Supplement dated October 19, 2009
To the Statement of Additional Information of Matthews Asia Funds
Dated April 29, 2009

For investors in the Matthews Japan Fund:

This change is effective immediately.

The following supplements the Portfolio Managers section on pages 47-51 with respect to the Matthews Japan Fund only:

Taizo Ishida is now the sole Portfolio Manager assigned to the Matthews Japan Fund.

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MATTHEWS INTERNATIONAL FUNDS

(d/b/a MATTHEWS ASIA FUNDS)

MATTHEWSASIA.COM

ASIAN GROWTH AND INCOME FUND
ASIA PACIFIC EQUITY INCOME FUND
ASIA PACIFIC FUND
PACIFIC TIGER FUND
CHINA FUND
INDIA FUND
JAPAN FUND
KOREA FUND
ASIA SMALL COMPANIES FUND
ASIAN TECHNOLOGY FUND

STATEMENT OF ADDITIONAL INFORMATION

April 29, 2009

This Statement of Additional Information ("SAI") is not a Prospectus and should be read in conjunction with the current Prospectus of the various series of the Matthews Asia Funds (the "Funds") dated April 29, 2009. The Funds' Prospectus and the financial statements contained in the Funds' Annual Report for the fiscal year ended December 31, 2008 are incorporated herein by reference. You can obtain a free copy of the current Prospectus and Annual Report on the Funds' website at **matthewsasia.com** or by contacting a Fund representative at:

Matthews Asia Funds
P.O. Box 9791
Providence, RI 02940
(800) 789-ASIA [2742]

No person has been authorized to give any information or to make any representations not contained in this SAI or in the Prospectus in connection with the offering made by the Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Funds or their Underwriter. The Prospectus does not constitute an offering by the Fund or by the Underwriter in any jurisdiction in which such offering may not lawfully be made.

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Fund History

Matthews International Funds (d/b/a Matthews Asia Funds) (the "Trust"), Four Embarcadero Center, Suite 550, San Francisco, California 94111, is a family of mutual funds currently offering ten separate series of shares (each individually a "Fund," and collectively the "Funds"):

Asia Growth and Income Strategies:

Matthews Asian Growth and Income Fund

Matthews Asia Pacific Equity Income 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 Companies Strategy:

Matthews Asia Small Companies Fund

Asia Specialty Strategy:

Matthews Asian Technology Fund

All ten funds are offered in a single prospectus dated April 29, 2009, referred to herein as the "Prospectus."

Description of the Funds

Please read the following information together with the information contained in the Prospectus concerning the investment strategies, risks and policies of the Funds. The information in this SAI supplements the information in the Prospectus.

The Trust is an open-end management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Trust was organized as a Delaware statutory (business) trust on April 13, 1994 and commenced operations on September 12, 1994. It has never been engaged in any other business. Each Fund is "diversified" except for the Matthews India Fund and the Matthews Korea Fund, which are non-diversified. Diversified means that at least 75% of the value of a Fund's total assets must be comprised of (i) cash and cash items, (ii) securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, (iii) securities of other investment companies, or (iv) other securities, provided that no more than 5% of the value of the Fund's total assets are invested in the securities of a single issuer and the Fund does not own more than 10% of the outstanding voting securities of a single issuer. The remaining 25% of the value of a Fund's total assets may be invested in a single issuer, or in multiple issuers not subject to the above limitations.

A “non-diversified” Fund may invest a larger portion of its assets in the securities of a single issuer compared with that of a diversified fund. An investment in one of the non-diversified Funds entails greater risk than an investment in a diversified fund because of the Fund’s greater exposure to the risks associated with individual issuers: a higher percentage of investments among fewer issuers may result in greater volatility of the total market value of the Fund’s portfolio; and economic, political or regulatory developments may have a greater impact on the value of the Fund’s portfolio than would be the case if the portfolio were diversified among more issuers.

Each Fund has elected and intends to continue to qualify to be treated as a “regulated investment company” under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). Such qualification relieves a Fund of liability for federal income taxes to the extent the Fund’s earnings are distributed in accordance with the Code. To so qualify, among other requirements, each Fund will limit its investments so that, at the close of each quarter of its taxable year, (i) not more than 25% of the market value of the Fund’s total assets will be invested in the securities of a single issuer, and (ii) with respect to 50% of the market value of its total assets, not more than 5% of the market value of its total assets will be invested in the securities of a single issuer, and it will not own more than 10% of the outstanding voting securities of a single issuer.

Investment Objective

The investment objective of each of the Funds, except for the Matthews Asia Pacific Equity Income Fund and the Matthews Asian Growth and Income Fund, is to seek long-term capital appreciation.

The investment objective of the Matthews Asia Pacific Equity Income Fund is to seek total return with an emphasis on providing current income. The investment objective of the Matthews Asian Growth and Income Fund is to seek long-term capital appreciation with some current income.

Investment Process

Matthews International Capital Management, LLC (“Matthews”) is the investment advisor to each of the Funds. Matthews invests in the Asia Pacific region based on its assessment of the future development and growth prospects of companies located in that region. Matthews believes that the region’s countries are on paths toward economic development and, in general, deregulation and greater openness to market forces. Matthews believes in the potential for these economies, and believes that the intersection of development and deregulation will create opportunities for further growth. Matthews attempts to capitalize on its beliefs by investing in companies it considers to be well-positioned to participate in the region’s economic evolution. Matthews uses a range of approaches to participate in the growth of the Asia Pacific region to suit clients’ differing needs and investment objectives.

Matthews researches the fundamental characteristics of individual companies to help to understand the foundation of a company’s long-term growth, and to assess whether it is generally consistent with Matthews’ expectations for the region’s economic evolution. Matthews evaluates potential portfolio holdings on the basis of their individual merits, and invests in those companies that it believes are positioned to help a Fund achieve its investment objectives.

Matthews has long-term investment goals and its process aims to identify potential portfolio investments that can be held over an indefinite time horizon. Matthews regularly tests its beliefs and adjusts portfolio holdings in light of prevailing market conditions and other factors, including, among other things, economic, political or market events (*e.g.*, changes in credit conditions or military action), changes in relative valuations (to both a company's growth prospects and to other issuers), liquidity requirements and management malfeasance or other unethical conduct. Matthews uses a range of approaches to participate in the anticipated growth of the Asia Pacific region to suit clients' differing needs and investment objectives.

The Funds, other than the Matthews Asia Pacific Equity Income Fund, invest where Matthews believes the potential for capital growth exists and in companies that it believes have demonstrated the ability to anticipate and adapt to changing markets. With respect to the Matthews Asia Pacific Equity Income Fund, Matthews will seek to invest in companies that have in the past paid high dividends relative to their share prices, or which it believes are well-positioned to grow future dividends, or both. Accordingly, the Matthews Asia Pacific Equity Income Fund expects that its portfolio will primarily consist of companies with established dividend-paying records.

Equity securities in which the Funds, other than the Matthews Asia Pacific Equity Income Fund and the Matthews Korea Fund, may invest include common stocks, preferred stocks, warrants, and securities convertible into common or preferred stocks, such as convertible bonds and debentures. Equity securities in which the Matthews Asia Pacific Equity Income Fund may invest include common stocks, preferred stocks, convertible preferred stocks, and other equity-related instruments (including, for example, investment trusts and other financial instruments). Equity securities in which the Matthews Korea Fund may invest include common stocks, preferred stocks, warrants, and securities convertible into common or preferred stocks, such as convertible bonds and debentures, warrants and rights, equity interests in trusts, partnerships, joint ventures or similar enterprises and depositary receipts of issuers located in South Korea.

Each of the Funds, other than the Matthews Korea Fund, may invest up to 20% of its total assets in non-convertible bonds and other debt securities, including securities issued by government entities and their political subdivisions. Provided, however, that the Matthews Japan Fund may only invest in non-convertible bonds that are rated, at the time of investment, BBB or higher by Standard & Poor's Corporation ("S&P") or Fitch, Inc. ("Fitch") or Baa or higher by Moody's Investors Service, Inc. ("Moody's") or rated of equivalent credit quality by an internationally recognized statistical rating organization or, if not rated, are of equivalent credit quality as determined by Matthews. Securities rated lower than BBB by S&P or Fitch, or Baa by Moody's are considered to have speculative characteristics. Non-convertible debt securities in which the Matthews Japan Fund may invest include U.S. dollar- or yen-denominated debt securities issued by the Japanese government or Japanese companies and obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities. The Matthews Korea Fund may invest in convertible debt securities, and up to 35% of its total assets in non-convertible debt securities provided that such securities are rated, at the time of investment, BBB or higher by S&P or Fitch or Baa or higher by Moody's or rated of equivalent credit quality by an internationally recognized statistical rating organization or, if not rated, are of equivalent credit quality as determined by Matthews. Non-convertible debt securities in which the Matthews Korea Fund may invest include U.S. dollar- or won-denominated debt securities issued by the South Korean government or South Korean companies and obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities.

The Funds may invest in securities of issuers of various sizes. Smaller companies often have limited product lines, markets or financial resources, and they may be dependent upon one or a few key people for management and may lack depth of management. Smaller companies may have less certain growth prospects, and be more sensitive to changing economic conditions than larger, more established companies. A Fund may have more difficulty obtaining information about smaller portfolio companies, or valuing or disposing of their securities, than it would if it focused on larger, more well-known companies. Transaction costs in stocks of smaller capitalization companies may be higher than those of larger capitalization companies. The securities of such companies generally are subject to more abrupt or erratic market movements and may be less liquid than securities of larger, more established companies or the markets in general, and can react differently to political, market and economic developments than these companies or markets.

The Funds may invest in debt securities, including convertible debt securities, debt securities rated below investment grade, as well as unrated securities that have been deemed by Matthews to be of similar credit quality. Securities rated below investment grade (and unrated securities of comparable quality as determined by Matthews) are sometimes referred to as "high yield securities" or "junk bonds." High yield securities involve a greater risk of loss of principal and interest (see "*Risks Associated with Securities Rated Below Investment Grade*"). There is no objective standard against which Matthews may evaluate the credit and other risks of unrated securities. Matthews seeks to minimize the risks of investing in unrated and lower-rated securities through investment analysis and attention to current developments in interest rates and economic conditions. In selecting debt and convertible securities for the Funds, Matthews may assess the following factors, among others:

- Potential for capital appreciation;
- Price of security relative to price of underlying stock, if a convertible security;
- Yield of security relative to yield of other fixed-income securities;
- Interest or dividend income;
- Call and/or put features;
- Creditworthiness;
- Price of security relative to price of other comparable securities
- Size of issue;
- Currency of issue; and
- Impact of security on diversification of the portfolios.

The Funds may also invest in securities of foreign issuers in the form of American Depositary Receipts ("ADRs"), European Depositary Receipts ("EDRs") and International Depositary Receipts ("IDRs"), also known as Global Depositary Receipts ("GDRs"). Generally, ADRs in registered form are U.S. dollar-denominated securities designed for use in the U.S. securities markets, which may be converted into an underlying foreign security. ADRs represent the right to receive securities of foreign issuers deposited in the domestic bank or correspondent bank. ADRs do not eliminate all the risks inherent in investing in the securities of foreign issuers. The Funds may also invest in EDRs, which are receipts evidencing an arrangement with a European bank similar to that for ADRs and are designed for use in the European securities markets.

IDRs and GDRs are similar to ADRs except that they are bearer securities for investors or traders outside the U.S., and for companies wishing to raise equity capital in securities markets outside the U.S. Most IDRs have been used to represent shares although some represent bonds, commercial paper and certificates of deposit. Some IDRs may be convertible to ADRs, making them particularly useful for arbitrage between the markets.

The Funds may purchase securities on a "when-issued" basis and may purchase or sell securities on a "forward commitment" basis. Such transactions may act as a hedge against anticipated changes in interest rates and prices.

Risks of Investment

All investments involve risk and there can be no guarantee against loss resulting from an investment in the Funds, nor can there be any assurance that a Fund's investment objective will be attained. Below is supplemental information about risks of investing in the Funds. Further information about the principal risks of investing in the Fund can be found in the Fund's Prospectus.

Political, Social and Economic Risks

The value of a Fund's assets may be adversely affected by political, economic, social and religious factors, inadequate investor protection, changes in the laws or regulations of the countries in which it invests and the status of these country's relations with other countries. In addition, the economies of these countries may differ favorably or unfavorably from the U.S. economy in respects such as the rate of growth of gross domestic product, the rate of inflation, capital reinvestment, resource self-sufficiency, balance of payments position and sensitivity to changes in global trade. Agriculture frequently occupies a more prominent position in the economy of these countries than in the United States, and therefore they may be more susceptible to adverse changes in climate, weather or natural disasters. Some countries have limited natural resources (such as oil and natural gas), resulting in dependence on foreign sources for certain raw materials and vulnerability to global fluctuations of price and supply.

In many other countries, the government has exercised and continues to exercise significant influence over many aspects of the economy, and the number of public sector enterprises in these countries is substantial. Accordingly, future government actions in these countries could have a significant effect on the economy of these countries, which could affect private sector companies and the Funds, market conditions, and prices and yields of securities in a Fund's portfolio.

Risks of Emerging Markets

Many countries of the Asia Pacific region are considered to be developing or emerging economies and markets. The risks of investment in such markets include (i) less social, political and economic stability; (ii) the smaller size of the securities markets and the lower volume of trading, which may result in a lack of liquidity and in greater price volatility; (iii) certain national policies that may restrict a Fund's investment opportunities, including restrictions on investment in issuers or industries deemed sensitive to national interests, or expropriation or confiscation of assets or property, which could result in a Fund's loss of its entire investment in that market; (iv) less developed legal and regulatory structures governing private or foreign investment or allowing for judicial redress for injury to private property; (v) inaccurate, incomplete or misleading financial information on companies in which the Funds invest; (vi) securities of companies may trade at prices not consistent with traditional valuation measures; and (vii) limitations on foreign ownership, which may impact the price of a security purchased or held by the Funds.

Many developing countries in which the Funds invest lack the social, political and economic stability characteristic of the United States. Political instability among emerging markets countries can be common and may be caused by an uneven distribution of wealth, social unrest, labor strikes, civil wars and religious oppression. Economic instability in emerging markets countries may take the form of (i) high interest rates; (ii) high levels of inflation, including hyperinflation; (iii) high levels of unemployment or underemployment; (iv) changes in government economic and tax policies, including confiscatory taxation; and (v) imposition of trade barriers.

Stock exchanges in emerging markets have in the past experienced substantial fluctuations in the prices of their listed securities. They have also experienced problems such as temporary exchange closures, broker defaults, settlement delays and broker strikes that, if they occur again, could affect the market price and liquidity of the securities in which the Funds invest. In addition, the governing bodies of certain stock exchanges have from time to time imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. Disputes have also occurred from time to time among listed companies, the stock exchanges and other regulatory bodies, and in some cases those disputes have had a negative effect on overall market sentiment. There have been delays and errors in share allotments relating to initial public offerings, which in turn affect overall market sentiment and lead to fluctuations in the market prices of the securities of those companies and others in which the Funds may invest.

In the past, governments within the emerging markets have become overly reliant on the international capital markets and other forms of foreign credit to finance public spending programs that cause large deficits. Often, interest payments have become too burdensome for the government to meet, representing a large percentage of total GDP. These foreign obligations then become the subject of political debate with the opposition parties pressuring the government to use its resources for social programs rather than making payments to foreign creditors. Some foreign governments have been forced to seek a restructuring of their loan and/or bond obligations and have declared a temporary suspension of interest payments or have defaulted. These events have adversely affected the values of securities issued by foreign governments and companies in emerging markets countries and have negatively impacted not only their cost of borrowing, but their ability to borrow in the future as well.

In addition, brokerage commissions, custodial fees, withholding taxes, and other costs relating to investment in foreign markets may be higher than in the United States. The operating expense ratio of a Fund may be expected to be higher than that of a fund investing primarily in the securities of U.S. issuers.

Many emerging markets countries suffer from uncertainty and corruption in their legal frameworks. Legislation may be difficult to interpret and laws may be too new to provide any precedential value. Laws regarding foreign investment and private property may be weak or non-existent. Sudden changes in governments may result in policies that are less favorable to investors, such as policies designed to expropriate or nationalize “sovereign” assets. Certain emerging markets countries in the past have expropriated large amounts of private property, in many cases with little or no compensation, and there can be no assurance that such expropriation will not occur in the future.

Legal principles relating to corporate affairs and the validity of corporate procedures, directors' fiduciary duties and liabilities and shareholders' rights may differ from those that may apply in the United States and other more developed countries. Shareholders' rights may not be as extensive as those that exist under the laws of the United States and other more developed countries. A Fund may therefore have more difficulty asserting shareholder rights than it would as a shareholder of a comparable U.S. company.

Disclosure and regulatory standards of emerging market countries are in many respects less stringent than U.S. standards. Issuers are subject to accounting, auditing and financial standards and requirements that differ, in some cases significantly, from those applicable to issuers in the United States or other more developed countries. In particular, the assets and profits appearing on the financial statements of an issuer may not reflect its financial position or results of operations in the way they would be reflected had such financial statements been prepared in accordance with U.S. or European generally accepted accounting principles. There is substantially less publicly available information about emerging market issuers than there is about U.S. issuers.

Risks of Foreign Currency

Currencies of emerging markets countries are subject to significantly greater risks than currencies of developed countries. Many emerging markets countries have experienced steady declines or sudden devaluations of their currencies relative to the U.S. dollar. Some emerging markets currencies may not be internationally traded or may be subject to strict controls by local governments, resulting in undervalued or overvalued currencies. Some emerging markets countries have experienced deficits and shortages in foreign exchange reserves. Governments have responded by restricting currency conversions, foreign investments or the repatriation of foreign investments. Future restrictive exchange controls could prevent or restrict the ability of an issuer in such market to make dividend or interest payments in the original currency of the obligation. In addition, even though the currencies of some emerging markets countries may be convertible into U.S. dollars, the conversion rates may not reflect their market values.

The U.S. dollar value of a Fund's investments and of dividends and interest earned by the Funds may be significantly affected by changes in currency exchange rates. The value of a Fund's assets denominated in foreign currencies will increase or decrease in response to fluctuations in the value of those foreign currencies relative to the U.S. dollar. Although the Funds may engage in currency transactions, Matthews does not currently intend to actively manage currency exchange rate risks. Should Matthews do so, there is no assurance that it will do so at an appropriate time or that it will be able to predict exchange rates accurately. For example, if a Fund increases its exposure to a currency and that currency's price subsequently falls, such currency management may result in increased losses to that Fund. Similarly, if a Fund decreases its exposure to a currency and the currency's price rises, that Fund will lose the opportunity to participate in the currency's appreciation. Some currency prices may be volatile, and there is the possibility of government controls on currency exchange or government intervention in currency markets, which could adversely affect the Funds. Foreign investments, which are not U.S. dollar-denominated, may require a Fund to convert assets into foreign currencies or to convert assets and income from foreign currencies to U.S. dollars. Normally, exchange transactions will be conducted on a spot, cash or forward basis at the prevailing rate in the foreign exchange market.

Dividends and interest received by the Funds with respect to foreign securities may give rise to withholding and other taxes imposed by foreign countries. Tax treaties between certain countries and the U.S. may reduce or eliminate such taxes. In addition, many foreign countries do not impose taxes on capital gains with respect to investments by non-resident investors.

The Funds may invest in convertible debt securities, which may be denominated in U.S. dollars, local or other currencies. The value of convertible securities varies with a number of factors including the value and volatility of the underlying stock, the level and volatility of interest rates, the passage of time, dividend policy and other variables. Investing in a convertible security denominated in a currency different from that of the security into which it is convertible may expose a Fund to currency risk as well as risks associated with the level and volatility of the foreign exchange rate between the security's currency and the underlying stock's currency.

