognised on an accrual basis.

Dividends are credited to income on the date upon which the relevant securities are first listed as 'ex dividend' provided that the amount of a dividend is known with reasonable certainty. This income is shown net of any withholding taxes, except where the withholding tax has been received or is receivable.

H) FEE WAIVER

The Investment Manager may, for such time as it considers appropriate, choose to waive all or part of the fees, on a temporary basis, that it is entitled to receive, as well as other Fund expenses, in order to reduce the impact such fees and expenses may have on the performance of the Class. The investment manager will reimburse on a monthly basis the amount of the fee waiver to the respective Sub-Fund. The investment manager is entitled to recover such waivers from the respective Sub-Funds.

Notes to Financial Statements *(Unaudited) (Continued)*

As at 30 September 2012

The amount of such fee waiver is separately disclosed as a “Fee Waiver” in the Statements of Operations and Changes in Net Assets.

I) FORMATION EXPENSES

The cost of establishing the Fund amounted to USD 157,391. The establishment costs are amortised on a straight line basis over five years from the date of which the Fund commenced business.

J) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. EXCHANGE RATES

The exchange rates used in the financial statements as at 30 September 2012 are:

Australian Dollar (AUD)	0.9581	British Pound (GBP)	0.6174	Singapore Dollar (SGD)	1.2255
Chinese Yuan Renminbi (CNY)	6.2845	Japanese Yen (JPY)	77.62	Thai Bhat (THB)	30.785
Hong Kong Dollar (HKD)	7.7539	South Korean Won (KRW)	1,111.45	Taiwan New Dollar (TWD)	29.311
Indonesian Rupiah (IDR)	9,558	Malaysian Ringgit (MYR)	3.0565	Vietnamese Dong (VND)*	20,885
Indian Rupee (INR)	52.755	Philippine Peso (PHP)	41.76		

*Please refer to note 2E.

4. MANAGEMENT FEES AND ADMINISTRATION FEES

The Investment Advisor is entitled to a Management Fee calculated as an annual percentage of the NAV of the Sub-Fund (before deduction of accrued Management and Advisory Fees) on each Valuation Day. Such fees and any and all properly incurred expenses are payable out of the assets of the Sub-Fund monthly in arrears. The below table is showing the maximum fees paid to the Advisor.

MATTHEWS ASIA FUNDS	I Acc (USD)	I Dist (USD)	A Acc (USD)	A Dist (USD)	C Acc (USD)	I Acc (GBP)	I Dist (GBP)	A Acc (GBP)	A Dist (GBP)
Asia Dividend Fund	0.75%	0.75%	1.25%	1.25%	0.75%	0.75%	0.75%	1.25%	1.25%
Pacific Tiger Fund	0.75%	—	1.25%	—	—	0.75%	—	1.25%	—
China Fund	0.75%	—	1.25%	—	—	0.75%	—	1.25%	—
India Fund	0.75%	—	1.25%	—	—	0.75%	—	1.25%	—
China Small Companies Fund	1.00%	—	1.50%	—	—	—	—	—	—

In addition, the Investment Advisor is entitled to an Administration Fee of up to 0.25% per annum of the NAV of the Sub-Fund calculated (before deduction of accrued Management and Advisory Fees) on each Valuation Day. Such fees and any and all properly incurred expenses are payable out of the assets of the Sub-Fund monthly in arrears.

MATTHEWS ASIA FUNDS	
Asia Dividend Fund	0.25%
Pacific Tiger Fund	0.25%
China Fund	0.25%
India Fund	0.25%
China Small Companies Fund	0.25%

5. CUSTODIAN AND CENTRAL ADMINISTRATION FEES

The Custodian and the Administrative Agent receive from the Fund aggregate fees that amount to a maximum of 2% per annum of the total net assets of each Sub-Fund. Transaction costs will be charged separately (see note 8 for more details). The fees effectively charged to each Sub-Fund will be disclosed in the semi-annual and annual reports of the Fund. The Custodian and Administration Agent fees are payable monthly in arrears.