Risks of Securities Rated Below Investment Grade

In this SAI, references are made to credit ratings of debt securities, which measure an issuer's expected ability to pay principal and interest over time. Credit ratings are determined by rating organizations, such as Moody's, S&P or Fitch. The following terms are generally used to describe the credit quality of debt securities depending on the security's credit rating or, if unrated, credit quality as determined by Matthews:

- High quality
- Investment grade
- Below investment grade ("high yield securities" or "junk bonds")

For a further description of credit ratings, see "Appendix: Bond Ratings." As noted in the Appendix, Moody's, S&P and Fitch may modify their ratings of securities to show relative standing within a rating category, with the addition of numerical modifiers (1, 2 or 3) in the case of Moody's, and with the addition of a plus (+) or minus (-) sign in the case of S&P or Fitch. A Fund may purchase a security, regardless of any rating modification, provided the security is rated at or above the Fund's minimum rating category. For example, a Fund may purchase a security rated B3 by Moody's, B- by S&P, or B- by Fitch, provided the Fund may purchase securities rated B.

Each Fund (except the Matthews Asian Growth and Income Fund) limits its investments in securities rated below investment grade (securities rated lower than BBB by S&P or Fitch, Baa or below by Moody's or, if unrated, are of comparable quality in the judgment of Matthews) to 15% of its total assets. Securities rated lower than BBB by S&P or Fitch, or Baa by Moody's are considered to have speculative characteristics. Debt securities rated below investment grade, commonly referred to as "junk bonds," are considered to be of poor standing and have speculative characteristics that result in a greater risk of loss of principal and interest. There can be no assurance that the Funds would be protected from widespread bond defaults brought about by a sustained economic downturn or other market and interest rate changes.

The value of lower-rated debt securities will be influenced not only by changing interest rates, but also by the bond market's perception of credit quality and the outlook for economic growth. When economic conditions appear to be deteriorating, low and medium-rated bonds may decline in market value due to investors' heightened concern over credit quality, regardless of prevailing interest rates. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and liquidity (liquidity refers to the ease or difficulty which a Fund could sell a security at its perceived value) of lower-rated securities held by a Fund, especially in a thinly-traded foreign market.

To the extent that an established secondary market does not exist and a particular lower-rated debt security is thinly-traded, that security's fair value may be difficult to determine because of the absence of reliable objective data. As a result, a Fund's valuation of the security and the price it could obtain upon its disposition could differ. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of lower-rated securities held by the Funds, especially in a thinly-traded market.

The credit ratings of S&P, Fitch and Moody's are evaluations of the safety of principal and interest payments, not market value risk, of lower-rated securities. Credit rating agencies may fail to change timely the credit ratings to reflect subsequent events. Therefore, in addition to using recognized rating agencies and other sources, Matthews may perform its own analysis of issuers in selecting investments for the Funds. Matthews' analysis of issuers may include, among other things, historic and current financial condition and current and anticipated cash flows.

Risks of Investing in Technology Companies

Each of the Funds may invest in securities of technology companies. Such companies may be affected by rapid product changes and associated developments. Technology companies also face the risks that new services, equipment or technologies will not be accepted by consumers or businesses or will become rapidly obsolete. Technology companies are subject to greater competitive pressures, such as new market entrants, aggressive pricing and competition for market share, and potential for falling profit margins. As a result, the price movements of technology company stocks can be abrupt or erratic (especially over the short term), and historically have been more volatile than stocks of other types of companies. These factors may also affect the profitability of technology companies and, as a result, the value of their securities. As a result, the net asset value of a Fund may be more volatile, especially over the short term. These risks are especially important when considering an investment in the Matthews Asian Technology Fund, which focuses on the technology sector. The Matthews Asian Technology Fund is less diversified than stock funds investing in a broader range of sectors and, therefore, could experience significant volatility, and the movements in its net asset value will follow the technology sector, as opposed to the general movement of the economies of the countries where the companies are located.

Risks of Investing in Foreign Countries

The Matthews Growth and Income, Matthews Asia Pacific Equity Income, Matthews Asia Pacific, Matthews Pacific Tiger, Matthews Asia Small Companies and Matthews Technology Funds may invest in companies from different countries. In addition, each of these Funds may invest up to 20% of its total assets in securities located outside of Asia or the Asian Pacific region. The Matthews China, Matthews India, Matthews Japan and Matthews Korea Funds may each invest up to 20% of its total assets in securities located outside of China, India, Japan and South Korea, respectively. Such investments by the Funds may be in the securities of companies from any country, including, without limitation, the United States. Each country's size, level of economic development, and economic and political stability will have an impact on the value of those companies.

The Matthews China Fund, Matthews India Fund, Matthews Japan Fund and Matthews Korea Fund concentrate their investments, respectively, in securities of Chinese, Indian, Japanese or South Korean companies. Consequently, the share price of each of these Funds may be more volatile, and more affected by political, economic and other events in the country in which they invest than that of mutual funds that are not as geographically concentrated. An investment in any of these Funds should not be considered a complete investment program, but may be used to help diversify a portfolio. Information regarding the risks associated with investing in China (including Hong Kong and Taiwan), India, Japan and South Korea is included in the Funds' Prospectus and is set forth below.

Risks Associated with China

The Funds may hold securities listed on the Shanghai or Shenzhen stock exchanges. Securities listed on these exchanges are divided into two classes: A shares, which are mostly limited to domestic investors, and B shares, which are allocated for both international and domestic investors. The Funds' exposure to securities listed on either the Shanghai or Shenzhen exchanges is currently through B shares. The government of China has announced plans to exchange B shares for A shares and to merge the two markets. Such an event may produce greater liquidity and stability for the combined markets. However, it is uncertain whether or the extent to which these plans will be implemented. In addition to B shares, the Funds may also invest in Hong Kong listed H shares, Hong Kong listed Red Chips (which are companies owned by mainland China enterprises, but are listed in Hong Kong) and companies with a significant amount of their revenues derived from business conducted in China (regardless of the exchange on which the security is listed or the country in which the company is based).

Risks Associated with Taiwan

The political reunification of China and Taiwan, over which China continues to claim sovereignty, is a highly complex issue and is unlikely to be settled in the near future. Continuing hostility between China and Taiwan may have an adverse impact on the values of a Fund's investments in both China and Taiwan, or make investment in China and Taiwan impracticable or impossible. Any escalation of hostility between China and Taiwan would likely distort Taiwan's capital accounts, as well as have a significant adverse impact on the value of a Fund's investments in both countries, and in other countries in the region.

Taiwan has in the past shown an ability to prosper in a competitive environment on the strength of product quality, efficiency and responsiveness to market demand. This ability will continue to be tested in the future as, in addition to certain protectionist threats, Taiwan's export economy faces competition from producers in other countries with lower wage levels than those generally prevailing in Taiwan. Skilled workers and technical personnel are still relatively inexpensive in Taiwan, but unskilled labor is increasingly in short supply. Recognizing the imperatives of the more competitive Asian economy, the Taiwanese government is seeking to develop Taiwan into a regional hub for high-end manufacturing, sea and air transportation, finance, telecommunications and media. Taiwan is seeking to develop further as a service-oriented economy rather than a laborintensive, manufacturing-oriented one. One result of the movement of industrial capacity offshore has been the reduction of the labor shortage in manufacturing.

Risks Associated with India

Foreign investment in the securities of issuers in India is usually restricted or controlled to some degree. In India, "Foreign Institutional Investors" ("FIIs") may predominately invest in exchange-traded securities (and securities to be listed, or those approved on the over-the-counter market of India) subject to the conditions specified in Indian guidelines and regulations (the "Guidelines"). FIIs are required to apply for registration to the Securities and Exchange Board of India ("SEBI") and to the Reserve Bank of India for permission to trade in Indian securities. The Guidelines require SEBI to review the professional experience and reputation of the FII, and custodian arrangements for Indian securities. Although the Trust is a registered FII, it must still seek renewal of this status periodically. There can be no guarantee that regulatory approval will be granted to continue the Trust's FII status. FIIs are required to observe certain investment restrictions, including an ownership ceiling on the total issued share capital of any one company of: (1) 10% for an FII in aggregate; and (2) 10% for each sub-account or 5% for sub-accounts registered under the Foreign Companies/Individual category. In addition, the shareholdings of all registered FIIs, together with the shareholdings of non-resident Indian individuals and foreign corporate bodies substantially owned by non-resident Indians, may not exceed 40% of the issued share capital of most companies. It is possible that this restriction could be raised or potentially lifted, subject to that company's approval. Under normal circumstances, income, gains and initial capital with respect to such investments are freely repatriable, subject to payment or withholding of applicable Indian taxes. Please see "Other Foreign Tax Issues" on page 63. There can be no assurance that these investment control regimes will not change in a way that makes it more difficult or impossible for the Funds to reach their investment objectives or repatriate their income, gains and initial capital from India.

A high proportion of the shares of many Indian issuers are held by a limited number of persons or entities, which may limit the number of shares available for investment by a Fund. In addition, further issuances (or the perception that such issuances may occur) of securities by Indian issuers in which a Fund has invested could dilute the earnings per share of that Fund's investment and could adversely affect the market price of such securities. Sales of securities by such issuer's major shareholders, or the perception that such sales may occur, may also significantly and adversely affect the market price of such securities and, in turn, a Fund's investment. A limited number of issuers represent a disproportionately large percentage of market capitalization and trading value. The limited liquidity of the Indian securities markets may also affect a Fund's ability to acquire or dispose of securities at the price and time that it desires.

The ability of the Funds to invest in Indian securities, exchange Indian rupees into U.S. dollars and repatriate investment income, capital and proceeds of sales realized from their investments in Indian securities is subject to the Indian Foreign Exchange Management Act, 1999, and the rules, regulations and notifications issued thereunder. There can be no assurance that the Indian government in the future, whether for purposes of managing its balance of payments or for other reasons, will not impose restrictions on foreign capital remittances abroad or otherwise modify the exchange control regime applicable to foreign institutional investors in such a way that may adversely affect the ability of the Funds to repatriate their income and capital. Such conditions or modifications may prompt the

Board of Trustees to suspend redemptions of a Fund's shares for an indefinite period. If for any reason a Fund is unable, through borrowing or otherwise, to distribute an amount equal to substantially all of its investment company taxable income (as defined for U.S. tax purposes, without regard to the deduction for dividends paid) within the applicable time periods, a Fund would cease to qualify for the favorable tax treatment afforded to regulated investment companies under the U.S. Internal Revenue Code.

Religious and border disputes persist in India. Moreover, India has from time to time experienced civil unrest and hostilities with neighboring countries such as Pakistan. Both India and Pakistan have tested nuclear arms, and the threat of deployment of such weapons could hinder development of the Indian economy. Escalating tensions between India and Pakistan could impact the broader region. The Indian government has confronted separatist movements in several Indian states. The longstanding dispute with Pakistan over the bordering Indian state of Jammu and Kashmir, a majority of whose population is Muslim, remains unresolved. Recent attacks by terrorists believed to be based in Pakistan against India have further damaged relations between the two countries. If the Indian government is unable to control the violence and disruption associated with these tensions, the results could destabilize the economy and, consequently, adversely affect a Fund's investments.

Risks Associated with Japan

The decline in the Japanese securities markets, which began in 1989, has contributed to a weakness in the Japanese economy, and the impact of a further decline cannot be ascertained. The common stocks of many Japanese companies continue to trade at high price-earnings ratios in comparison with those in the United States, even after the recent market decline. While differences in Japanese and international accounting standards have narrowed, remaining differences may continue make it difficult to compare the earning of Japanese companies with those of companies in other countries, especially the United States.

Risks Associated with South Korea

The South Korean government has historically imposed significant restrictions and controls on foreign investors. As a result, the Funds may be limited in their investments or precluded from investing in certain South Korean companies, which may adversely affect the performance of the Funds. Under current regulations, foreign investors are allowed to invest in almost all shares listed on the South Korean Stock Exchange ("KSE"). From time to time, many of the securities trade among non-South Korean residents at a premium over the market price. Foreign investors may effect transactions with other foreign investors off the KSE in the shares of companies that have reached the maximum aggregate foreign ownership limit through a securities company in South Korea. These transactions typically occur at a premium over prices on the KSE. There can be no assurance that the Funds, if they purchase such shares at a premium, will be able to realize such premiums on the sale of such shares or that such premium will not be reduced or eliminated by changes in regulations or otherwise. Such securities will be valued at fair value as determined in good faith by the Funds' Valuation Committee under the supervision of the Board of Trustees.

Investments by the Funds in the securities of South Korean issuers may involve investment risks different from those of U.S. issuers, including possible political, economic or social instability in South Korea, and by changes in South Korean law or regulations. In addition, there is the possibility of the imposition of currency-exchange controls, foreign withholding tax on the interest income payable on such instruments, foreign controls, seizure or nationalization of foreign deposits or assets, or the adoption of other foreign government restrictions that might adversely affect the South Korean securities held by the Funds. Political instability and/or military conflict involving North Korea may adversely affect the value of the Funds' assets. Foreign securities may also be subject to greater fluctuations in price than securities of domestic corporations or the U.S. government. There may be less publicly available information about a South Korean company than about a U.S. company. Brokers in South Korea may not be as well capitalized as those in the U.S., so that they may be more susceptible to financial failure in times of market, political or economic stress. Additionally, South Korean accounting, auditing and financial reporting standards and requirements differ, in some cases significantly, from those applicable to U.S. issuers. In particular, the assets and profits appearing on the financial statements of a South Korean issuer may not reflect its financial position or results of operations in accordance with U.S. generally accepted accounting principles. There is a possibility of expropriation, nationalization, confiscatory taxation or diplomatic developments that could adversely affect investments in South Korea.

The Funds do not intend to engage in activities that they believe would create a permanent establishment in South Korea within the meaning of the South Korea-U.S. Tax Treaty. Therefore, the Funds generally should not be subject to any South Korean income taxes other than South Korean withholding taxes. Exemption or reductions in these taxes apply if the South Korea-U.S. Tax Treaty applies to the Funds. If the treaty provisions are not, or cease to be, applicable to the Funds, significant additional withholding or other taxes could apply, reducing the net asset value ("NAV") of the Funds.

Additional Investment Strategies

Except as otherwise stated, the following strategies and specific type of investments are not the principal investment strategies of the Funds, but are reserved by Matthews for its use in the event that Matthews deems it appropriate to do so to achieve the Funds' fundamental investment objectives.

1. *Loans of Portfolio Securities*

   The Funds may lend portfolio securities to broker-dealers and financial institutions. In return, the broker-dealers and financial institutions pay the Funds money to borrow these securities. The Funds may lend portfolio securities, provided that: (1) the loan is secured continuously by collateral marked-to-market daily and maintained in an amount at least equal to the current market value of the securities loaned; (2) a Fund may call the loan at any time and receive the securities loaned; (3) a Fund will receive any interest or dividends paid on the loaned securities; and (4) the aggregate market value of securities loaned by a Fund will not at any time exceed 33% of the total assets of that Fund.

   Collateral will consist of U.S. government securities, cash equivalents or irrevocable letters of credit. Loans of securities involve a risk that the borrower may fail to return the securities or may fail to maintain the proper amount of collateral. Therefore, the Fund will only enter into portfolio loans after a review by Matthews, under the supervision of the Board of Trustees, including a review of the creditworthiness of the borrower. Such reviews will be monitored on an ongoing basis.

For the duration of the loan, a Fund will continue to receive the equivalent of the interest or dividends paid by the issuer on the securities loaned and will receive proceeds from the investment of the collateral. As with other extensions of credit, there are risks of delay in recovery or even losses of rights in the securities loaned should the borrower of the securities fail financially. However, the loans will be made only to borrowers deemed by Matthews to be creditworthy, and when, in the judgment of Matthews, the income which can be earned currently from such loans justifies the attendant risk. Additionally, for the duration of the loan, a Fund will not have the right to vote on securities while they are being lent, but will generally call a loan in anticipation of any important vote, as determined by Matthews.

Such loans of securities are collateralized with collateral assets in an amount at least equal to the current value of the loaned securities, plus accrued interest. There is a risk of delay in receiving collateral or recovering the securities loaned or even a loss of rights in the collateral should the borrower fail financially.

2. *Repurchase Agreements*

The Funds may enter into repurchase agreements to earn income. The Funds may also enter into repurchase agreements with financial institutions that are deemed to be creditworthy by Matthews, pursuant to guidelines established by the Board of Trustees. The repurchase price under the agreements equals the price paid by a Fund plus interest negotiated on the basis of current short-term rates (which may be more or less than the rate on the securities underlying the repurchase agreement). Repurchase agreements may be considered to be collateralized loans by the Funds under the 1940 Act.

Any collateral will be marked-to-market daily. If the seller of the underlying security under the repurchase agreement should default on its obligation to repurchase the underlying security, a Fund may experience delay or difficulty in exercising its right to realize upon the security and, in addition, may incur a loss if the value of the security should decline, as well as disposition costs in liquidating the security. A Fund will not invest more than 15% of its net assets in repurchase agreements maturing in more than seven days. The Funds must treat each counterparty to a repurchase agreement as an issuer of a security for tax diversification purposes and not treat the agreement as cash, a cash equivalent or receivable.

The financial institutions with which the Funds may enter into repurchase agreements are banks and non-bank dealers of U.S. government securities that are listed on the Federal Reserve Bank of New York's list of reporting dealers and banks, if such banks and non-bank dealers are deemed creditworthy by Matthews. Matthews will continue to monitor the creditworthiness of the seller under a repurchase agreement, and will require the seller to maintain during the term of the agreement the value of the securities subject to the agreement at not less than the repurchase price. The Funds will only enter into a repurchase agreement where the market value of the underlying security, including interest accrued, will be at all times equal to or exceed the value of the repurchase agreement.

The Funds may invest in repurchase agreements with foreign parties, or in a repurchase agreement based on securities denominated in foreign currencies. Legal structures in foreign countries, including bankruptcy laws, may offer less protection to investors such as the Funds, and foreign repurchase agreements generally involve greater risks than a repurchase agreement in the United States.

3. *Reverse Repurchase Agreements*

   A Fund may enter into reverse repurchase agreements to raise cash on a short-term basis. Reverse repurchase agreements involve the sale of securities held by a Fund pursuant to its agreement to repurchase the securities at an agreed upon price, date and rate of interest. The repurchase price under the agreements equals the price paid by a counterparty plus interest negotiated on the basis of current short-term rates (which may be more or less than the rate on the securities underlying the repurchase agreement). Such agreements are considered to be borrowings under the 1940 Act, and may be entered into only for temporary or emergency purposes. While reverse repurchase transactions are outstanding, each Fund will maintain in a segregated account an amount of cash, U.S. government securities or other liquid, high-grade debt securities at least equal to the market value of the securities, plus accrued interest, subject to the agreement. Reverse repurchase agreements involve the risk that the market value of the securities sold by the Funds may decline below the price of the securities a Fund is obligated to repurchase.

4. *Securities of Other Investment Companies*

   The Funds may invest in the securities of other investment companies and currently intend to limit their investments in securities issued by other investment companies so that, as determined immediately after a purchase of such securities is made: (i) not more than 5% of the value of any of the individual Fund's total assets will be invested in the securities of any one investment company; (ii) not more than 10% of a Fund's total assets will be invested in the aggregate in securities of investment companies as a group; and (iii) not more than 3% of the outstanding voting stock of any one investment company will be owned by the respective Fund.

   As a shareholder of another investment company, a Fund would bear along with other shareholders, its pro rata portion of the investment company's expenses, including advisory fees. These expenses would be in addition to the advisory and other expenses that the Funds bear directly in connection with their own operations.

5. *Illiquid Securities*

   Illiquid securities are securities that a Fund cannot be disposed of at approximately the price at which they are value by the Fund within seven days of wanting to do so. The Board of Trustees has delegated the function of making day-to-day determinations of whether a security is liquid or not to Matthews, pursuant to guidelines established by the Board of Trustees and subject to its quarterly review. Matthews will monitor the liquidity of securities held by the Funds and report periodically on such decisions to the Board of Trustees.

   Each Fund may invest up to 15% of its net assets in illiquid securities. A Fund may therefore not be able to readily sell such securities. Such securities are unlike securities that are traded in the open market and that can be expected to be sold immediately. The sale price of a security that is not readily marketable may be lower or higher than a Fund's most recent estimate of its fair value. Generally, less public information is available with respect to the issuers of these securities than with respect to companies whose securities are traded on an exchange. Securities that are not readily marketable are more likely to be issued by start-up, small or family business and therefore subject to greater economic, business and market risks than the listed securities of more well established companies.

6. *Rule 144A Securities (Restricted Securities)*

Securities which are not registered with the U.S. Securities and Exchange Commission ("SEC") pursuant to Rule 144A of the Securities Act of 1933, as amended (the "1933 Act"), are only traded among institutional investors. These securities are sometimes called "Restricted Securities" because they are restricted from being sold to the general public because they are not registered with the SEC.

Some of these securities are also illiquid because they cannot be sold at approximately the price at which they are value by the Fund within seven days of wanting to do so. The 15% limit on illiquid securities discussed previously does not include any restricted securities that have been determined to be liquid by the Funds' Board of Trustees.

7. *Convertible Securities*

Each Fund may purchase convertible securities. Convertible securities entitle the holder to exchange the securities for a specified number of shares of common stock, usually of the same company, at specified prices within a certain period of time. In addition, the owner of convertible securities often receives interest or dividends until the security is converted. The provisions of any convertible security determine its ranking in a company's capital structure. In the case of subordinated convertible debentures, the holder's claims on assets and earnings are subordinated to the claims of other creditors, and are senior to the claims of preferred and common shareholders. In the case of preferred stock and convertible preferred stock, the holder's claims on assets and earnings are subordinated to the claims of all creditors but are senior to the claims of common shareholders.

To the extent that a convertible security's investment value is greater than its conversion value, its price will be primarily a reflection of such investment value and its price will be likely to increase when interest rates fall and decrease when interest rates rise, as with a fixed-income security. If the conversion value exceeds the investment value, the price of the convertible security will rise above its investment value and, in addition, may sell at some premium over its conversion value. At such times the price of the convertible security will tend to fluctuate directly with the price of the underlying equity security.

8. *Forward Commitments, When-Issued Securities and Delayed-Delivery Transactions*

The Funds may purchase securities on a when-issued basis, or purchase or sell securities on a forward commitment basis or purchase securities on a delayed-delivery basis. The Funds will normally realize a capital gain or loss in connection with these transactions. For purposes of determining the Funds' average dollar-weighted maturity, the maturity of when-issued or forward commitment securities will be calculated from the commitment date.

When the Funds purchase securities on a when-issued, delayed-delivery or forward commitment basis, the Funds' custodian will maintain in a segregated account: cash, U.S. government securities or other high-grade liquid debt obligations having a value (determined daily) at least equal to the amount of the Funds' purchase commitments. In the case of a forward commitment to sell portfolio securities, the custodian will hold the portfolio securities themselves in a segregated account while the commitment is outstanding. These procedures are designed to ensure that the Funds will maintain sufficient assets at all times to cover their obligations under when-issued purchases, forward commitments and delayed-delivery transactions.

Securities purchased or sold on a when-issued, delayed-delivery or forward commitment basis involve a risk of loss if the value of the security to be purchased declines prior to the settlement date. Although the Funds would generally purchase securities on a when-issued, delayed-delivery or a forward commitment basis with the intention of acquiring the securities, the Funds may dispose of such securities prior to settlement if Matthews deems it appropriate to do so.

9. *Fixed-Income Securities*

All fixed-income securities are subject to two primary types of risks: credit risk and interest rate risk. The credit risk relates to the ability of the issuer to meet interest or principal payments or both as they come due. The interest rate risk refers to the fluctuations in the net asset value of any portfolio of fixed-income securities resulting from the inverse relationship between price and yield of fixed-income securities; that is, when the general level of interest rates rises, the prices of outstanding fixed-income securities decline, and when interest rates fall, prices rise.

In addition, if the currency in which a security is denominated appreciates against the U.S. dollar, the dollar value of the security will increase. Conversely, a rise in interest rates or a decline in the exchange rate of the currency would adversely affect the value of the security expressed in dollars. Fixed-income securities denominated in currencies other than the U.S. dollar or in multinational currency units are evaluated on the strength of the particular currency against the U.S. dollar as well as on the current and expected levels of interest rates in the country or countries.

10. *Short-Selling*

In markets where it is permitted to do so, the Funds may make short sales. A short sale occurs when a Fund borrows stock (usually from a broker) and promises to give it back at some date in the future and then sells the borrowed shares. If the market price of that stock goes down, the Fund buys the stock at a lower price so that it can pay back the broker for the stock borrowed. The difference between the prices of the stock when borrowed, and when later purchased, is a profit. The profit is reduced by a fee paid to the broker for borrowing the stock.

A Fund may incur a loss as a result of a short sale if the price of the security increases between the date of the short sale and the date on which the Fund replaces the borrowed security. The amount of any loss will be increased by the amount of any premium, dividends or interest the Fund may be required to pay in connection with a short sale. No securities will be sold short if, after effect is given to any such short sale, the total market value of all securities sold short would exceed 10% of the value of the Fund's net assets. The Fund will place in a segregated account with its custodian bank an amount of cash or liquid securities equal to the difference between the current market value of the securities sold short and any cash or securities required to be deposited in a collateral account for with the broker in connection with the short sale (excluding the proceeds of the short sale).

This segregated account will be marked-to-market daily, provided that at no time will the amount deposited in it, plus the collateral held for the broker (excluding the proceeds of the short sale), be less than the current market value of the securities sold short.

11. *Interest Rate Futures Contracts*

The Funds may enter into contracts for the future delivery of fixed-income securities commonly referred to as "interest rate futures contracts." These futures contracts will be used only as a hedge against anticipated interest rate changes. A Fund will not enter into an interest rate futures contract if immediately thereafter more than 5% of the value of that Fund's total assets will be committed to margin. The principal risks related to the use of such instruments are (1) the offsetting correlation between movements in the market price of the portfolio investments being hedged and in the price of the futures contract or option may be imperfect; (2) possible lack of a liquid secondary market for closing out futures or option positions; (3) the need for additional portfolio management skills and techniques; and (4) losses due to unanticipated market price movements.

12. *Futures Transactions*

The Funds may engage in futures transactions for the purchase or sale for future delivery of securities. While futures contracts provide for the delivery of securities, deliveries usually do not occur. Contracts are generally terminated by entering into offsetting transactions. The Funds may invest in futures transactions for hedging purposes or to maintain liquidity. A Fund may not purchase or sell a futures contract, however, unless immediately after any such transaction the sum of the aggregate amount of margin deposits on its existing futures positions and the amount of premiums paid for related options is 10% or less of its total assets.

At maturity, a futures contract obligates the Funds to take or make delivery of certain securities or the cash value of a securities index. A Fund may sell a futures contract in order to offset a decrease in the market value of its portfolio securities that might otherwise result from a market decline. A Fund may do so either to hedge the value of its portfolio of securities as a whole, or to protect against declines, occurring prior to sales of securities, in the value of the securities to be sold. Conversely, a Fund may purchase a futures contract in anticipation of purchases of securities. In addition, a Fund may utilize futures contracts in anticipation of changes in the composition of its portfolio holdings.

The Funds may engage in futures transactions on U.S. or foreign exchanges or boards of trade. In the U.S., futures exchanges and trading are regulated under the Commodity Exchange Act of 1936 (the "CEA") by the Commodity Futures Trading Commission ("CFTC"), a U.S. government agency.

The Funds may enter into such futures transactions to protect against the adverse effects of fluctuations in security prices, or interest rates, without actually buying or selling the securities underlying the contract. A stock index futures contract obligates the seller to deliver (and the purchaser to take) an amount of cash equal to a specific dollar amount multiplied by the difference between the value of a specific stock index at the close of the last trading day of the contract and the price at which the agreement was made.

With respect to options on futures contracts, when the Funds are temporarily not fully invested, they may purchase a call option on a futures contract to hedge against a market advance due to declining interest rates. The purchase of a call option on a futures contract is similar in some respects to the purchase of a call option on an individual security. Depending on the pricing of the option compared to either the price of the futures contract upon which it is based, or the price of the underlying debt securities, it may or may not be less risky than ownership of the futures contract or underlying debt securities.

The writing of a call option on a futures contract constitutes a partial hedge against the declining price of the security or foreign currency which is deliverable upon exercise of the futures contract. The writing of a put option on a futures contract constitutes a partial hedge against the increasing price of the security or foreign currency which is deliverable upon exercise of the futures contract.

To the extent that market prices move in an unexpected direction, the Funds may not achieve the anticipated benefits of futures contracts or options on futures contracts or may realize a loss. Further, with respect to options on futures contracts, each Fund may seek to close out an option position by writing or buying an offsetting position covering the same securities or contracts and that have the same exercise price and expiration date. The ability to establish and close out positions on options is subject to the maintenance of a liquid secondary market, which cannot be assured.

The Funds may purchase and sell call and put options on futures contracts traded on an exchange or board of trade. When a Fund purchases an option on a futures contract, it has the right to assume a position as a purchaser or seller of a futures contract at a specified exercise price at any time during the option period. When a Fund sells an option on a futures contract, it becomes obligated to purchase or sell a futures contract if the option is exercised. In anticipation of a market advance, the Funds may purchase call options on futures contracts as a substitute for the purchase of futures contracts to hedge against a possible increase in the price of securities which the Funds intend to purchase. Similarly, if the market is expected to decline, the Funds might purchase put options or sell call options on futures contracts rather than sell futures contracts. In connection with a Fund's position in a futures contract or option thereon, the Funds will create a segregated account of liquid assets or will otherwise cover its position in accordance with applicable requirements of the SEC.

a. Restrictions on the Use of Futures Contracts

Each Fund may enter into futures contracts provided that such obligations represent no more than 20% of the Fund's net assets. Under the CEA, each Fund may invest in futures contracts or options on future contracts (i) for bona fide hedging purposes within the meaning of regulations under the CEA, or (ii) for other than bona fide hedging purposes if (1) the aggregate initial margin and premiums required to establish such positions will not exceed 5% of the Fund's net assets (after taking into account unrealized profits and unrealized losses on any such positions) and that in the case of an option that is in-the-money at the time of purchase, the in-the-money amount may be excluded from such 5%; or (2) the aggregate notional value of all non-hedge futures contracts including such contract (taken at market value at the time of entering that contract) does not exceed the liquidation value of the Fund's portfolio. To the extent required by law, the Fund will set aside cash and appropriate liquid assets in a segregated account to cover its obligations related to futures contracts.

b. Risk Factors of Futures Transactions

The primary risks associated with the use of futures contracts and options (commonly referred to as "derivatives") are: (i) imperfect correlation between the change in market value of the securities held by the Funds and the price of futures contracts and options; (ii) possible lack of a liquid secondary market for a futures contract and the resulting inability to close a futures contract when desired; (iii) losses, which are potentially unlimited, due to unanticipated market movements; and (iv) Matthews' ability to predict correctly the direction of security prices, interest rates and other economic factors.

13. *Foreign Currency Transactions*

The Funds may engage in foreign currency transactions in connection with their investment in foreign securities. The Funds will conduct any foreign currency exchange transactions either on a spot (*i.e.*, cash) basis at the spot rate prevailing in the foreign currency exchange market, or through forward contracts to purchase or sell foreign currencies.

A forward foreign currency exchange contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are principally traded in the inter-bank market conducted directly between currency traders (usually large, commercial banks) and their customers. The cost to a Fund of engaging in forward currency contracts varies with factors such as the currency involved, the length of the contract period and the market conditions then prevailing. A forward contract generally has no deposit requirement, and because forward currency contracts are usually entered into on a principal basis, no fees or commissions are charged at any stage for trades. However, dealers do realize a profit based on the difference between the prices at which they are buying and selling various currencies.

When a Fund enters into a contract for the purchase or sale of a security denominated in a foreign currency, it may want to establish the U.S. dollar cost or proceeds, as the case may be. By entering into a forward contract in U.S. dollars for the purchase or sale of the amount of foreign currency involved in an underlying security transaction, a Fund is able to protect itself against a possible loss between trade and settlement dates resulting from an adverse change in the relationship between the U.S. dollar and such foreign currency. However, this tends to limit potential gains that might result from a positive change in such currency relationships. The Funds may also (but are not required to) hedge their foreign currency exchange rate risk by engaging in currency financial futures and options transactions.

Each Fund may enter into a forward contract to sell a different foreign currency for a fixed U.S. dollar amount where Matthews believes that the U.S. dollar value of the currency to be sold pursuant to the forward contract will fall whenever there is a decline in the U.S. dollar value of the currency in which portfolio securities of the Funds are denominated ("cross-hedge"). The precise matching of forward currency contracts amounts and the value of the securities involved generally will not be possible because the value of such securities, measured in the foreign currency, will change after the foreign currency contract has been established. Thus, the Funds might need to purchase or sell foreign currencies in the spot (cash) market to the extent such foreign currencies are not covered by forward contracts. The forecasting of short-term currency market movement is extremely difficult and whether such a short-term hedging strategy will be successful is highly uncertain. The Funds may also enter into forward contracts to sell foreign currency with respect to portfolio positions denominated or quoted in that currency.

When a Fund enters into a forward currency contract, it relies on the counterparty to make or take delivery of the underlying currency at the maturity of the contract. Failure by the counterparty to do so would result in the loss of any expected benefit of the transaction. Secondary markets generally do not exist for forward currency contracts, with the result that closing transactions generally can be made for forward currency contracts only by negotiating directly with the counterparty. Thus, there can be no assurance that a Fund will in fact be able to close out a forward currency contract at a favorable price prior to maturity. In addition, in the event of insolvency of the counterparty, a Fund might be unable to close out a forward currency contract at any time prior to maturity. In either event, the Fund would continue to be subject to market risk with respect to the position, and would continue to be required to maintain a position in securities denominated in the foreign currency or to maintain cash or securities in a segregated account.

Each Fund will segregate liquid assets that will be marked-to-market daily to meet its forward contract commitments to the extent required by the SEC.

Each Fund may enter into forward currency contracts or maintain a net exposure to such contracts only if (i) the consummation of the contracts would not obligate the Funds to deliver an amount of foreign currency in excess of the value of its portfolio securities or other assets denominated in that currency, or (ii) the Fund maintains cash or liquid securities in a segregated account in an amount not less than the value of its total assets committed to the consummation of the contract and not covered as provided in (i) above, as marked-to-market daily.

Each Fund may also (but is not required to) use options and futures on foreign currencies, in addition to forward currency contracts, to hedge against movements in the values of the foreign currencies in which the Fund's securities are denominated. Such currency hedges can protect against price movements in a security the Fund owns or intends to acquire that are attributable to changes in the value of the currency in which it is denominated. While hedging may limit the potential loss to a Fund from adverse currency movements, Matthews' ability to anticipate changes in the price of foreign currencies is limited and any hedging may limit the potential gain from positive currency movements or otherwise result in losses. Such hedges do not protect against price movements in the securities that are attributable to other causes.

The value of hedging instruments on foreign currencies depends on the value of the underlying currency relative to the U.S. dollar. Because foreign currency transactions occurring in the inter-bank market might involve substantially larger amounts than those involved in the use of such hedging instruments, the Funds could be disadvantaged by having to deal in the odd lot market (generally consisting of transactions of less than $1 million) for the underlying foreign currencies at prices that are less favorable than for round lots.

The Funds might seek to hedge against changes in the value of a particular currency when no hedging instruments on that currency are available or such hedging instruments are more expensive than certain other hedging instruments. In such cases, the Funds may hedge against price movements in that currency by entering into transactions using hedging instruments on other currencies, the values of which Matthews believes will have a high degree of positive correlation to the value of the currency being hedged. The risk that movements in the price of the hedging instrument will not correlate perfectly with movements in the price of the currency being hedged is magnified when this strategy is used.

Settlement of hedging transactions involving foreign currencies might be required to take place within the country issuing the underlying currency. Thus, the Funds might be required to accept or make delivery of the underlying foreign currency in accordance with U.S. or foreign regulations regarding the maintenance of foreign banking arrangements by U.S. residents and might be required to pay fees, taxes and charges associated with such delivery assessed in the issuing country.

14. *Options*

Each Fund may buy put and call options and write covered call and secured put options. Such options may relate to particular securities, stock indices or financial instruments and may or may not be listed on a national securities exchange and issued by the Options Clearing Corporation. Options trading is a highly specialized activity which entails greater than ordinary investment risk. Options on particular securities may be more volatile than the underlying securities, and therefore, on a percentage basis, an investment in options may be subject to greater fluctuation than an investment in the underlying securities themselves.

a. Writing Call Options

Each Fund may write covered call options from time to time on portions of its portfolio, without limit, as Matthews determines is appropriate in pursuing that Fund’s investment goals. The advantage to a Fund of writing covered calls is that the Fund receives a premium which is additional income. However, if the security rises in value, the Fund may not fully participate in the market appreciation.

The Funds will write call options only if they are “covered.” In the case of a call option on a security, the option is “covered” if a Fund owns the security underlying the call or has an absolute and immediate right to acquire that security without additional cash consideration (or, if additional cash consideration is required, liquid assets in such amount held in a segregated account by its custodian) upon conversion or exchange of other securities held by it.

For a call option on an index, the option is covered if a Fund maintains with its custodian a diversified stock portfolio, or liquid assets equal to the contract value. A call option is also covered if a Fund holds a call on the same security or index as the call written. Here the exercise price of the call held is (i) equal to or less than the exercise price of the call written; or (ii) greater than the exercise price of the call written provided the difference is maintained by a Fund in liquid assets in a segregated account with its custodian.

A Fund’s obligation under a covered call option is terminated upon the expiration of the option or upon entering a closing purchase transaction. In a closing purchase transaction, a Fund, as writer of an option, terminates its obligation by purchasing an option of the same series as the option previously written.

Closing purchase transactions will ordinarily be effected to realize a profit on an outstanding call option, to prevent an underlying security from being called, to permit the sale of the underlying security or to enable a Fund to write another call option on the underlying security with either a different exercise price or expiration date or both. The Funds may realize a net gain or loss from a closing purchase transaction depending upon whether the net amount of the original premium received on the call option is more or less than the cost of effecting the closing purchase transaction. Any loss incurred in a closing purchase transaction may be partially or entirely offset by the premium received from a sale of a different call option on the same underlying security. Such a loss may also be wholly or partially offset by unrealized appreciation in the market value of the underlying security. Conversely, a gain resulting from a closing purchase transaction could be offset in whole or in part by a decline in the market value of the underlying security.

During the option period, a covered call option writer may be assigned an exercise notice by the broker-dealer through whom such call option was sold, requiring the writer to deliver the underlying security against payment of the exercise price. A closing purchase transaction cannot be effected with respect to an option once the option writer has received an exercise notice for such option.

b. Writing Put Options

Each Fund may write put options. The Funds will write put options only if they are "secured" at all times by liquid assets maintained in a segregated account by the Funds' custodian in an amount not less than the exercise price of the option at all times during the option period. Secured put options will generally be written in circumstances where Matthews wishes to purchase the underlying security for a Fund's portfolio at a price lower than the current market price of the security. With regard to the writing of put options, a Fund will limit the aggregate value of the obligations underlying such put options to 50% of its total net assets.