6. INDEPENDENT DIRECTOR FEE

The Fund pays Richard Goddard EUR 39,000 on an annual basis in connection with his services as Independent Director and Conducting Officer. The Directors and Conducting Officer who are employees of Matthews International Capital Management, LLC do not receive additional compensation in respect of these roles.

Notes to Financial Statements *(Unaudited) (Continued)*

As at 30 September 2012

7. TAXATION

A) TAXE D'ABONNEMENT

The subscription tax is payable quarterly and calculated on the total net assets of each Sub-Fund at the end of the relevant quarter at a rate of 0.05% per annum.

This rate is reduced to 0.01% (i) for sub-funds or individual classes of shares reserved to one or more institutional investors or (ii) funds or sub-funds having the exclusive object to invest in money market instruments as defined by the Grand-Ducal Decree of 14 April 2003.

B) PROVISION FOR FOREIGN TAXES

The Sub-Funds may be subject to short-term capital gains tax in India on gains realised upon disposition of Indian securities held for a period of one year or less. The tax is computed on net realised gains; any realised 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 Sub-Funds that invest in Indian securities accrue a deferred tax liability for net unrealised short-term gains in excess of available carry forwards on Indian securities. This accrual may reduce a Sub-Fund's net asset value. As of 30 September 2012, the Matthews Asia Funds Pacific Tiger Fund has recorded a payable of USD 4,436 and the Matthews Asia Funds India Fund a payable of USD 48,460 as an estimate for potential future India capital gains taxes.

During the previous financial year, the South Korean tax authorities issued a ruling advising that the reduced South Korea/Luxembourg double tax treaty withholding rates would not apply to SICAVs, and the Seoul Regional Tax Office has claimed withholding taxes on dividend and income from August 2010 from the following Sub-Funds: Matthews Asia Funds Pacific Tiger Fund and Matthews Asia Funds Asia Dividend Fund.

Those amounts have been recorded as a reduction of "Dividend Income, Net".

For the other countries, no specific provision is necessary.

8. TRANSACTIONS WITH CONNECTED PERSONS

All transactions with connected parties were carried out on an arm's length basis.

JPMorgan Chase & Co. and its affiliates are counterparties for certain forward foreign exchange contracts.

The Custodian, Administrative and Domiciliary Agent and other related Agents of the SICAV are considered as connected parties.

The following is a summary of transactions entered into during the year between the Fund and the Manager and its Connected Persons. Connected Persons of the Manager are those as defined in the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong. All such transactions were entered into in the ordinary course of business and normal commercial terms.

All the amounts are in Fund Currency as at 30 September 2012.

Authorised Fund	Total purchases and sales	Ccy of the subfund	Percentage of Fund's total transactions* for the year	Total brokerage commission paid	Average rate of commission paid
Asia Dividend Fund	4,176,393	USD	10.00	4,352	0.10
Pacific Tiger Fund	527,959	USD	7.89	1,667	0.32
China Fund	501,298	USD	43.75	284	0.06
India Fund	23,053	USD	1.16	69	0.30
China Small Companies Fund	17,418	USD	6.09	5	0.03

* Total transactions is the total value in fund currency of purchases and sales dealt during the period to 30 September 2012

9. SOFT COMMISSION ARRANGEMENTS

The Investment Manager may effect transactions with or through the agency of another person with whom the Investment Manager or an entity affiliated to the Investment Manager has arrangements under which that person will, from time to time, provide to or procure for the Investment Manager and/or an affiliated party goods, services or other benefits such as research and advisory services, specialised computer hardware or software. No direct payment may be made for such goods or services but the Investment Manager may undertake to place business with that person provided that person has agreed to provide best execution with respect to such business and the services provided must be of a type which assist in the provision of investment services to the Company. The total monetary value of these arrangements for the period ended 30 September 2012 are USD 3,081.

Notes to Financial Statements *(Unaudited) (Continued)*

As at 30 September 2012

10. DIVIDENDS

The Company intends to declare and distribute dividends representing substantially all of the net investment income attributable to Distributing Shares. Dividends in respect of these Shares will normally be payable annually, will be declared in the currency of denomination of the relevant Fund and will be recorded on ex-date. Interim dividends in respect of the Distributing Shares of any particular Fund may be paid from the attributable net investment income and realised capital gains with a frequency and at such intervals as the Board of Directors may decide.

Dividends paid out of the capital (if any) amount to a return or withdrawal of part of an investor's original investment, or from any capital gains attributable to that original investment. Such dividends may result in an immediate decrease of NAV per "Dist" Share of the relevant Sub-Fund. The composition of the latest dividends (i.e. the relative amount paid from the net income and capital) for each Sub-Fund is available from the Fund upon request.

The following dividend payments were made during the period ended 30 September 2012:

Class	Currency	Amount per Share	Ex-Date
ASIA DIVIDEND FUND			
I Dist (USD)	USD	0.1027	20 June 2012
A Dist (USD)	USD	0.0893	20 June 2012
I Dist (GBP)	USD	0.1598	20 June 2012
A Dist (GBP)	USD	0.1341	20 June 2012
I Dist (USD)	USD	0.0810	19 September 2012
A Dist (USD)	USD	0.0562	19 September 2012
I Dist (GBP)	USD	0.1289	19 September 2012
A Dist (GBP)	USD	0.0682	19 September 2012

11. SWING PRICING

The Board of Directors of the Company implemented a price adjustment policy in order to protect the interests of the Fund's Shareholders. The purpose of the price adjustment policy is to allocate the costs associated with large inflows and outflows to investors transacting that day, thereby protecting the long-term Shareholder from the worst effects of dilution. It achieves this purpose by adjusting the price at which deals in a sub-fund are transacted. In other words, sub-fund prices may be adjusted up or down on a particular day. In this way the existing and remaining Shareholders do not suffer an inappropriate level of dilution. The adjustment will be based on the normal dealing costs for the particular assets in which a sub-fund is invested but will not exceed 2% of the price. Once an adjustment is made to the price, that price is the official price for that sub-fund for all deals that day.

Further information

STATEMENT OF CHANGES IN PORTFOLIO

A copy of the changes in the securities portfolio for the year/period is available free of charge at the registered office of the SICAV.