Following the writing of a put option, a Fund may wish to terminate the obligation to buy the security underlying the option by effecting a closing purchase transaction. This is accomplished by buying an option of the same series as the option previously written. A Fund may not, however, effect such a closing transaction after it has been notified of the exercise of the option.

c. Purchasing Call Options

Each Fund may purchase call options to the extent that premiums paid by that Fund do not aggregate more than 10% of its total assets. When a Fund purchases a call option, in return for a premium paid by the Fund to the writer of the option, the Fund obtains the right to buy the security underlying the option at a specified exercise price at any time during the term of the option. The writer of the call option, who receives the premium upon writing the option, has the obligation, upon exercise of the option, to deliver the underlying security against payment of the exercise price. The advantage of purchasing call options is that the Fund may alter portfolio characteristics and modify portfolio maturities without incurring the cost associated with such transactions.

The Funds may, following the purchase of a call option, liquidate their position by effecting a closing sale transaction. This is accomplished by selling an option of the same series as the option previously purchased. The Funds will realize a profit from a closing sale transaction if the price received on the transaction is more than the premium paid to purchase the original call option; the Funds will realize a loss from a closing sale transaction if the price received on the transaction is less than the premium paid to purchase the original call option.

Although the Funds will generally purchase only those call options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option, or at any particular time, and for some options no secondary market on an exchange may exist. In such event, it may not be possible to effect closing transactions in particular options, with the result that the Funds would have to exercise their options in order to realize any profit and would incur brokerage commissions upon the exercise of such options and upon the subsequent disposition of the underlying securities acquired through the exercise of such options. Further, unless the price of the underlying security changes sufficiently, a call option purchased by the Funds may expire without any value to the Funds, in which event the Funds would realize a capital loss which will be short-term unless the option was held for more than one year.

d. Purchasing Put Options

Each Fund may invest up to 10% of its total assets in the purchase of put options. Each Fund will, at all times during which it holds a put option, own the security covered by such option. The purchase of the put option on substantially identical securities held will constitute a short sale for tax purposes, the effect of which is to create a short-term capital gain on the sale of the security and to suspend running of its holding period (and treat it as commencing on the date of the closing of the short sale) or that of a security acquired to cover the same if at the time the put was acquired, the security had not been held for more than one year.

A put option purchased by a Fund gives it the right to sell one of its securities for an agreed price up to an agreed date. Each Fund may to purchase put options (i) in order to protect against a decline in the market value of the underlying security below the exercise price less the premium paid for the option ("protective puts"); and (ii) for other reasons. A Fund may sell a put option that it had previously purchased prior to the sale of the securities underlying such option. Such sale will result in a net gain or loss depending on whether the amount received on the sale is more or less than the premium and other transaction costs paid on the put option which is sold.

The Funds may sell a put option purchased on individual portfolio securities. Additionally, the Funds may enter into closing sale transactions. A closing sale transaction is one in which a Fund, when it is the holder of an outstanding option, liquidates its position by selling an option of the same series as the option previously purchased.

Funds' Policies

The policies set forth below are fundamental and may not be changed as to a Fund without the approval of a majority of the outstanding voting securities (as defined in the 1940 Act) of that Fund. A majority of the outstanding voting securities of a Fund means the lesser of (a) 67% or more of the voting securities present at a meeting of shareholders, if the holders of more than 50% of the outstanding voting securities of a

Fund are present or represented by proxy, or (b) more than 50% of the outstanding voting securities of a Fund. Unless otherwise indicated, all percentage limitations listed below apply to the Funds and apply only at the time of the transaction. Accordingly, if a percentage restriction is adhered to at the time an investment is made, a later increase or decrease in the percentage which results from a relative change in values or from a change in a Fund's total assets will not be considered a violation.

Except as otherwise set forth herein and in the Prospectus, each Fund may not:

1. Issue senior securities;
2. Borrow money, except that each Fund may borrow from banks and enter into reverse repurchase agreements for temporary purposes in amounts up to one-third of the value of its total assets at the time of such borrowing; or mortgage, pledge, or hypothecate any assets, except in connection with any such borrowing and in amounts not in excess of the lesser of the dollar amounts borrowed or 10% of the value of the total assets of the Fund at the time of its borrowing. All borrowing will be done from a bank and asset coverage of at least 300% is required. A Fund will not purchase securities when borrowings exceed 5% of the Fund's total net assets;
3. Act as an underwriter of securities, except that, in connection with the disposition of a security, a Fund may be deemed to be an "underwriter" as that term is defined in the 1933 Act;
4. Purchase the securities of issuers conducting their principal business activities in the same industry (other than obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities) if immediately after such purchase the value of a Fund's investments in such industry would exceed 25% of the value of the total assets of the Fund. This policy does not apply to Matthews Asian Technology Fund;
5. Purchase or sell real estate, real estate limited partnership interests, interests in oil, gas and/or mineral exploration or development programs or leases. This restriction shall not prevent the Funds from investing directly or indirectly in portfolio instruments secured by real estate or interests therein or acquiring securities of real estate investment trusts or other issuers that deal in real estate;
6. Make loans, except that this restriction shall not prohibit (a) the purchase and holding of debt instruments in accordance with a Fund's investment objectives and policies, (b) the lending of portfolio securities, or (c) entry into repurchase agreements with banks or broker-dealers;
7. Change its diversification status under the 1940 Act;
8. Purchase or sell commodities or commodity contracts, except that a Fund may purchase or sell currencies, may enter into futures contracts on securities, currencies, or on indexes of such securities or currencies, or any other financial instruments, and may purchase or sell options on such futures contracts;
9. Make investments in securities for the purpose of exercising control;
10. Purchase the securities of any one issuer if, immediately after such purchase, the Fund would own more than 10% of the outstanding voting securities of such issuer. This policy does not apply to Matthews Asia Small Companies Fund; or
11. Invest more than 5% of its total assets in securities of companies less than three years old. Such three-year period shall include the operation of any predecessor

company or companies. This policy does not apply to the Matthews Asia Pacific Equity Income, Matthews India or Matthews Asia Small Companies Funds.

Temporary Defensive Position

To the extent practicable and in light of economic and market conditions and the Fund's cash needs, Matthews intends to be fully invested in the markets appropriate to each Fund's investment objectives. When, in the opinion of Matthews, a temporary defensive position is warranted, the Funds are permitted to hold cash or invest temporarily and without limitation in U.S. government securities or money market instruments backed by U.S. government securities. The Funds' investment objectives may not be achieved at such times when a temporary defensive position is taken.

Portfolio Turnover

Matthews buys and sells securities for the Funds whenever it believes it is appropriate to do so. The rate of portfolio turnover will not be a limiting factor in making portfolio decisions. It is currently estimated that under normal market conditions the annual portfolio turnover rate for the Funds will not exceed 100%. . High portfolio turnover rates will generally result in higher transaction costs to a Fund and also may result in a higher level of taxable gain for a shareholder. Portfolio turnover for the most recent fiscal periods of the Funds, other than the Matthews Asia Small Companies Fund (which has not yet had a fiscal year), are set forth in the "FINANCIAL HIGHLIGHTS" tables in the Prospectus. Portfolio turnover rates may vary greatly from year to year as well as within a particular year. The portfolio turnover rate for the Matthews Japan Fund increased from 45.51% in 2007 to 88.97% in 2008. This increase resulted from portfolio transactions necessary to meet shareholder purchase and redemption requests and from restructuring the portfolio in response to changes in market conditions.

Disclosure of Portfolio Holdings

In accordance with the Funds' policies and procedures ("Policies"), the Funds' transfer agent, PNC Global Investment Servicing (U.S.) Inc., formerly PFPC Inc., ("PNC"), is responsible for dissemination of information about the Funds' portfolio holdings. The Funds, together with PNC and Matthews (the "Service Providers"), may disclose information concerning securities held in the Funds' portfolios only under the following circumstances:

(i) Following the end of each fiscal quarter (generally within 60 days), each Fund's full portfolio holdings will be made publicly available by the following means:

   a. The Funds shall send shareholders portfolio holdings in the Funds' annual, semi-annual and quarterly reports, which are mailed to shareholders and posted on the Funds' website.

   b. PNC shall send portfolio holdings to nationally recognized rating agencies via electronic transmission.

(ii) The Funds will also release top ten holdings on a monthly basis via the Funds' website and written communication within approximately 21 days of each month end;

(iii) The Funds or a Service Provider do not disclose the Funds' portfolio security holdings in advance of general release and without delay except to the Funds' custodian bank, independent public accountant, independent legal counsel, proxy voting agent, financial printers, technical writers who assist with the preparation of disclosure materials, technology service providers and pricing service providers. The Funds also disclose their portfolio security holdings to third parties in connection with their on-going efforts to analyze their trading activity, and in connection with their periodic reviews of the performance of existing fund agents and advisors or the retention of new agents and advisors. In addition, the Funds may make such disclosure on a confidential basis to selected third parties when the Funds have a legitimate business purpose for doing so. Examples of legitimate business purposes in which selective disclosure of the Funds' portfolio securities may be appropriate include disclosure for due diligence purposes to an investment advisor that is in merger or acquisition talks with Matthews; disclosure to a newly hired investment advisor or sub-advisor prior to its commencing its duties; and disclosure to a rating or ranking organization. Currently the Funds have no such disclosure arrangements in place.

As required by the federal securities laws, including the 1940 Act, the Funds will disclose their portfolio holdings in their applicable regulatory filings, including shareholder reports, reports on Form N-Q, Form N-CSR or such other filings, reports or disclosure documents as the applicable regulatory authorities may require.

In accordance with the Funds' Policies, third parties are required to keep confidential any information disclosed to them in accordance with the foregoing and no compensation may be received by the Funds, a Service Provider or any affiliate in connection with disclosure of such information. The Funds' Board of Trustees will oversee disclosure under the foregoing Policies by approval in advance of disclosures for legitimate business purposes and by regular review of reports on disclosures of the Funds' portfolio holdings.

The Policies may not be waived, or exception made, without the consent of the Chief Compliance Officer ("CCO") of the Funds. The CCO may not waive or make exception to the Policies unless such waiver or exception is consistent with the intent of the Policies, which is to ensure that disclosure of portfolio information is in the best interest of Fund shareholders. In determining whether to permit a waiver of or exception to the Policies, the CCO will consider whether the proposed disclosure serves a legitimate purpose of the Funds, whether it could provide the recipient with an advantage over Fund shareholders or whether the proposed disclosure gives rise to a conflict of interest between the Funds' shareholders and Matthews or the Funds' principal underwriter or other affiliated person. The CCO will report all waivers of or exceptions to the Policies to the Trustees at their next meeting. The Trustees may impose additional restrictions on the disclosure of portfolio holdings information at any time.

The Policies are designed to provide useful information concerning the Funds to existing and prospective Fund shareholders while at the same time inhibiting the improper use of portfolio holdings information in trading Fund shares and/or portfolio securities held by the Funds. However, there can be no assurance that the provisions of any portfolio holdings information is not susceptible to inappropriate uses (such as the development of "market timing" models), particularly in the hands of highly sophisticated investors, or that it will not in fact be used in such ways beyond the control of the Funds.

Management of the Funds:

The operations of the Funds are under the direction of the Board of Trustees. The Board establishes the Funds' policies and oversees and reviews the management of the Funds. The Board meets regularly to review the activities of the officers, who are responsible for the day-to-day operations of the Funds. The Trustees and executive officers of the Funds, their years of birth, business addresses, principal occupations during the past five years and other directorships held are set forth below. The "Fund Complex" refers to the ten Funds. The Address of each Trustee and executive officer of the Trust is Four Embarcadero Center, Suite 550, San Francisco, CA 94111.

Name, and Year of Birth	Position(s) Held with the Trust	Term of Office and Length of Time Served[1]	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Trusteeships/ Directorships (number of portfolios) Held by Trustee
INDEPENDENT TRUSTEES					
Geoffrey H. Bobroff Born 1944	Chairman of the Board of Trustees and Trustee	Since 2006	President, Bobroff Consulting, Inc. (since 1993).	10	None.
Rhoda Rossman Born 1958	Trustee	Since 2006	Vice President, Corporate Investment Officer (since 2007); and Senior Vice President and Treasurer (2003 - 2007), The PMI Group, Inc.	10	None.
Toshi Shibano Born 1950	Trustee	Since 2003	President, Toshi Shibano Consulting, Inc. (since 1995); Adjunct Associate Professor, Columbia Graduate School of Business (since 2001); Adjunct Professor, Thunderbird American Graduate School of International Management (2000-2005); Faculty, General Electric Corporate Leadership Development Center (since 2000); Executive Education Lecturer, Haas School of Business, University of California at Berkeley since 1995.	10	None.

Name, and Year of Birth	Position(s) Held with the Trust	Term of Office and Length of Time Served[1]	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Trusteeships/ Directorships (number of portfolios) Held by Trustee
Jonathan F. Zeschin Born 1953	Trustee	Since 2007	Partner, Essential Investment Partners, LLC (since 2009); Managing Partner, JZ Partners LLC (since 1998) President and Founder, Essential Advisers, Inc. (2000-2009).	10	Independent Chairman of the Board of Trustees, DCA Total Return Fund (since 2005); and DCW Total Return Fund (since 2007); Independent Trustee, ICON Funds (2002-2007); Independent Director, Wasatch Funds (2002-2004).
INTERESTED TRUSTEES[2]					
G. Paul Matthews Born 1956	Trustee	Since 2006	Director and Portfolio Manager, Matthews (since 1991); Chairman Matthews (1991 – 2009); Chief Investment Officer, Matthews (1991 – 2007); President of the Funds (1994 – 2007).	10	Director, Matthews Asian Selection Funds PLC (1 Portfolio).

1 Each Trustee serves for an indefinite term, until retirement age or until his/her successor is elected.
2 This Trustee is considered an “interested person” of the Trust as defined under the 1940 Act either because of an ownership interest in Matthews or an office held with the Trust or Matthews.

Name, and Year of Birth	Position(s) Held with the Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
OFFICER(S) WHO ARE NOT TRUSTEES[1]			
William J. Hackett Born 1967	President;	Since 2009	President (since 2007), Matthews; Partner (2002 – 2007), Senior Manager (1997 – 2002), Manager (1995 – 1997), Senior/Associate (1990 – 1995), Deloitte & Touche, LLP.
Andrew T. Foster Born 1974	Vice President	Since 2005	Acting Chief Investment Officer (since 2008), Portfolio Manager (since 2005), and Director of Research (2003 – 2008) Matthews.
John P. McGowan Born 1964	Vice President and Secretary	Since 2005	Senior Vice President of Business Administration (since 2008), Chief Administrative Officer (2007 – 2008) , Chief Operating Officer (2004 – 2007), Matthews; Chief Operating Officer, Treasurer, and Chief Compliance Officer, Forward Management LLC (1998 – 2004).
Shai Malka Born 1973	Treasurer	Since 2005	Senior Manager of Fund Accounting and Operations (since 2004); Manager of Fund Accounting (2003 – 2004), Fund Accountant (2000 – 2003), Matthews.
Richard Gao Born 1967	Vice President	Since 2009	Portfolio Manager (since 1999), Matthews.

Name, and Year of Birth	Position(s) Held with the Trust	Term of Office and Length of Time Served[1]	Principal Occupation(s) During Past 5 Years
Mark W. Headley Born 1959	Vice President	Since 2009	Chairman (since 2009), Director and Portfolio Manager (since 1996), Chief Executive Officer or Co-Chief Executive Office (2002 – 2009), President (199 - 2007), Chief Investment Officer (2007 – 2009) Matthews; Vice President (1999 – 2007, 2009 – Present), President (2007 – 2008) the Funds; Director (2004-2008) Matthews Asian Selections Funds, PLC, Dublin, Ireland.
Robert Horrocks Born 1968	Vice President	Since 2009	Director of Research (2008 - Present) Matthews; Head of Research, Mirae Asset Management (2006 - 2008); Chief Investment Officer Everbright Prumerica ((2003 - 2006).
Taizo Ishida Born 1957	Vice President	Since 2009	Portfolio Manager (since 2006), Matthews; Vice-President and Portfolio Manager, Wellington Management Company (2000 - 2006).
Jesper Madsen Born 1976	Vice President	Since 2009	Portfolio Manager (since 2006), Research Analyst (2005-2006), Research Associate (2004 - 2005), Matthews; Associate, Charter Equity Research (2003 - 2004).
Michael Oh Born 1976	Vice President	Since 2009	Portfolio Manager (since 2006), Assistant Portfolio Manager (2003 - 2006), Research Analyst (2000 - 2003), Matthews.
Sharatt Shroff Born 1973	Vice President	Since 2009	Portfolio Manager (since 2006), Research Analyst (2005 - 2006) Matthews; Research Associate, Morgan Stanley Hong Kong and San Francisco (2001 - 2005).
Lydia So Born 1978	Vice President	Since 2009	Portfolio Manager (since 2008), Senior Research Analyst (2007), Research Analyst (2006 - 2007), Research Associate (2004-2006), Matthews; Portfolio Associate, RCM Capital Management (2001 - 2004).
Timothy B. Parker Born 1958	Vice President	Since 2008	General Counsel (since 2005), Matthews; Partner, Kirkpatrick & Lockhart Nicholson Graham LLP (2003 - 2005);Global Head of Compliance and Risk Management, Allianz Dresdner Asset Management (2001 - 2003); Managing Director, RCM Global Investors (1993 - 2001).
Manoj K. Pombra Born 1964	Chief Compliance Officer	Since 2005	Chief Compliance Officer, Matthews (since 2005); Senior Manager, Mutual Fund Compliance/Manager Portfolio Compliance, Franklin Templeton Investments (2001 - 2005); Senior Financial Reporting Manager, InfoUSA.com (2000 - 2001).

1. Each officer serves at the pleasure of the Board of Trustees. Officers are considered "interested persons" of the Trust as defined under the 1940 Act either because of an ownership interest in Matthews or an office held with the Trust of Matthews.

The primary responsibility of the Board is to represent the interests of the shareholders of the Funds and to provide oversight management of the Trust. At least 65% of the Board members are independent of the Funds and Matthews (the "Independent Trustees"). Currently the Board is comprised of five individuals, one of whom is considered an Interested Trustee as defined by the 1940 Act. The remaining Trustees are referred to as "Disinterested" or "Independent" Trustees. The Board meets multiple times during the year (*i.e.* at least quarterly) to review the investment performance of the Funds and other financial operational matters, including policies and procedures with respect to compliance with regulatory and other requirements. The Board met seven times during the fiscal year ended December 31, 2008. Currently, the Board has an Audit Committee, a Nominating

Committee and a Compensation Committee. Each such committee is composed solely of the Independent Trustees (currently, Messrs. Bobroff, Shibano and Zeschin, and Ms. Rossman). The Chairman and functions of each committee is set forth below.

Audit Committee Mr. Shibano, Chairman	The Audit Committee has the responsibility, among other things, to (1) recommend the selection of the Funds' independent registered public accounting firm; (2) review and approve the scope of the independent registered public accounting firm's audit activity; (3) review the financial statements which are the subject of the independent registered public accounting firm's certifications; and (4) review with such independent registered public accounting firm the adequacy of the Funds' basic accounting system and the effectiveness of the Funds' internal accounting controls. The Audit Committee met two times during the fiscal year ended December 31, 2008.
Nominating Committee Mr. Bobroff, Chairman	The Nominating Committee has the responsibility, among other things, to consider and nominate new Trustees to serve on the Funds' Board. The Nominating Committee does not currently consider nominations from shareholders, but will do so if required by any applicable law, in which case the Nominating Committee will provide shareholders with information as to how their nominations may be submitted for consideration. The Nominating Committee did not meet during the fiscal year ended December 31, 2008.
Compensation Committee Mr. Zeschin, Chairman	The Compensation Committee has the responsibility, among other things, to annually review and consider the compensation of the Board as well as the compensation of the Chief Compliance Officer. The Compensation Committee did not meet during the fiscal year ended December 31, 2008, however, the Independent Trustees met on two occasions to consider their compensation and the compensation of the Trustees and the Chief Compliance Officer.