Performance and Expenses *(Unaudited)*

As at 30 September 2012

	Average Annual Total Return ¹				Inception Date	Portfolio Turnover ²	Total Expense Ratio ³
	1 year	3 years	5 years	Since Inception			
ASIA DIVIDEND FUND							
I Acc (USD)	17.78%	n.a.	n.a.	6.29%	30 April 2010	25.31%	1.50%
I Dist (USD)	17.88%	n.a.	n.a.	7.25%	26 August 2010	25.31%	1.50%
A Acc (USD)	17.40%	n.a.	n.a.	5.96%	26 August 2010	25.31%	2.00%
A Dist (USD)	17.32%	n.a.	n.a.	6.74%	26 August 2010	25.31%	2.00%
C Acc (USD)	18.54%	n.a.	n.a.	5.70%	20 September 2010	25.31%	0.95%
I Acc (GBP)	13.49%	n.a.	n.a.	4.79%	28 February 2011	25.31%	1.50%
I Dist (GBP)	13.41%	n.a.	n.a.	4.73%	28 February 2011	25.31%	1.50%
A Acc (GBP)	12.78%	n.a.	n.a.	4.23%	28 February 2011	25.31%	2.00%
A Dist (GBP)	12.91%	n.a.	n.a.	4.25%	28 February 2011	25.31%	2.00%
MSCI AC Asia Pacific Index (USD)	11.59%	n.a.	n.a.	1.90%⁴			
PACIFIC TIGER FUND							
I Acc (USD)	17.88%	n.a.	n.a.	6.59%	30 April 2010	-22.85%	1.50%
A Acc (USD)	17.32%	n.a.	n.a.	6.15%	26 August 2010	-22.85%	2.00%
I Acc (GBP)	13.38%	n.a.	n.a.	5.28%	28 February 2011	-22.85%	1.50%
A Acc (GBP)	12.89%	n.a.	n.a.	4.79%	28 February 2011	-22.85%	2.00%
MSCI AC Asia ex Japan Index (USD)	19.92%	n.a.	n.a.	4.66%⁴			
CHINA FUND							
I Acc (USD)	9.42%	n.a.	n.a.	-0.04%	26 February 2010	3.72%	1.50%
A Acc (USD)	8.91%	n.a.	n.a.	-0.48%	26 August 2010	3.72%	2.00%
I Acc (GBP)	5.24%	n.a.	n.a.	-7.54%	28 February 2011	3.72%	1.50%
A Acc (GBP)	4.66%	n.a.	n.a.	-8.01%	28 February 2011	3.72%	2.00%
MSCI China Index (USD)	17.90%	n.a.	n.a.	0.04%⁴			
INDIA FUND							
I Acc (USD)	7.72%	n.a.	n.a.	-9.79%	30 June 2011	14.77%	1.50%
A Acc (USD)	7.12%	n.a.	n.a.	-10.28%	30 June 2011	14.77%	2.00%
I Acc (GBP)	3.58%	n.a.	n.a.	-10.61%	30 June 2011	14.77%	1.50%
A Acc (GBP)	2.98%	n.a.	n.a.	-11.10%	30 June 2011	14.77%	2.00%
Bombay Stock Exchange 100 Index (USD)	7.94%	n.a.	n.a.	-10.50%⁴			
CHINA SMALL COMPANIES FUND							
I Acc (USD)	n.a.	n.a.	n.a.	-13.00%	29 February 2012	23.22% ⁵	1.75%
A Acc (USD)	n.a.	n.a.	n.a.	-13.30%	29 February 2012	23.22% ⁵	2.25%
MSCI China Small Cap Index (USD)	n.a.	n.a.	n.a.	-15.23%⁴			

1 Annualised performance for periods of at least one year, otherwise cumulative.

2 The Portfolio Turnover is calculated in accordance with the CSSF Circular 03/122 i.e. the aggregated sales and purchases less aggregated subscriptions and redemptions, divided by average net assets. The portfolio turnover ratio may be negative as a result of shareholder transactions exceeding the investment transactions for the accounting period.

3 The Total Expense Ratio include such fees as the Management and Administration fee, Domiciliation, Administration and Transfer agency fees, Professional fees, Printing fees, Custodian fee and Taxe d'abonnement. The total expense ratio is annualised for periods of less than 12 months.

4 Based on the Inception Date of the I Acc (USD) Share Class.

5 China Small Companies Fund and its 2 Share Classes have been launched on 29 February 2012.

Calculation method of the risk exposure

The methodology used in order to calculate the global exposure is the commitment approach in accordance with the CSSF Circular 11/512. As of 30 September 2012, the Sub-Funds did not hold any derivatives.

Investor Disclosure

A Class, Accumulation Shares (USD) were first offered on 26 August 2010. Performance prior to its inception is based on the performance of the I Class, Accumulation Shares (USD). Performance differences between the A Class and I Class may arise due to differences in fees charged to each class.

All performance quoted represents past performance and is no guarantee of future results. The performance data do not take into account of the commissions and costs incurred on the issue and redemption of units. Investment returns and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than the original cost. Current performance may be lower or higher than the return figures quoted. Investors investing in

Performance and Expenses *(Unaudited) (Continued)*

As at 30 September 2012

Sub-Funds denominated in non-local currency should be aware of the risk of currency exchange fluctuations that may cause a loss of principal.

Performance details provided for the Sub-Funds are based on a NAV to NAV basis, assume reinvestment of dividends and capital gains, and are net of management fees and other expenses.

Index Definitions

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

The **MSCI China Index** is a free float-adjusted market capitalisation-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 100 (BSE100) Index** is a free float-adjusted market capitalisation-weighted index of the 100 stocks listed on the Bombay Stock Exchange.

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



Matthews Asia

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