The following table sets forth the dollar range of equity securities beneficially owned by each Trustee in each of the Funds and in all registered investment companies overseen by the Trustee within the same family of investment companies, as of December 31, 2008.

Name of Trustee	Dollar Range of Equity Securities in each of the Funds	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Trustee within the Family of Investment Companies
INDEPENDENT TRUSTEES		
Geoffrey H. Bobroff	▪ Matthews Asian Growth and Income Fund $10,001-$50,000 ▪ Matthews Pacific Tiger Fund $10,001-$50,000 ▪ Matthews Asian Technology Fund $1 - $10,000 ▪ Matthews Japan Fund $1 - $10,000	$50,001 - $100,000
Rhoda Rossman	▪ Matthews Asia Pacific Equity Income Fund $1 - $10,000 ▪ Matthews Asian Growth and Income Fund $10,001-$50,000 ▪ Matthews Japan Fund $10,001 - $50,000 ▪ Matthews India Fund $10,001-$50,000 ▪ Matthews Asia Small Companies Fund $1 - $10,000	$10,001 - $50,000
Toshi Shibano	▪ Matthews China Fund Above $100,000 ▪ Matthews India Fund $50,001-$100,000	Above $100,000
Jonathan F. Zeschin	▪ Matthews Asia Pacific Equity Income Fund Above $100,000	Above $100,000
INTERESTED TRUSTEES		
G. Paul Matthews	▪ Matthews Asia Pacific Equity Income Fund Above $100,000 ▪ Matthews Asian Growth and Income Fund Above $100,000 ▪ Matthews Asia Pacific Fund Above $100,000 ▪ Matthews Pacific Tiger Fund Above $100,000 ▪ Matthews Asian Technology Fund $10,001-$50,000 ▪ Matthews China Fund $10,001-$50,000 ▪ Matthews India Fund $1 - $10,000 ▪ Matthews Japan Fund $50,001-$100,000 ▪ Matthews Korea Fund $10,001-$50,000	Above $100,000

As of December 31, 2008, none of the Independent Trustees or their respective immediate family members (spouse or dependent children) owned beneficially or of record an interest in Matthews or the Funds' underwriter, or in any person directly or indirectly controlling, controlled by, or under common control with Matthews or the Funds' underwriter.

Shareholders' Voting Powers

On any matter submitted to a vote of shareholders, all shares shall be voted separately by the individual Fund, except that the shares shall be voted in the aggregate and not by individual Fund when (i) required by the 1940 Act; or (ii) the Board of Trustees has determined that the matters affect the interests of more than one Fund (*e.g.*, the election of a new member to the Board of Trustees of the Trust). Each whole share is entitled to one vote as to any matter on which it is entitled to vote, and each fractional share is entitled to a proportionate fractional vote.

Approval of Investment Advisory Agreement

The Trust has retained Matthews to manage the assets of each of the Funds pursuant to an investment advisory agreement (the "Advisory Agreement") that has been approved by the Board of Trustees of the Trust, including the Independent Trustees. Additional information regarding the Advisory Agreement may be found in the section entitled "Investment Advisory and Other Service Providers." The Advisory Agreement has an initial term of two years for each Fund and continues in effect from year to year thereafter provided such continuance is specifically approved at least annually by the vote of the holders of at least a majority of the outstanding shares of the respective Fund, or by the Board of Trustees, and in either event, by a majority of the Independent Trustees of the Trust casting votes in person at a meeting called for such purpose. A discussion regarding the basis for the Board of Trustees' approval of the Advisory Agreement for each Fund is available in the Funds' Annual Report to Shareholders for the fiscal year ended December 31, 2008.

Compensation

The fees and expenses of the Independent Trustees are allocated among the ten series of the Trust and paid by the Trust. The following table shows the fees paid during the fiscal year ended December 31, 2008 to the Independent Trustees for their service to the Funds and the total compensation paid to the Trustees by the Fund Complex.

	Fiscal Year End of 12-31-08			
Independent Trustee	Aggregate Compensation from the Trust	Pension or Retirement Benefits Accrued as Part of Fund Expenses	Estimated Annual Benefits Upon Retirement	Total Compensation From Fund Complex Paid to Trustees
Geoffrey H. Bobroff	$100,000	None	None	$100,000
Rhoda Rossman	$80,000	None	None	$80,000
Toshi Shibano	$86,000	None	None	$86,000
Jonathan F. Zeschin	$80,000	None	None	$80,000

No officer or employee of Matthews receives any compensation from the Funds for acting as an officer or employee of the Trust. The officers of the Trust receive no compensation directly from the Funds for performing the duties of their offices. Neither the Trustees nor the officers of the Trust receive any pension or retirement benefits from the Funds.

Code of Ethics

The Trust and Matthews have adopted a written Code of Ethics (the "Code") pursuant to Section 17(j) of the 1940 Act and Rule 17j-1 thereunder and Rule 204A-1 under the Advisers Act. The Code requires certain persons with access to investment information ("Access Persons") to obtain prior clearance before engaging in personal securities transactions. Transactions must be executed generally within 2 business days of clearance. In addition, all Access Persons must report their personal securities transactions within 10 days after the end of each calendar quarter or becoming an Access Person, and file an annual statement within 45 calendar days with respect to their personal securities holdings. Access Persons and members of their immediate family are prohibited from directly and indirectly acquiring beneficial ownership in any Asia Pacific security (excluding ownership of shares of an investment company registered under the 1940 Act). Any material violation of the Code is reported to the Board of Trustees. The Board of Trustees also oversees the administration of the Code. The Code of Ethics is on file with the SEC.

The Funds' principal underwriter has also adopted a Code of Ethics pursuant to Rule 17j-1.

Proxy Voting Policies and Procedures

The Board of Trustees of the Funds has delegated to Matthews the authority to vote proxies of companies held in each Fund's portfolio. Matthews has adopted written Proxy Voting Policies and Procedures ("Proxy Policies") to assist it in evaluating shareholder proposals. Matthews has retained the services of an independent proxy consultant, Institutional Shareholder Services, a division of Risk Metrics Group, Inc. ("ISS"), to receive and evaluate shareholder proposals, apply the Trust's Proxy Policies, effect proxy votes and maintain appropriate records.

For significant corporate matters, such as establishing pension or profit sharing plans, proposed mergers and acquisitions, and sales of assets, Matthews' Proxy Policies establish guidelines for evaluating the facts and circumstances of the particular proposal. In such circumstances, Matthews evaluates the proposal in light of the best interests of a Fund and its shareholders and votes accordingly. With respect to other, more routine, matters, Matthews Proxy Policies may establish certain standards that, if satisfied, will result in a vote for or against a proposal. Routine matters include (i) election of directors; (ii) approval of auditors; (iii) approval of dividends and distributions; (iv) confidential voting; and (v) limitation on charitable contributions or fees paid to professional advisors. However, even in these circumstances, Matthews reserves the right to evaluate each proposal individually, and to vote on the matter in a manner that Matthews believes is in the best interest of a Fund or its shareholders (even if that vote is inconsistent with Matthews' Proxy Policies). For example, while Matthews generally votes in favor of management's nominees for a board of directors, it may vote against management nominees if it believes that the board was entrenched or otherwise not acting in the best interests of shareholders. Matthews generally votes in the same manner for each of its clients that hold a security, subject to the individual objectives of each client. As a result, Matthews may vote in favor of a proposal for certain clients while voting against the same proposal for other clients. Matthews also reserves the right to revise, alter or supplement the Proxy Policies from time-to-time, which may result in different votes on similar issues over time.

There may be circumstances in which Matthews believes that refraining from voting on a matter submitted to shareholders is in the best interests of the Funds or its shareholders, such as when the cost of voting the proxy exceeds the expected benefit to the client. Similarly, voting on shareholder matters in foreign countries, particularly in emerging markets, may be subject to restrictions (including registration procedures that may result in a holding becoming illiquid for a period of time) and limitations that impede or make impractical the exercise of shareholder rights. Such limitations may include (i) untimely or inadequate notice of shareholder meetings; (ii) restrictions on the ability of holders outside the issuer's jurisdiction of organization to exercise votes; (iii) in person voting requirements; (iv) restrictions on the sale of securities for periods surrounding the shareholder meeting ("share blocking"); (v) granting local agents powers of attorney to facilitate voting instructions; (vi) proxy materials or ballots not being readily available; and (vii) proxy materials or ballots not being available in English.

There may be circumstances in which Matthews has or may be perceived to have a conflict or potential conflict of interest in voting on particular matters. Matthews' Proxy Policies attempt to minimize this potential by utilizing an independent consultant to monitor and apply its Proxy Policies. Matthews' Proxy Policies also provide for monitoring of conflicts and potential conflicts of interest circumstances. When a material conflict of interest is identified, Matthews votes proxies (i) in accordance with a pre-determined policy; (ii) based upon the recommendations of an independent third party; (iii) advises the Funds' Board of Trustees of the circumstances, seeks their direction, and votes accordingly; or (iv) takes other action as may be appropriate in the particular circumstances.

In addition to providing research and other proxy voting services, ISS, through its Corporate Services Division, offers products and services to issuers of proxy solicitations consisting of advisory and analytical services, self-assessment tools and publications. ISS has represented that employees of its Corporate Services Division are not involved in ISS' analysis of filed proxy proposals or preparation of vote recommendations. Nonetheless, ISS has adopted policies and procedures to guard against and to resolve any conflicts of interest that may arise in connection with its provision of research analyses, vote recommendations and voting services to Matthews.

Information regarding how the Funds (other than the Matthews Asia Small Companies Fund) voted proxies relating to portfolio securities during the 12-month period ended June 30, 2008 is available (1) without charge, by visiting matthewsasia.com or (2), by calling the Fund at (800) 789-ASIA [2742] and (3) on the SEC's website at sec.gov. Information regarding how the Matthews Asia Small Companies Fund votes proxies relating to portfolio securities during the 12-month period ending June 30, 2009 will be available after that date (1) without charge, by visiting matthewsasia.com or (2), by calling the Fund at (800) 789-ASIA [2742] and (3) on the SEC's website at sec.gov.

Control Persons and Principal Holders of Securities

As of March 31, 2009, the Trustees and officers as a group owned less than 1% of the outstanding shares of each of the Matthews Asia Funds other than the Matthews Asia Small Companies Fund. As a group, Trustees and officers of the Trust owned (beneficially or of record), as of March 31, 2009, approximately 10% of the equity securities of the Matthews Asia Small Companies Fund.

The tables below show, as of March 31, 2009, the persons who owned of record or beneficially more than 5% of the outstanding voting shares of the Funds. Any person owning more than 25% of the voting securities of a Fund may be deemed to have effective voting control over the operation of that Fund, which would diminish the voting rights of other shareholders.

Fund	Account Holders Name, Address	Percentage of Shares
Matthews Asian Growth and Income Fund	Charles Schwab & Co. Inc. FBO Special Custody Acct for Exclusive Benefit of Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104-4122	42.90%
	National Financial Services Corp FBO Exclusive Benefit of our customers c/o Sal Vella Customers Attn: Mutual Funds, 5th Floor 200 Liberty St. New York, NY 10281-1003	23.81%
	Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399-0001	6.27%
	Ameritrade Inc. For the exclusive benefit of our customers PO Box 2226 Omaha, NE 68103-2226	5.91%
Matthews Asia Pacific Equity Income Fund	Charles Schwab & Co. Inc. FBO Special Custody Acct for Exclusive Benefit of Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104-4122	37.10%
	National Financial Services Corp FBO Exclusive Benefit of our customers c/o Sal Vella Customers Attn: Mutual Funds, 5th Floor 200 Liberty St. New York, NY 10281-1003	30.81%

Fund	Account Holders Name, Address	Percentage of Shares
	Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399-0001	10.15%
Matthews Asia Pacific Fund	National Financial Services Corp FBO Exclusive Benefit of our customers c/o Sal Vella Customers Attn: Mutual Funds, 5th Floor 200 Liberty St. New York, NY 10281-1003	26.08%
	Merrill Lynch Pierce Fenner & Smith Inc. For the sole benefit of its customers Attn: Service Team 4800 Deer Lake Drive East, 3rd Floor Jacksonville, FL 32246	22.52%
	Charles Schwab & Co. Inc. FBO Special Custody Acct for Exclusive Benefit of Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104-4122	22.32%
	Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399-0001	7.45%
Matthews Pacific Tiger Fund	Charles Schwab & Co. Inc. FBO Special Custody Acct for Exclusive Benefit of Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104-4122	33.06%
	National Financial Services Corp FBO Exclusive Benefit of our customers c/o Sal Vella Customers Attn: Mutual Funds, 5th Floor 200 Liberty St. New York, NY 10281-1003	16.60%
	Northern Trust Company C/F Liberty Mutual Employees Thrift Incentive Plan-DV PO Box 92994 Chicago, IL 60675	5.87%

Fund	Account Holders Name, Address	Percentage of Shares
Matthews China Fund	Charles Schwab & Co. Inc. FBO Special Custody Acct for Exclusive Benefit of Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104-4122	33.59%
	National Financial Services Corp FBO Exclusive Benefit of our customers c/o Sal Vella Customers Attn: Mutual Funds, 5th Floor 200 Liberty St. New York, NY 10281-1003	32.22%
	Ameritrade Inc. For the exclusive benefit of our customers PO Box 2226 Omaha, NE 68103-2226	8.43%
	Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399-0001	6.39%
Matthews India Fund	National Financial Services Corp FBO Exclusive Benefit of our customers c/o Sal Vella Customers Attn: Mutual Funds, 5th Floor 200 Liberty St. New York, NY 10281-1003	37.01%
	Charles Schwab & Co. Inc. FBO Special Custody Acct for Exclusive Benefit of Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104-4122	24.53%
	Ameritrade Inc. For the exclusive benefit of our customers PO Box 2226 Omaha, NE 68103-2226	8.82%
	Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399-0001	7.93%

Fund	Account Holders Name, Address	Percentage of Shares
Matthews Japan Fund	National Financial Services Corp FBO Exclusive Benefit of our customers c/o Sal Vella Customers Attn: Mutual Funds, 5th Floor 200 Liberty St. New York, NY 10281-1003	34.15%
	Charles Schwab & Co. Inc. FBO Special Custody Acct for Exclusive Benefit of Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104-4122	27.19%
	Merrill Lynch Pierce Fenner & Smith Inc. For the sole benefit of its customers Attn: Service Team 4800 Deer Lake Drive East, 3rd Floor Jacksonville, FL 32246	13.12%
	Charles Atwood Company 136 E Michigan Ave STE 1201 Kalamazoo, MI 49007	6.19%
Matthews Korea Fund	National Financial Services Corp FBO Exclusive Benefit of our customers c/o Sal Vella Customers Attn: Mutual Funds, 5th Floor 200 Liberty St. New York, NY 10281-1003	28.18%
	Charles Schwab & Co. Inc. FBO Special Custody Acct for Exclusive Benefit of Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104-4122	25.53%
	Ameritrade Inc. For the exclusive benefit of our customers PO Box 2226 Omaha, NE 68103-2226	7.14%
	Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399-0001	5.08%

Fund	Account Holders Name, Address	Percentage of Shares
Matthews Asia Small Companies Fund	Ameritrade Inc. For the exclusive benefit of our customers PO Box 2226 Omaha, NE 68103-2226	41.82%
	Charles Schwab & Co. Inc. FBO Special Custody Acct for Exclusive Benefit of Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104-4122	23.68%
	National Financial Services Corp For Exclusive Benefit of our Customers Russ Lennon 200 Liberty Street New York, NY 10281	17.68%
Matthews Asian Technology Fund	Charles Schwab & Co. Inc. FBO Special Custody Acct for Exclusive Benefit of Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104-4122	41.85%
	National Financial Services Corp FBO Exclusive Benefit of our customers c/o Sal Vella Customers Attn: Mutual Funds, 5th Floor 200 Liberty St. New York, NY 10281-1003	25.83%
	Ameritrade Inc. For the exclusive benefit of our customers PO Box 2226 Omaha, NE 68103-2226	7.28%
	Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399-0001	5.95%

Investment Advisor, Underwriter and Other Service Providers

Investment Advisor

Currently the Trust employs only one investment advisor, Matthews International Capital Management, LLC. The Hambrecht 1980 Revocable Trust (“Hambrecht”), a family trust, has an ownership interest of more than 25% in Matthews, and City National Corporation, a holding company for a bank and other financial services companies (including a broker-dealer and wholly or partially owned investment advisers, “City”), has an ownership interest of 10%-25% in Matthews. G. Paul Matthews (who is a Portfolio Manager and a Managing Member of Matthews) and Mark W. Headley (who is the Chairman, a Portfolio Manager and a Managing Member of Matthews) each has an ownership interest of 10%-25% in Matthews. Representative of each of Hambrecht and City, as well as Mr. Matthews and Mr. Headley, are members of the Board of Directors of Matthews. Because of their ownership of, or positions with, Matthews, each of Hambrecht, City, Mr. Matthews and Mr. Headley may, for certain purposes, be deemed to be affiliated with or in control of Matthews. In addition, Mr. Matthews is a Trustee of the Funds, and Mr. Headley is a Vice President of the Funds, and Mr. Headley is a Co-Portfolio Manager of two of the Funds. For these reasons, each of Mr. Matthews and Mr. Headley may be deemed to be affiliated persons of the Funds.

Matthews performs its duties and is paid pursuant to its Advisory Agreement (the “Agreement“) with the Funds. Some of the terms of the Agreement are set by the 1940 Act, such as that after an initial two-year term, it is reviewed each year by the Board of Trustees and the Board may terminate it without penalty on 60 days’ notice.

The advisory services provided by Matthews and the fees received by it for such services are described in the Prospectus. As stated in the Prospectus, Matthews may, from time-to-time, voluntarily waive its advisory fees with respect to one or more of the Funds, but is not obligated to do so.

Under the Agreement, Matthews is not liable for any error of judgment or mistake of law or for any loss suffered by the Funds in connection with the performance of the Agreement, except a loss resulting from willful misfeasance, bad faith or gross negligence on its part in the performance of its duties or from reckless disregard of its duties and obligations thereunder.

The terms of the Agreement provide that it will continue from year to year provided that it is approved at least annually by the vote of the holders of at least a majority of the outstanding shares of each Fund, or by the Board of Trustees, including a majority of the Independent Trustees. The Agreement may be terminated with respect to a Fund by vote of the Board of Trustees or by the holders of a majority of the outstanding voting securities of each Fund, at any time without penalty, on 60 days’ written notice to Matthews. Matthews may also terminate its advisory relationship with respect to a Fund on 60 days’ written notice to that Fund. The Agreement can only be assigned with prior shareholder approval. In the event that the Agreement is assigned without shareholder approval, the Agreement automatically terminates.

Under the Agreement, each Fund is responsible for payment of all of its expenses except those specifically assumed by Matthews or another third party, including payment of the following expenses:

1. The fees and expenses of the Funds’ Independent Trustees;
2. The salaries and expenses of any of the Funds’ officers or employees who are not affiliated with Matthews;
3. Interest expenses;
4. Taxes and governmental fees;

5. Brokerage commissions and other expenses incurred in acquiring or disposing of portfolio securities;
6. The expenses of registering and qualifying shares for sale with the SEC and with various state securities commissions;
7. Accounting and legal costs;
8. Insurance premiums;
9. Fees and expenses of the Funds' custodian, administrator and transfer agent and any related services;
10. Expenses of obtaining quotations of the Funds' portfolio securities and of pricing the Funds' shares;
11. Expenses of maintaining the Funds' legal existence and of shareholders' meetings;
12. Expenses of preparation and distribution to existing shareholders of reports, proxies and prospectuses;
13. Fees and expenses of membership in industry organizations; and
14. Expenses related to the development and maintenance of the Funds' Compliance Program as required by the 1940 Act.

The ratio of each Fund's expenses to its relative net assets can be expected to be higher than the expense ratio of a fund investing solely in domestic securities, since the cost of maintaining the custody of foreign securities is generally higher than comparable expenses for such other funds and the rate of investment management fees paid by each Fund may also be higher than the comparable expenses of such other funds.

General expenses of the Trust such as costs of maintaining corporate existence, legal fees, insurance, etc., and expenses shared by the Funds will be allocated among the Funds on a basis deemed fair and equitable by the Board of Trustees, which may be based on the relative net assets of the Funds or the nature of the services performed and relative applicability to each Fund. Expenses which relate exclusively to a particular Fund, such as certain registration fees, brokerage commissions and other portfolio expenses, will be borne directly by that Fund.

The Funds, other than the Matthews Asia Small Companies Fund, 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, as amended on August 31, 2007, each of the Funds, other than the Matthews Asia Small Companies Fund, pays Matthews 0.75% of their aggregate average daily net assets from \$0 to \$2 billion, 0.6834% on their aggregate average daily net assets between \$2 billion and \$5 billion, and 0.65% on their aggregate average daily net assets over \$5 billion. During the fiscal years ended December 31, 2006, 2007 and 2008 the aggregate advisory fees earned by Matthews, before and after reimbursement, waiver or recapture of expenses ("Waivers") by Matthews (including voluntary fee waivers that ended on September 1, 2007 when the amended fee rates took effect), were as follows:

Fiscal Year Ended December 31	Aggregate Advisory Fees Earned by Matthews (before Waivers)	Aggregate Advisory Fees Earned by Matthews (after Waivers)
2006	$47,366,988	$46,875,514
2007	$64,659,052	$64,312,636
2008	$51,365,915	$51,277,039

The Matthews Asia Small Companies Fund pays Matthews pursuant to an amendment to the Advisory Agreement dated as of September 15, 2008 (i) for management and advisory services; and (ii) for certain administrative services, an annual fee as a percentage of average daily net assets. Under this amendment to the Advisory Agreement, this Fund pays Matthews 1.00% of its average daily net assets. In addition, under a Shareholder Services Agreement, the Funds pay Matthews a fee for administrative and shareholder services. See “Information about Shareholder Servicing and Administration,” on page 52.

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 Asian Technology Fund, Matthews China Fund, Matthews India Fund, Matthews Japan Fund and Matthews Korea Fund and Matthews Asia Small Companies Fund, this level is 2.00%. For Matthews Asia Pacific Fund, Matthews Pacific Tiger Fund and Matthews Asian Growth and Income Fund, the level is 1.90%. For Matthews Asia Pacific Equity Income Fund, this 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 the Matthews Asia Pacific Equity Income Fund and the Matthews Asia Small Companies Fund, this agreement will continue through at least August 31, 2009. For the Matthews Asia Pacific Equity Income Fund, this agreement will continue through at least October 31, 2009. For the Matthews Asia Small Companies Fund, this agreement will continue through at least April 30, 2012. These agreements may be extended for additional periods for each of the Funds.

	FYE 12-31-08		
Matthews Fund	**Gross Advisory Fees Earned**	**Advisor Fee Waivers and Expenses Waived, Reimbursed or Recaptured**	**Net Advisory Fees**
Asian Growth and Income Fund	$12,362,781	0	$12,362,781
Asia Pacific Equity Income Fund	$636,250	($24,543)	$611,707
Asia Pacific Fund	$2,324,677	0	$2,324,677
Pacific Tiger Fund	$18,120,660	0	$18,120,660
China Fund	$9,131,795	0	$9,131,795
India Fund	$5,406,179	0	$5,406,179
Japan Fund	$1,188,880	0	$1,188,880
Korea Fund	$1,063,450	0	$1,063,450
Asia Small Companies	$5.204[1]	($64,333)[1]	($59,129)[1]
Asian Technology Fund	$1,126,039	0	$1,126,039

Matthews Fund	FYE 12-31-07 Gross Advisory Fees Earned	Advisor Fee Waivers and Expenses Waived, Reimbursed or Recaptured	Net Advisory Fees
Asian Growth and Income Fund	$14,961,706	($82,082)	$14,879,624
Asia Pacific Equity Income Fund	$403,018	($12,048)	$390,970
Asia Pacific Fund	$3,260,012	($18,095)	$3,241,917
Pacific Tiger Fund	$24,797,262	($132,815)	$24,664,447
China Fund	$10,913,883	($48,009)	$10,865,874
India Fund	$5,723,352	($27,949)	$5,695,403
Japan Fund	$1,748,733	($10,749)	$1,737,984
Korea Fund	$1,635,352	($8,768)	$1,626,584
Asia Small Companies	[1]	[1]	[1]
Asian Technology Fund	$1,215,734	($5,901)	$1,209,833

Matthews Fund	FYE 12-31-06 Gross Advisory Fees Earned	Advisor Fee Waivers and Expenses Waived, Reimbursed or Recaptured	Net Advisory Fees
Asian Growth and Income Fund	$12,848,587	($136,023)	$12,712,564
Asia Pacific Equity Income Fund[1]	$14,962	($30,299)	($15,337)
Asia Pacific Fund	$2,722,715	($28,681)	$2,694,034
Pacific Tiger Fund	$19,540,448	($205,739)	$19,334,709
China Fund	$4,111,845	($42,966)	$4,068,879
India Fund	$2,918,233	$7,647	$2,925,880
Japan Fund	$2,614,584	($27,853)	$2,586,731
Korea Fund	$1,958,895	($20,894)	$1,938,001
Asia Small Companies[2]	N/A	N/A	N/A
Asian Technology Fund	$636,719	($6,666)	$630,053

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

Portfolio Managers

The following table shows information regarding other accounts managed by the Funds' Portfolio Managers as of December 31, 2008.

Name of Portfolio Manager	Account Category	Number of Accounts	Total Assets in Accounts	Number of Accounts Where Advisory Fee is Based on Account Performance	Total Assets in Accounts Where Advisory Fee is Based on Account Performance
Andrew T. Foster Lead Portfolio Manager of the Matthews Asian Growth and Income Fund; Co-Portfolio Manager of the Matthews Asia Pacific Equity Income, China, and India Funds	Registered Investment Companies	0	$0	0	0
	Other Pooled Investment Vehicles	1	$208,315,778	0	0
	Other Accounts	0	$0	0	0
Virgil Adams Co-Portfolio Manager of the Matthews Japan Fund	Registered Investment Companies	0	$0	0	0
	Other Pooled Investment Vehicles	0	$0	0	0
	Other Accounts	0	$0	0	0
Richard H. Gao Lead Portfolio Manager of the Matthews Pacific Tiger and China Funds	Registered Investment Companies	0	$0	0	0
	Other Pooled Investment Vehicles	1	$0	0	0
	Other Accounts	2	$134,912,297	0	0
Michael Han, CFA Co-Portfolio Manager of the Matthews Korea Fund	Registered Investment Companies	0	$0	0	0
	Other Pooled Investment Vehicles	0	$0	0	0
	Other Accounts	0	$0	0	0
Mark W. Headley Co-Portfolio Manager of the Matthews Pacific Tiger and Korea Funds	Registered Investment Companies	0	$0	0	0
	Other Pooled Investment Vehicles	0	$0	0	0
	Other Accounts	0	$0	0	0
Robert Horrocks Co-Portfolio Manager of the Matthews Asian Growth and Income Fund	Registered Investment Companies	0	$0	0	0
	Other Pooled Investment Vehicles	0	$0	0	0
	Other Accounts	0	$0	0	0

Name of Portfolio Manager	Account Category	Number of Accounts	Total Assets in Accounts	Number of Accounts Where Advisory Fee is Based on Account Performance	Total Assets in Accounts Where Advisory Fee is Based on Account Performance
Taizo Ishida Lead Portfolio Manager of the Matthews Asia Pacific and Japan Funds	Registered Investment Companies	0	$0	0	0
	Other Pooled Investment Vehicles	2	$9,238,763	0	0
	Other Accounts	0	$0	0	0
Noor Kamruddin Co-Portfolio Manager of the Matthews India and Asia Small Companies Funds	Registered Investment Companies	0	$0	0	0
	Other Pooled Investment Vehicles	0	$0	0	0
	Other Accounts	0	$0	0	0
Jesper Madsen, CFA Lead Portfolio Manager of the Matthews Asia Pacific Equity Income Fund	Registered Investment Companies	0	$0	0	0
	Other Pooled Investment Vehicles	0	$0	0	0
	Other Accounts	0	$0	0	0
J. Michael Oh Lead Portfolio Manager of the Matthews Asian Technology and Korea Funds	Registered Investment Companies	0	$0	0	0
	Other Pooled Investment Vehicles	0	$0	0	0
	Other Accounts	0	$0	0	0
Sharat Shroff, CFA, Lead Portfolio Manager of the Matthews Pacific Tiger and India Funds; Co-Portfolio Manager of the Matthews Asia Pacific Fund	Registered Investment Companies	0	$0	0	0
	Other Pooled Investment Vehicles	0	$0	0	0
	Other Accounts	2	$134,912,297	0	0
Lydia So Lead Portfolio Manager of the Matthews Asia Small Companies Fund; Co-Portfolio Manager of the Matthews Asian Technology Fund	Registered Investment Companies	0	$0	0	0
	Other Pooled Investment Vehicles	0	$0	0	0
	Other Accounts	0	$0	0	0

Portfolio Managers' compensation consists of a combination of base salary, fixed and discretionary bonuses, participation in the equity or revenues of the firm, and participation in benefit plans, which are generally available to all salaried employees. Compensation is structured to emphasize the success of both Matthews and the individual employee. Compensation is not linked to the distribution of the shares of the Funds. Key elements of compensation are detailed below:

Base Salary Each portfolio manager receives a fixed base salary that takes into account his or her experience and responsibilities and is intended to be competitive with salaries offered by other similar firms.

Bonus Matthews emphasizes teamwork and a focus on client needs. Bonuses are structured to emphasize those principles and are based on a number of factors including the profitability of Matthews and the employee's contributions to the firm, such as the pre-tax performance of accounts managed by the employee, leadership position in the firm and participation in firm marketing efforts and other activities. Performance is generally considered on an absolute basis over longer periods (five to ten years). However, market conditions and performance relative to the benchmark or peer group of a Fund or other account may also be considered.

Other Compensation Certain Portfolio Managers may receive compensation in the form of equity interests in Matthews or cash payments based upon a percent of Matthews' revenues. Matthews is a private limited liability company that provides pass-through treatment. Accordingly holders of equity interests may be allocated portions of Matthews' profits and losses, and may receive cash distributions. Such distributions may be made subject to certain required distributions and payments, Matthews' working capital requirements and similar considerations.

Benefit Programs Portfolio managers participate in benefit plans and programs available generally to all employees.

A Portfolio Manager's compensation arrangement may give rise to potential conflicts of interest. A Portfolio Manager's base pay tends to increase with additional and more complex responsibilities that include increased assets under management; and the bonuses of the Portfolio Managers relate to increases in asset levels under Matthews' management. Additional, as explained above, certain portfolio managers may receive equity-based compensation from Matthews. The management of or participation in the management of multiple Matthews Asia Funds and accounts may give rise to potential conflicts of interest among the Funds and accounts, as Portfolio Managers must allocate their time and investment ideas across Matthews Asia Funds or other accounts, which may pay different fees to Matthews and have different objectives, benchmarks and time horizons. A Portfolio Manager may execute transactions for a Matthews Asia Fund or other account that may adversely impact the value of securities held by the Fund. Any securities selected for a Matthews Asia Fund or other account may perform differently than the securities selected for another Matthews Asia Fund or other account. The Matthews Asia Funds and Matthews have adopted a trade management policy which they believe is reasonably designed to address potential conflicts of interest that may arise in managing multiple accounts. With respect to the allocation of investment opportunities (*i.e.*, investment ideas), Matthews has established policies and procedures that provide that all research conducted by any member of Matthews' investment team be generally available to every other member. However, Matthews Portfolio Managers may act upon applicable research at any time, and no account or investment mandate (*i.e.*, a group of accounts with similar investment objectives) has any general priority in the access to or allocation of any investment opportunity. However, Matthews may determine that priority to an investment opportunity should be established because of its limited availability, the difficulty of execution or other factors. Currently Matthews accords such priority with respect to (i) new accounts (such as the Matthews Asia Small Companies Fund) that invest in Asia Small Companies (as defined in the Prospectus); (ii) investments in Asia Small Companies in which no account managed by Matthews has previously invested; and (iii) accounts that focus on a specific country or sector and intend to invest in initial public offerings, secondary public offerings and private placements may be given priority in such opportunities to the extent they are associated with securities from a country or in a sector in which the account invests (*e.g.*, the Matthews China Fund may be accorded priority with respect to the initial public offering of a Chinese company).

The management of personal accounts may give rise to potential conflicts of interest; there is no assurance that the Trust's Code of Ethics will adequately address such conflicts.

The following table sets forth the dollar range of equity securities beneficially owned by each Portfolio Manager in each Fund and in all registered investment companies overseen by the Portfolio Manager within the family of investment companies, as of December 31, 2008.

Name of Portfolio Manager	**Dollar Range of Equity Securities in each Fund***
Andrew T. Foster	▪ Matthews Asia Pacific Equity Income Fund $50,001-$100,000 ▪ Matthews Asian Growth and Income Fund $100,001-$500,000 ▪ Matthews Asia Pacific Fund $1-$10,000 ▪ Matthews Pacific Tiger Fund $10,001-$50,000 ▪ Matthews Asian Technology Fund $1-$10,000 ▪ Matthews China Fund $10,001-$50,000 ▪ Matthews India Fund $50,001-$100,000 ▪ Matthews Japan Fund $10,001-$50,000 ▪ Matthews Korea Fund $10,001-$50,000 ▪ Matthews Asia Small Companies Fund $50,001-$100,000
Virgil Adams	▪ None
Richard H. Gao	▪ Matthews Asia Pacific Equity Income Fund $1-$10,000 ▪ Matthews Asian Growth and Income Fund $10,001-$50,000 ▪ Matthews Asia Pacific Fund $10,001-$50,000 ▪ Matthews Pacific Tiger Fund $1-$10,000 ▪ Matthews Asian Technology Fund $1-$10,000 ▪ Matthews China Fund $50,001-$100,000 ▪ Matthews India Fund $1-$10,000 ▪ Matthews Japan Fund $1-$10,000 ▪ Matthews Korea Fund $10,001-$50,000
Michael Han, CFA	▪ Matthews Korea Fund $1-$10,000 ▪ Matthews Asia Small Companies Fund $1-$10,000
Mark W. Headley	▪ Matthews Asia Pacific Equity Income Fund $100,001-$500,000 ▪ Matthews Asian Growth and Income Fund $50,001-$100,000 ▪ Matthews Asia Pacific Fund $50,001-$100,000 ▪ Matthews Pacific Tiger Fund $100,001-$500,000 ▪ Matthews Asian Technology Fund $50,001-$100,000 ▪ Matthews China Fund $50,001-$100,000 ▪ Matthews India Fund $100,001-$500,000

Name of Portfolio Manager	Dollar Range of Equity Securities in each Fund*
	▪ Matthews Japan Fund $100,001-$500,000 ▪ Matthews Korea Fund $50,001-$100,000 ▪ Matthews Asia Small Companies Fund $100,001-$500,000
Robert Horrocks	▪ Matthews Asian Growth and Income Fund $100,001-$500,000 ▪ Matthews Asia Pacific Fund $100,001-$500,000
Taizo Ishida	▪ Matthews Asia Pacific Fund $50,001-$100,000 ▪ Matthews Japan Fund $100,001-$500,000
Noor Kamruddin	▪ Matthews Asia Pacific Fund $10,001-$50,000 ▪ Matthews China Fund$1-$10,000 ▪ Matthews India Fund $10,001-$50,000 ▪ Matthews Asia Small Companies Fund $1-$10,000

Name of Portfolio Manager	Dollar Range of Equity Securities in each Fund*
Jesper Madsen, CFA	▪ Matthews Asia Pacific Equity Income Fund $10,001-$50,000 ▪ Matthews Asian Growth and Income Fund $50,001-$100,000 ▪ Matthews Asia Pacific Fund $1-$10,000 ▪ Matthews Japan Fund $10,001-$50,000 ▪ Matthews Korea Fund $1-$10,000
J. Michael Oh	▪ Matthews Asia Pacific Equity Income Fund $1-$10,000 ▪ Matthews Asian Growth and Income Fund $1-$10,000 ▪ Matthews Pacific Tiger Fund $1 - $10,000 ▪ Matthews Asian Technology Fund $10,001-$50,000 ▪ Matthews China Fund $1-$10,000 ▪ Matthews India Fund $1-$10,000 ▪ Matthews Japan Fund $1 - $10,000 ▪ Matthews Korea Fund $10,001-$50,000 ▪ Matthews Asia Small Companies Fund $1-$10,000
Sharat Shroff, CFA	▪ Matthews Asia Pacific Equity Income Fund $1-$10,000 ▪ Matthews Asia Pacific Fund $1-$10,000 ▪ Matthews Pacific Tiger Fund $10,001-$50,000 ▪ Matthews China Fund $1-$10,000 ▪ Matthews India Fund $10,001-$50,000 ▪ Matthews Japan Fund $1-$10,000 ▪ Matthews Korea Fund $1-$10,000 ▪ Matthews Small Companies Fund $1-$10,000 ▪ Matthews Asian Technology Fund $1-$10,000
Lydia So	▪ Matthews Asia Pacific Fund $1-$10,000 ▪ Matthews Pacific Tiger Fund $1 - $10,000 ▪ Matthews Asia Small Companies Fund $1 - $10,000

Principal Underwriter

The Trust entered into an Underwriting Agreement dated December 31, 2000, as amended (the "Underwriting Agreement") with PFPC Distributors, Inc., which is currently located at 760 Moore Road, King of Prussia, PA 19406 ("PFPC Distributors" or the "Underwriter"). PFPC Distributors acts as the statutory principal underwriter of the Funds' shares for the purpose of facilitating the registration of shares of the Funds under state securities laws and assists in the continuous offering of shares, on an agency basis. The Underwriting Agreement has been approved by the Board of Trustees. Matthews compensates PFPC Distributors for its services to the Funds.

Pursuant to the Underwriting Agreement, PFPC Distributors has agreed to qualify as a broker-dealer under all applicable federal or state laws in those states that the Trust shall from time to time identify to PFPC Distributors as states in which it wishes to offer its shares for sale, in order that state registrations may be maintained for the Funds. PFPC Distributors is a broker-dealer registered with the SEC and a member in good standing of the Financial Industry Regulatory Authority, Inc. (formerly, the National Association of Securities Dealers, Inc.).

The Trust has agreed to indemnify PFPC Distributors from losses relating to PFPC Distributors' assumption of the principal underwriter function and from prospectus and sales material disclosure liability.

Rule 12b-1 Plan (Distribution Plan)

The Trust's 12b-1 Plan (the "Plan") is inactive. The Plan authorizes the use of the Funds' assets to compensate parties that provide distribution assistance or shareholder services, including, but not limited to, printing and distributing prospectuses to persons other than shareholders, printing and distributing advertising and sales literature and reports to shareholders used in connection with selling shares of the Funds, and furnishing personnel and communications equipment to service shareholder accounts and prospective shareholder inquiries. Although the Plan currently is not active, it is reviewed by the Board annually in the event that the Board determines it is necessary to re-activate the Plan. The Plan would not be re-activated without prior notice to shareholders and any amounts payable under the Plan would be subject to applicable operating expense limitations agreed to by Matthews.

Shareholder Servicing and Administration, and other Service Providers

Shareholder Servicing and Administration

PNC Global Investment Servicing (U.S.) Inc., formerly PFPC Inc., ("PNC" or the "Administrator"), provides certain administrative services to the Trust pursuant to a Second Amended and Restated Investment Company Services Agreement dated as of April 1, 2007 (the "Investment Company Services Agreement"). Under the Investment Company Services Agreement, PNC: (i) coordinates with the custodian and transfer agent and monitors the services they provide to the Funds; (ii) coordinates with and monitors any other third parties furnishing services to the Funds; (iii) provides the Funds with necessary office space, telephones and other communications facilities and personnel competent to perform administrative and clerical functions; (iv) supervises the maintenance by third parties of such books and records of the Funds as may be required by applicable federal or state law; (v) prepares or supervises the preparation by third parties of all federal, state and local tax returns and reports of the Funds required by applicable law; (vi) prepares and files and arranges for the distribution of proxy materials and periodic reports to shareholders of the Funds as required by applicable law; (vii) prepares and arranges for the filing of such registration statements and other documents with the SEC and other federal and state regulatory authorities as may be required by applicable law; (viii) reviews and submits to the officers of the Trust for their approval invoices or other requests for payment of the Funds' expenses and instructs the custodian to issue checks in payment thereof; and (ix) takes such other action with respect to the Trust or the Funds as may be necessary in the opinion of the Administrator to perform its duties under the Investment Company Services Agreement.

In addition, pursuant to the Investment Company Services Agreement, PNC provides certain transfer agency and other shareholder services for shareholders who open accounts directly with PNC. Such services include maintaining shareholder accounts, generating shareholder statements, providing taxpayer information, and performing related servicing generally (collectively, "transfer agency and shareholder services").

During the fiscal year ended December 31, 2008, and during the fiscal years ended 2007 and 2006 (under a predecessor agreement with the Administrator), the aggregate amounts paid to the Administrator by the Funds totaled $1,341,577 for 2008, $1,876,505 and $2,049,691, for 2007 and 2006, respectively, and are broken down as follows:

Matthews Fund	**Fees Paid to Administrator During FYE 12-31-06***	**Fees Paid to Administrator During FYE 12-31-07***	**Fees Paid to Administrator During FYE 12-31-08**
Asia Pacific Equity Income Fund	$178**	$10,614	$16,724
Asian Growth and Income Fund	$558,198	$439,316	$323,267
Asia Pacific Fund	$117,032	$95,714	$60,755
Pacific Tiger Fund	$849,162	$725,239	$473,270
Asian Technology Fund	$26,196	$34,336	$29,398
China Fund	$177,341	$307,484	$238,301
India Fund	$125,207	$164,443	$140,871
Japan Fund	$112,474	$52,185	$31,151
Korea Fund	$83,903	$47,174	$27,741
Asia Small Companies Fund	N/A	N/A	$99†

* Fee paid to PNC after waiver of $25,000 in 2006 and $6,250 in 2007. The waived amount was allocated equally to each Fund for the year of portion thereof.

** The Matthews Asia Pacific Equity Income Fund commenced operations on October 31, 2006.

† The Matthews Asian Small Companies Fund commenced operations on September 15, 2008.

For shareholders who purchase shares through a broker or other financial intermediary (sometimes called fund "supermarkets"), some or all transfer agency and shareholder services may be performed by that intermediary. The services provided by supermarkets (although they vary from supermarket to supermarket) generally include the following: acceptance, processing and settlement of specific shareholder transactions (purchases, redemptions and exchanges); establishing and maintaining transaction clearing relationships; establishing and maintaining individual shareholder records; providing and maintaining periodic and transaction-specific reporting; maintaining shareholder records regarding share splits, reorganizations and other corporate actions; performing anti-money laundering and related regulatory compliance functions that relate to individual shareholders; responding to inquiries regarding the Funds as well as the status of accounts and transactions made by shareholders who own shares through that supermarket; processing redemption fees; providing net asset value, dividend and distribution information to shareholders; and assisting with shareholder communications. Some fund supermarkets also provide the following services: next-day transaction processing services; 24-hour transaction services; performance estimates; research; fund ratings (*e.g.,* Lipper and Morningstar ratings); risk analysis; fund facts and fees; tax information and analysis; independent due diligence of funds; tax lot accounting; internet services; and access to other financial products (*e.g.*, banking and credit). You should contact your supermarket to determine the specific services available to you.

For performing transfer agency and shareholder services, the supermarket may seek compensation from the Funds or Matthews. In some cases, the services for which compensation is sought may be bundled with services not related to shareholder servicing, and may include distribution fees. The Board of Trustees has made a reasonable allocation (and periodically reviews the allocation) of the portion of bundled fees, and Matthews pays from its own resources that portion of the fees that the Board of Trustees determines may represent compensation to supermarkets for distribution services.

The Trust has also entered into an Administration and Shareholder Services Agreement with Matthews as of August 13, 2004, as amended (the "Shareholder Services Agreement"). Pursuant to the Shareholder Services Agreement, Matthews provides a range of administrative services that focus on the servicing needed by the Funds and oversight and coordination of their various service providers, as distinct from the services provided by PNC and supermarkets to shareholder accounts. Matthews' services may include, on a continuous basis: responding to shareholder communications that come to Matthews directly, indirectly via PNC or a supermarket, or via the Funds' website; providing regular communications and investor education materials to shareholders; communicating with investment advisors whose clients own or hold shares of the Funds and providing such other information as may reasonably be requested by shareholders or certain services not provided by the Funds' transfer agent or by fund supermarkets. Matthews also provides, on a continuous basis, the following administration services: oversight of the activities of PNC as the Funds' transfer agent (including the transfer agent's call center operations); oversight of the Funds' accounting agent, custodian and PNC's administrative functions; assisting with the daily calculation of Fund net asset values; overseeing each Fund's compliance with its legal, regulatory and ethical policies and procedures; assisting with the preparation of agendas and other materials drafted by other parties, such as PNC, for Board meetings; providing such other information and assistance to shareholders as they may reasonably request; coordinating and executing the offering (or closure) of a Fund; and general oversight of the vendor community at large as well as industry trends to ensure that shareholders are receiving quality service and technical support.

Under the Shareholder Services Agreement, the Funds pay an annual administration and shareholder servicing fee to Matthews, as a percentage of the average daily net assets of the Funds in aggregate, computed and prorated on a daily basis. Under an amendment to the Shareholder Services Agreement, effective September 1, 2007, the Funds pay 0.25% of their aggregate average daily net assets between $0 and $2 billion, 0.1834% of their aggregate average daily net assets between $2 billion and $5 billion, 0.15% of their aggregate average daily net assets between $5 billion and $7.5 billion, and 0.125% of their aggregate average daily net assets over $7.5 billion. Fees charged and waived or reimbursed under the shareholder servicing fee arrangement during the fiscal years ended December 31, 2008, 2007 and 2006 were as follows:

Matthews Fund	FYE 12-31-08 Administration and Shareholder Servicing Fees	Administration and Shareholder Servicing Fees Reimbursed	Total	Fee in Basis Points
Asian Growth and Income Fund	$3,357,765	0	$3,357,765	0.19%
Asia Pacific Equity Income Fund	$175,537	0	$175,537	0.19%
Asia Pacific Fund	$629,152	0	$629,152	0.19%
Pacific Tiger Fund	$4,900,833	0	$4,900,833	0.19%
China Fund	$2,467,959	0	$2,467,959	0.19%
India Fund	$1,454,344	0	$1,454,344	0.19%
Japan Fund	$324,805	0	$324,805	0.19%
Korea Fund	$286,904	0	$286,904	0.19%
Asia Small Companies Fund*	$1,115	0	$1,115	0.21%
Asian Technology Fund	$303,972	0	$303,972	0.19%

Matthews Fund	FYE 12-31-07 Administration and Shareholder Servicing Fees	Administration and Shareholder Servicing Fees Reimbursed	Total	Fee in Basis Points
Asian Growth and Income Fund	$3,946,001	($82,082)	$3,863,919	0.18%
Asia Pacific Equity Income Fund	$105,521	($1,943)	$103,578	0.18%
Asia Pacific Fund	$860,430	($18,095)	$842,335	0.18%
Pacific Tiger Fund	$6,531,217	($132,815)	$6,398,402	0.18%
China Fund	$2,847,637	($48,009)	$2,799,628	0.18%
India Fund	$1,500,602	($27,949)	$1,472,653	0.18%
Japan Fund	$464,273	($10,749)	$453,524	0.18%
Korea Fund	$430,725	($8,768)	$421,957	0.18%
Asia Small Companies Fund*	N/A	N/A	N/A	N/A
Asian Technology Fund	$318,691	($5,901)	$312,790	0.18%

Matthews Fund	FYE 12-31-06 Administration and Shareholder Servicing Fees	Administration and Shareholder Servicing Fees Reimbursed	Total	Fee in Basis Points
Asian Growth and Income Fund	$3,697,126	($136,022)	$3,561,104	0.19%
Asia Pacific Equity Income Fund**	$4,182	($138)	$4,044	0.19%
Asia Pacific Fund	$782,661	($28,681)	$753,980	0.19%
Pacific Tiger Fund	$5,616,404	($205,739)	$5,410,665	0.19%
China Fund	$1,179,902	($42,965)	$1,136,937	0.19%
India Fund	$834,931	($30,042)	$804,889	0.19%
Japan Fund	$753,381	($27,853)	$725,528	0.19%
Korea Fund	$564,558	($20,894)	$543,664	0.19%
Asia Small Companies Fund*	N/A	N/A	N/A	N/A
Asian Technology Fund	$182,783	($6,665)	$176,118	0.19%

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

** The Matthews Asia Pacific Equity Income Fund commenced operations on October 31, 2006.

Transfer Agent

PNC Global Investment Servicing (U.S.) Inc. ("PNC") is currently located at 760 Moore Road, King of Prussia, PA 19406 and provides transfer agency and dividend disbursing agent services for the Funds. As part of these services, PNC maintains records pertaining to the sale, redemption and transfer of each Fund's shares and distributes each Fund's cash distributions to shareholders.

Custodian

Brown Brothers Harriman & Co., 40 Water Street, Boston, MA 02109 is the custodian of the Trust's assets pursuant to a custodian agreement. Under the custodian agreement, Brown Brothers Harriman & Co. (i) maintains a separate account or accounts in the name of each Fund, (ii) holds and transfers portfolio securities on account of each Fund, (iii) accepts receipts and makes disbursements of money on behalf of each Fund, (iv) collects and receives all income and other payments and distributions on account of each Fund's securities, and (v) makes periodic reports to the Board of Trustees concerning each Fund's operations.

Counsel to the Trust

Paul, Hastings, Janofsky & Walker LLP, 55 Second Street, 24th Floor, San Francisco, CA 94105 serves as counsel to the Trust.

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP, Three Embarcadero Center, San Francisco, CA 94111, serves as the independent registered public accounting firm of the Trust. The firm provides audit services and assistance and consultation with respect to regulatory filings with the SEC. The books of each Fund will be audited at least once each year by PricewaterhouseCoopers LLP.

Brokerage Allocation and Other Practices

Matthews is responsible for effecting portfolio transactions and will do so in a manner deemed fair and reasonable to the Funds. The primary consideration in all portfolio transactions will be seeking the best execution of the transaction taking into account the net proceeds of the transaction as well as qualitative factors.

In selecting and monitoring broker-dealers and negotiating commissions, Matthews may consider a number of factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution and error resolution, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future and other matters involved in the receipt of brokerage services generally.

Matthews may also purchase from a broker or allow a broker to pay for certain execution-related and research services, including economic and market information, portfolio strategy advice, industry and company comments, technical data, recommendations, general reports, consultations, performance measurement data, on-line pricing and news services. The Funds do not engage in "directed brokerage," or the compensation of a broker-dealer for promoting or selling the Funds' shares by directing portfolio securities transactions to that broker or dealer.

Matthews may cause the Funds to pay a brokerage commission in excess of that which another broker-dealer might charge for effecting the same transaction in recognition of the value of these execution-related and research services. In such a case, however, Matthews will determine in good faith that such commission is reasonable in relation to the value of brokerage and research provided by such broker-dealer, viewed in terms of either the specific transaction or Matthews' overall responsibilities to the portfolios over which Matthews exercises investment authority. Research services furnished by brokers through whom Matthews intends to effect securities transactions may be used in servicing all of Matthews' accounts; not all of such services may be used by Matthews in connection with accounts that paid commissions to the broker providing such services. In conducting all of its soft dollar relationships, Matthews will seek to take advantage of the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended.

Matthews will attempt to allocate portfolio transactions among the Funds and other accounts on a fair basis whenever concurrent decisions are made to purchase or sell securities by the Funds and other accounts. In making such allocations between the Funds and others, the main factors to be considered are the respective investment objectives, the relative size of portfolio holdings of the same or comparable securities, the availability of cash for investment, the size of investment commitments generally held and the opinions of the persons responsible for recommending investments to the Funds and the other accounts. In some cases, this procedure could have an adverse effect on the Funds. In the opinion of Matthews, however, the results of such procedures will, on the whole, be in the best interests of each of the accounts it manages.

For the fiscal years ended December 31, 2008, 2007 and 2006, the aggregate brokerage commissions paid by the Trust on behalf of the Funds amounted to $10,090,356, $10,286,749 and $10,124,388, respectively. All such amounts were considered by the Fund in directing transactions to a broker dealer because of proprietary or third party research services provided by such broker dealers. The aggregate brokerage commissions attributable to each Fund are set forth below.

Matthews Fund	Brokerage Commissions Paid During FYE 12-31-06	Brokerage Commissions Paid During FYE 12-31-07	Brokerage Commissions Paid During FYE 12-31-08
Asian Growth and Income Fund	$1,725,534	$1,739,207	$1,942,518
Asia Pacific Equity Income Fund*	$39,754	$136,038	$254,112
Asia Pacific Fund	$827,164	$687,287	$682,640
Pacific Tiger Fund	$3,969,871	$4,099,788	$3,655,021
China Fund	$750,423	$1,508,360	$1,174,206
India Fund	$1,373,211	$1,141,449	$1,237,658
Japan Fund	$759,823	$351,730	$443,332
Korea Fund	$418,955	$317,723	$342,451
Asia Small Companies Fund**	N/A	N/A	$6,250
Asian Technology Fund	$259,653	$305,167	$352,168

* The Matthews Asia Pacific Equity Income Fund commenced operations on October 31, 2006.
** The Matthews Asia Small Companies Fund commenced operations on September 15, 2008.

Each Fund may at times invest in securities of its regular broker-dealers or the parent of its regular broker-dealers. The Funds did not hold any securities of their regular broker-dealers as of December 31, 2008.

The Funds did not engage in any brokerage transactions involving any brokers that are affiliated with the Trust or Matthews during the fiscal year ended December 31, 2008.

Shares of Beneficial Interest

The Funds are authorized to issue an unlimited number of shares of beneficial interest, each with a $0.001 par value. Shares of a particular Fund represent equal proportionate interests in the assets of that Fund only, and have identical voting, dividend, redemption, liquidation and other rights. All shares issued are fully paid and non-assessable, and shareholders have no preemptive or other right to subscribe to any additional shares and no conversion rights.

Each whole share is entitled to one vote as to each matter on which it is entitled to vote, and each fractional share is entitled to a proportionate fractional vote. The voting rights of shareholders can be changed only by a shareholder vote.

Each Fund may be terminated upon the sale and conveyance of its assets to another Fund, partnership, association, corporation, or entity, or upon the sale and conversion into money of its assets. The Trustees may terminate or sell all or a portion of the assets of the Fund without prior shareholder approval. In the event of the dissolution or liquidation of a Fund, shareholders of the Fund are entitled to receive the underlying assets of a Fund available for distribution.

The validity of shares of beneficial interest offered by this registration statement has been passed on by Paul, Hastings, Janofsky & Walker LLP, 55 Second Street, 24th Floor, San Francisco, CA 94105.

All accounts will be maintained in book entry form and no share certificates will be issued.

Purchase, Redemption and Pricing of Shares

Purchase of Shares

The shares are offered to the public through the Underwriter or through investment professionals who may charge a fee for their services.

Determination of Net Asset Value

Generally, the NAV per share of each Fund will be determined as of the close of trading on each day the New York Stock Exchange ("NYSE") is open for trading. The Funds do not determine NAV on days that the NYSE is closed and at other times described in the Prospectus. However, the Funds may, under extraordinary circumstances, calculate the NAV of their respective shares on days on which the NYSE is closed for trading. The NYSE is closed on the days on which the following holidays are observed: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Additionally, if any of the aforementioned holidays falls on a Saturday, the NYSE will not be open for trading on the preceding Friday and when such holiday falls on a Sunday, the NYSE will not be open for trading on the succeeding Monday, unless unusual business conditions exist, such as the ending of a monthly or the yearly accounting period.

The value of the Funds' exchange-traded securities is based on market quotations for those securities, or on their fair value determined by or under the direction of the Funds' Board of Trustees (as described below). Market quotations are provided by pricing services that are independent of the Funds and Matthews. Foreign exchange-traded securities are valued as of the close of trading on the primary exchange on which they trade. Securities that trade in over-the-counter markets, including most debt securities (bonds), may be valued 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 Funds' Board of Trustees (as described below). The Funds may also utilize independent pricing services to assist them in determining a current market value for each security based on sources believed to be reliable.

In addition, 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, including the Matthews India Fund, 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.

Short-term fixed-income securities having a maturity of 60 days or less are valued at amortized cost, which the Board of Trustees believes represents fair value. When a security is valued at amortized cost, it is first valued at its purchase price. After it is purchased, it is valued by assuming a constant amortization to maturity of any discount or premium (because the Funds are highly likely to hold the security until it matures and then receive its face value), regardless of the way of changing interest rates could change the market value of the instrument.

Generally portfolio securities subject to a "foreign share" premium are valued at the local share prices (*i.e.*, without including any foreign share premium). In addition, in certain countries shares may be purchased in a local class or, subject to certain limitations, in a class reserved for foreign purchasers. Foreign classes of securities frequently trade at a premium when any purchase limitations have been met. In such cases shares held in a foreign class will be valued at the foreign class price. However, foreign class shares will be valued at the local class price if either the foreign class is not full or the foreign class is not trading.

Foreign values of the Funds' securities are converted to U.S. dollars using exchange rates determined as of the close of trading on the NYSE and in accordance with the Funds' Pricing Policies. The Funds generally use the foreign currency exchange rates deemed to be most appropriate by a foreign currency pricing service that is independent of the Funds and Matthews.

Trading in securities on Asia Pacific exchanges and over-the-counter markets is normally completed well before the close of the business day in New York. In addition, securities trading in Asia Pacific may not take place on all business days in New York. Furthermore, trading takes place in markets of Asia Pacific and in various foreign markets on days that are not business days on which the NYSE is open and therefore the Funds' NAV are not calculated.

The Funds have a Valuation Committee, comprised of at least one Trustee of the Trust, as well as certain employees of Matthews (some of whom may also be officers of the Funds), which reviews and monitors the pricing policies adopted by the Board. The Valuation Committee is responsible for determining the fair value of the Funds' securities as needed in accordance with the pricing policies and performs such other tasks as the Board deems necessary. The Valuation Committee meets on an ad hoc basis to discuss issues relating to the valuation of securities held by the Funds. Committee members are required to report actions taken at their meetings at the next scheduled Board meeting following the Valuation Committee's meeting.

Pursuant to its policies and procedures, the Funds value any exchange-traded security for which market quotations are unavailable or have become unreliable, and any over-the-counter security for which indicative quotes are unavailable, at that security's fair market value. In general, the fair value of such securities is determined, in accordance with the Funds' Pricing Policies and subject to the Board's oversight, by a pricing service retained by the Funds that is independent of the Funds and Matthews. There may be circumstances in which the Funds' independent pricing service is unable to provide a reliable price of a security. In addition, when establishing a security's fair value, the independent pricing service may not take into account events that occur after the close of Asian markets but prior to the time the Funds calculate their NAVs. Similarly, there may be circumstances in which a foreign currency exchange rate is deemed inappropriate for use by the Funds or multiple appropriate rates exist. In such circumstances, the Board of Trustees has delegated the responsibility of making fair-value determinations to a Valuation Committee. In these circumstances, the Valuation Committee will determine the fair value of a security, or a fair exchange rate, in good faith, in accordance with the Funds' Pricing Policies and subject to the oversight of the Board. When fair value pricing is employed (whether through the Funds' independent pricing service or the Valuation Committee), the prices of a security used by a Fund to calculate its NAV typically differ from quoted or published prices for the same security for that day. In addition, changes in a Fund's NAV may not track changes in published indices of, or benchmarks for, Asian Pacific securities. Similarly, changes in a Fund's NAV may not track changes in the value of closed-end investment companies, exchange-traded funds or other similar investment vehicles.

Assets or liabilities initially expressed in terms of foreign currencies are translated prior to the next determination of the NAV of the Funds' shares into U.S. dollars at the prevailing market rates, as determined in accordance with the Funds' Pricing Policies.

Redemption in Kind

At the organizational meeting of the Trust, the Trustees directed that the Trust elect to pay redemptions in cash as consistent with Rule 18f-1 of the 1940 Act. The Trustees further directed that Form N-18F-1 be filed with the SEC on the Trust's behalf committing the Trust to pay in cash all requests for redemption by any shareholder of record, limited in amount with respect to each shareholder during any 90 calendar day holding period to the lesser of $250,000 or 1% of the NAV of the Fund at the beginning of such period. This means that the Trust could, if the redemption is larger than $250,000 or 1% of the net asset value of the Fund, pay a redemption with the securities held in the Fund's portfolio. If this occurred, the shareholder receiving these portfolio securities would incur transaction charges if such shareholder were to convert the securities into cash. Due to market restrictions in certain markets, the option of the Funds to redeem in kind may be limited.

Equalization

For any of its fiscal years, a Fund may use an accounting method (known as "equalization") that is designed to allocate equitably the tax burden of that Fund to all of its shareholders regardless of when during a tax year an individual shareholder redeemed (if ever) his or her shares of the Fund. Equalization allocates a pro rata share of taxable income to departing shareholders when they redeem shares of the Funds, reducing the amount of the distribution to be made to remaining shareholders of each Fund.

Dividends and Distributions

Dividends from net investment income, if any, are normally declared and paid by the Funds in December. Capital gains distributions, if any, are normally made after October 31. The Funds may make additional payments of dividends or distributions if they deem it to be desirable and in the best interests of shareholders at other times during the year. The Matthews Asia Pacific Equity Income Fund seeks to distribute income quarterly in March, June, September and December. The Matthews Asian Growth and Income Fund seeks to distribute income twice each year, generally in June and December. Any dividend or distributions paid by the Funds have the effect of reducing the net asset value per share on the record date by the amount of the dividend of distribution. To the extent the Funds make a mid-year distribution of realized capital gains, the Funds run the risk of over-distributing because subsequent capital losses realized prior to October 31 may more than offset the amount of the distribution. An over-distribution of capital gains is in effect a return of capital. Therefore, the Funds will only make a special mid-year distribution of capital gains in circumstances where the Board of Trustees has determined that it is more likely than not to be in the best interests of shareholders generally and that the amount of the distribution is not likely to result in an unintended return of capital.

Taxation of the Funds

In General

Each Fund has elected and intends to continue to qualify each year as a regulated investment company under Subchapter M of the Code. In order to so qualify for any taxable year, a fund must, among other things, (i) derive at least 90% of its gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale of securities or foreign currencies, or other income (including but not limited to gains from options, futures or forward contracts) derived with respect to its business of investing in such stock, securities or currencies, and net income derived from an interest in a qualified publicly traded partnership; (ii) distribute at least 90% of its dividend, interest and certain other income each year; and (iii) at the end of each fiscal quarter maintain at least 50% of the value of its total assets in cash, government securities, securities of other regulated investment companies, and other securities of issuers which represent, with respect to each issuer, no more than 5% of the value of a fund's total assets and 10% of the outstanding voting securities of such issuer, and have no more than 25% of its assets invested in the securities (other than those of the U.S. Government or other regulated investment companies) of any one issuer, or of two or more issuers which the fund controls and which are engaged in the same, similar or related trades and businesses, or of one or more qualified publicly traded partnerships.

To the extent each Fund qualifies for treatment as a regulated investment company, they will not be subject to Federal income tax on income paid to shareholders in the form of dividends or capital gains distributions.

An excise tax will be imposed on the excess, if any, of a Fund's "required distributions" over actual distributions in any calendar year. Generally, the "required distribution" is 98% of a Fund's ordinary income for the calendar year plus 98% of its net capital gains recognized during the one-year period ending on October 31 plus undistributed and untaxed amounts from prior years. The Funds intend to make distributions sufficient to avoid imposition of the excise tax. Dividends declared by the Funds during October, November or December to shareholders of record during such months and paid by January 31 of the following year. Such distributions will be taxable in the year they are declared, rather than the year in which they are received.

Shareholders will be subject to federal income taxes on distributions made by the Funds whether received in cash or additional shares of the Fund. Distributions of net investment income and net capital gains, if any, will be taxable to shareholders without regard to how long a shareholder has held shares of the Funds. Dividends paid by the Funds may qualify in part for the dividends received deduction for corporations.

The Funds will notify shareholders each year of the amount of dividends and distributions, and the portion of their dividends which qualify for the corporate dividends-received deduction or any reduced rate of taxation applicable to "qualified dividends."

At the time of an investor's purchase of Fund shares, a portion of the purchase price may be attributable to realized or unrealized appreciation in a Fund's portfolio or undistributed taxable income of a Fund. Consequently, subsequent distributions by a Fund with respect to these shares from such appreciation or income may be taxable to such investor even if the trading value of the investor's shares is, as a result of the distributions, reduced below the investor's cost for such shares and the distributions economically represent a return of a portion of the investment.

Taxes Regarding Options, Futures and Foreign Currency Transactions

When the Funds write a call, or purchase a put option, an amount equal to the premium received or paid by it is included in the Funds' accounts as an asset and as an equivalent liability. In writing a call, the amount of the liability is subsequently "marked-to-market" to reflect the current market value of the option written. The current market value of a written option is the last sale price on the principal exchange on which such option is traded or, in the absence of a sale, the mean between the last bid and asked prices. If an option that a Fund has written expires on its stipulated expiration date, that Fund recognizes a short-term capital gain. If the Fund enters into a closing purchase transaction with respect to an option that the Fund has written, the Fund realizes a short-term gain (or loss if the cost of the closing transaction exceeds the premium received when the option was sold) without regard to any unrealized gain or loss on the underlying security, and the liability related to such option is extinguished. If a call option that the Fund has written is exercised, the Fund realizes a capital gain or loss from the sale of the underlying security and the proceeds from such sale are increased by the premium originally received.

The premium paid by a Fund for the purchase of a put option is recorded in that Fund's assets and liabilities as an investment and subsequently adjusted daily to the current market value of the option. For example, if the current market value of the option exceeds the premium paid, the excess would be unrealized appreciation and, conversely, if the premium exceeds the current market value, such excess would be unrealized depreciation. The current market value of a purchased option is the last sale price on the principal exchange on which such option is traded or, in the absence of a sale, the mean between the last bid and asked prices. If an option that the Fund has purchased expires on the stipulated expiration date, the Fund realizes a short-term or long-term capital loss for Federal income tax purposes in the amount of the cost of the option. If the Fund exercises a put option, the Fund realizes a capital gain or loss (long-term or short-term, depending on the holding period of the underlying security) from the sale, which will be decreased by the premium originally paid.

Accounting for options on certain stock indices will be in accordance with generally accepted accounting principles. The amount of any realized gain or loss on closing out such a position will result in a realized gain or loss for tax purposes. Such options held by a Fund at the end of each fiscal year on a broad-based stock index will be required to be "marked-to-market" for federal income tax purposes. 60% of any net gain or loss recognized on such deemed sales or on any actual sales it will be treated as long-term capital gain or loss and the remainder will be treated as short-term capital gain or loss ("60/40 gain or loss"). Certain options, futures contracts and options on futures contracts utilized by a Fund are "Section 1256 contracts." Any gains or losses on Section 1256 contracts held by a Fund at the end of each taxable year (and on October 31 of each year for purposes of the 4% excise tax) are "marked-to-market" with the result that unrealized gains or losses are treated as though they were realized and the resulting gain or loss is treated as a 60/40 gain or loss.

Foreign exchange gains and losses realized by a Fund in connection with certain transactions involving foreign currency-denominated debt securities, certain options and futures contracts relating to foreign currency, foreign currency forward contracts, foreign currencies, or payables or receivables denominated in a foreign currency are subject to Section 988 of the Code, which generally causes such gains and losses to be treated as ordinary income and losses and may affect the amount, timing and character of distributions to stockholders.

Other Foreign Tax Issues

In India, a tax of 15% plus surcharges is currently imposed on gains from sales of equities held not more than one year and sold on a recognized stock exchange in India. Gains from sales of equity securities in other cases are taxed at a rate of 30% plus surcharges (for securities held not more than one year) and 10% (for securities held for more than one year). There is no tax on gains from sales of equities held for more than one year and sold on a recognized stock exchange in India.

Also in India, the tax rate on gains from sales of listed debt securities is currently 10% plus surcharges if the securities have been held more than one year and 30% plus surcharges if the securities have been held not more than one year. Securities transaction tax applies for specified transactions at specified rates. India imposes a tax on interest on securities at a rate of 20% plus surcharges. This tax is imposed on the investor and payable prior to repatriation of sales proceeds. 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 8 years to offset future gains. India imposes a tax on dividends paid by an Indian company at a rate of 12.5% plus surcharges. This tax is imposed on the company that pays the dividends.

Please refer to the Purchase, Redemption and Pricing of Shares section for information on how treatment of these taxes may affect the Funds' daily NAV.

Taxes incurred on a Fund's short-term realized gains may lower the potential short-term capital gains distribution of that Fund. Any taxes paid in India by a Fund on short-term realized gains will be available to be included in the calculation of that Fund's foreign tax credit that is passed through to shareholders via Form 1099-DIV. Although taxes incurred on short-term gains may lower the potential short-term capital gains distribution of a Fund, they also potentially lower, to a larger extent, the total return of that Fund as proceeds from sales are reduced by the amount of the tax.

Under the U.S.-South Korea income tax treaty, as presently in effect, the government of South Korea imposes a non-recoverable withholding tax and resident tax aggregating 16.5% on dividends and 13.2% on interest paid by South Korean issuers. Under U.S.-South Korea income tax treaty, there is no South Korean withholding tax on realized capital gains.

The above discussion and the related discussion in the Prospectus are not intended to be complete discussions of all applicable Federal or foreign tax consequences of an investment in the Funds. Dividends and distributions also may be subject to state and local taxes. Shareholders are urged to consult their tax advisors regarding specific questions as to federal, state and local taxes, as well as any foreign tax implications.

Federal law requires that a Fund withhold (as "backup withholding") 28% of reportable payments, including dividends, capital gain distributions and the proceeds of redemptions and exchanges or repurchases of Fund shares, paid to stockholders who have not complied with IRS regulations. In order to avoid this withholding requirement, stockholders must certify on their Account Applications, or on separate IRS Forms W-9, that the Social Security Number or other Taxpayer Identification Number they provide is their correct number and that they are not currently subject to backup withholding, or that they are exempt from backup withholding.

The foregoing discussion relates solely to U.S. investors. Non-U.S. investors should consult their tax advisors concerning the tax consequences of ownership of shares of the Funds, including the possibility that distributions may be subject to a 30% U.S. withholding tax (or a reduced rate of withholding provided by treaty).

Other Information

Statements contained in the Prospectus or in this SAI as to the contents of any contract or other document referred to are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement of which the Prospectus and this SAI form a part. Each such statement is qualified in all respects by such reference.

Reports to Shareholders

Shareholders will receive un-audited semi-annual reports describing the Funds' investment operations and annual financial statements audited by independent certified public accountants. Inquiries regarding the Funds may be directed to Matthews at (800) 789-ASIA [2742].

Financial Statements

The financial statements for the Funds, including the notes thereto as of December 31, 2008 are incorporated by reference from the Funds' 2008 Annual Report to Shareholders and the Funds' 2008 Semi-Annual Report to Shareholders as filed with the SEC on Form N-CSR.

Appendix: Bond Ratings

A Fund's investments may range in quality from securities rated in the lowest category in which a Fund is permitted to invest to securities rated in the highest category (as rated by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Corporation ("S&P") or Fitch Inc., ("Fitch"), or, if unrated, determined by Matthews to be of comparable quality). The percentage of a Fund's assets invested in securities in a particular rating category will vary. The following terms are generally used to describe the credit quality of fixed income securities:

- *High Quality Debt Securities* are those rated in one of the two highest rating categories (the highest category for commercial paper) or, if unrated, deemed comparable by Matthews.
- *Investment Grade Debt Securities* are those rated in one of the four highest rating categories or, if unrated, deemed comparable by Matthews.
- *Below Investment Grade, High Yield Securities ("Junk Bonds")* are those rated lower than Baa by Moody's, BBB by S&P or Fitch and comparable securities. They are considered predominantly speculative with respect to the issuer's ability to repay principal and interest.

The following is a description of the ratings categories used by Moody's, S&P and Fitch applicable to fixed income securities.

Moody's classifies corporate bonds as follows:

"Aaa" – Bonds are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

"Aa" – Bonds are judged to be of high quality by all standards. Together with the "Aaa" group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in "Aaa" securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than the "Aaa" securities.

"A" – Bonds possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

"Baa" – Bonds are considered as medium-grade obligations, (*i.e.*, they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

"Ba" – Bonds are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

"B" – Bonds generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

"Caa" – Bonds are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

"Ca" – Bonds represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

"C" – Bonds are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Note: Moody's applies numerical modifiers 1, 2, and 3 in each generic rating classification from "Aa" through "Caa." The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of its generic rating category.

Moody's classifies corporate short-term debt as follows:

Moody's short-term debt ratings are opinions of the ability of issuers to repay punctually senior debt obligations which have an original maturity not exceeding one year. Obligations relying upon support mechanisms such as letters of credit and bonds of indemnity are excluded unless explicitly rated. Moody's employs the following three designations, all judged to be investment grade, to indicate the relative repayment ability of rated issuers:

PRIME-1: Issuers rated Prime-1 (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations. Prime-1 repayment ability will often be evidenced by many of the following characteristics: leading market positions in well-established industries; high rates of return on funds employed; conservative capitalization structure with moderate reliance on debt and ample asset protection; broad margins in earnings coverage of fixed financial charges and high internal cash generation; and well-established access to a range of financial markets and assured sources of alternate liquidity.

PRIME-2: Issuers rated Prime-2 (or supporting institutions) have a strong ability for repayment of senior short term debt obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

PRIME-3: Issuers rated Prime-3 (or supporting institutions) have an acceptable ability for repayment of senior short-term obligations. The effect of industry characteristics and market compositions may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and may require relatively high financial leverage. Adequate alternate liquidity is maintained.

NOT PRIME: Issuers rated Not Prime do not fall within any of the Prime rating categories.

S&P describes classification of corporate and municipal debt as follows:

"AAA" – An obligation rated "AAA" has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

"AA" – An obligation rated "AA" differs from the highest rated obligations only in small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

"A" – An obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

"BBB" – An obligation rated "BBB" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated "BB," "B," "CCC," "CC" are regarded as having significant speculative characteristics. "BB" indicates the least degree of speculation and "CC" the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

"BB" – An obligation rated "BB" is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

"B" – An obligation rated "B" is more vulnerable to nonpayment than obligations rated "BB," but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

"CCC" – An obligation rated "CCC" is currently vulnerable to nonpayment and is dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

"CC" – An obligation rated "CC" is currently highly vulnerable to nonpayment.

"C" – The "C" rating may be used to cover a situation where a bankruptcy petition has been filed or similar action taken, but payments on this obligation are being continued.

"D" – An obligation rated "D" is in payment default. The "D" rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payment will be made during such grace period. The "D" rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

PLUS (+) OR MINUS (-) – The ratings from “AA” through “CCC” may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Debt obligations of issuers outside the United States and its territories are rated on the same basis as domestic corporate and municipal issues. The ratings measure the creditworthiness of the obligor but do not take into account currency exchange and related uncertainties.

Provisional ratings:

“p” The letter “p” indicates that the rating is provisional. A provisional rating assumes the successful completion of the project being financed by the debt being rated and indicates that payment of debt service requirements is largely or entirely dependent upon the successful and timely completion of the project. This rating, however, while addressing credit quality subsequent to completion of the project, makes no comment on the likelihood of, or the risk of default upon failure of, such completion. The investor should exercise his own judgment with respect to such likelihood and risk.

“r” The “r” is attached to highlight derivative, hybrid, and certain other obligations that S&P believes may experience high volatility or high variability in expected returns due to non-credit risks. Examples of such obligations are: securities whose principal or interest return is indexed to equities, commodities, or currencies; certain swaps and options; and interest only and principal only mortgage securities. The absence of an “r” symbol should not be taken as an indication that an obligation will exhibit no volatility or variability in total return.

N.R.: Not rated.

Fitch describes classification of long term credit ratings of debt securities as follows:

“AAA”: Highest credit quality. “AAA” ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

“AA”: Very high credit quality. “AA” ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

“A”: High credit quality. “A” ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

“BBB”: Good credit quality. “BBB” ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category.

“BB”: Speculative. “BB” ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

“B”: Highly speculative. “B” ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.

“CCC,” “CC,” “C”: High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. A “CC” rating indicates that default of some kind appears probable. “C” ratings signal imminent default.

“DDD,” “DD,” “D”: Default. The ratings of obligations in this category are based on their prospects for achieving partial or full recovery in a reorganization or liquidation of the obligor. While expected recovery values are highly speculative and cannot be estimated with any precision, the following serve as general guidelines. “DDD” obligations have the highest potential for recovery, around 90%-100% of outstanding amounts and accrued interest. “DD” indicates potential recoveries in the range of 50%-90%, and “D” the lowest recovery potential, *i.e.*, below 50%. Entities rated in this category have defaulted on some or all of their obligations. Entities rated “DDD” have the highest prospect for resumption of performance or continued operation with or without a formal reorganization process. Entities rated “DD” and “D” are generally undergoing a formal reorganization or liquidation process; those rated “DD” are likely to satisfy a higher portion of their outstanding obligations, while entities rated “D” have a poor prospect for repaying all obligations.

“NR” indicates that Fitch does not rate the issuer or issue in question.

Withdrawn: A rating is withdrawn when Fitch deems the amount of information available to be inadequate for rating purposes, or when an obligation matures, is called, or refinanced.

Rating Watch: Ratings are placed on Rating Watch to notify investors that there is a reasonable probability of a rating change and the likely direction of such change. These are designated as “Positive”, indicating a potential upgrade, “Negative,” for a potential downgrade, or “Evolving,” if ratings may be raised, lowered or maintained. Rating Watch is typically resolved over a relatively short period.

A Rating Outlook indicates the direction a rating is likely to move over a one to two year period. Outlooks may be positive, stable, or negative. A positive or negative Rating Outlook does not imply a rating change is inevitable. Similarly, companies whose outlooks are “stable” could be downgraded before an outlook moves to positive or negative if circumstances warrant such an action. Occasionally, Fitch may be unable to identify the fundamental trend. In these cases, the Rating Outlook may be described as evolving.

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