FEBRUARY 28, 2013
SEMIANNUAL REPORT
AND SHAREHOLDER LETTER



Sign up for electronic delivery at franklintempleton.com/edelivery

INTERNATIONAL

TEMPLETON CHINA WORLD FUND



Franklin • Templeton • Mutual Series

Franklin Templeton Investments

Gain From Our Perspective®

Franklin Templeton's distinct multi-manager structure combines the specialized expertise of three world-class investment management groups—Franklin, Templeton and Mutual Series.

SPECIALIZED EXPERTISE

Each of our portfolio management groups operates autonomously, relying on its own research and staying true to the unique investment disciplines that underlie its success.

Franklin. Founded in 1947, Franklin is a recognized leader in fixed income investing and also brings expertise in growth- and value-style U.S. equity investing.

Templeton. Founded in 1940, Templeton pioneered international investing and, in 1954, launched what has become the industry's oldest global fund. Today, with offices in over 25 countries, Templeton offers investors a truly global perspective.

Mutual Series. Founded in 1949, Mutual Series is dedicated to a unique style of value investing, searching aggressively for opportunity among what it believes are undervalued stocks, as well as arbitrage situations and distressed securities.

TRUE DIVERSIFICATION

Because our management groups work independently and adhere to different investment approaches, Franklin, Templeton and Mutual Series funds typically have distinct portfolios. That's why our funds can be used to build truly diversified allocation plans covering every major asset class.

RELIABILITY YOU CAN TRUST

At Franklin Templeton Investments, we seek to consistently provide investors with exceptional risk-adjusted returns over the long term, as well as the reliable, accurate and personal service that has helped us become one of the most trusted names in financial services.

MUTUAL FUNDS | RETIREMENT PLANS | 529 COLLEGE SAVINGS PLANS | SEPARATELY MANAGED ACCOUNTS



Shareholder Letter 1	Semiannual Report	Financial Statements
	Templeton China World Fund 3	Notes to Financial Statements 25
	Performance Summary 8	Shareholder Information
	Your Fund's Expenses	
	Financial Highlights and Statement of Investments 13	

Shareholder Letter

Dear Shareholder:

During the six months ended February 28, 2013, China's economy strengthened as the People's Bank of China's monetary easing and the government's fiscal stimulus measures gained traction. Fixed asset investment grew steadily, and near the end of 2012, the manufacturing sector improved. Export growth began to accelerate in December, indicating improved demand for the country's products and a potential recovery in global demand. The effects of monetary easing programs implemented by many central banks globally led to large investment flows into emerging markets, including China. For the six months ended February 28, 2013, Greater China stocks as measured by the MSCI Golden Dragon Index, which tracks stock market performance in China, Taiwan and Hong Kong, outperformed global developed and emerging market stocks as measured by the MSCI All Country World Index.

Although the recent environment has been challenging, we remain cautiously optimistic about economies in the China region as many emerging market countries continue to show growth. Keep in mind we have navigated through past periods of economic uncertainty and market volatility by remaining committed to our long-term perspective and disciplined investment approach. First and foremost for us, this means using our on-the-ground research team to conduct rigorous, company-by-company analysis to find what we consider to be bargain opportunities.

Templeton China World Fund's semiannual report goes into greater detail about prevailing conditions during the period under review. In addition, you will find Fund performance data, financial information and a discussion about investment decisions. Please remember all securities markets fluctuate, as do mutual fund share prices.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

If you would like more frequent updates, franklintempleton.com provides daily prices, monthly performance figures, portfolio holdings and other information. You can also access your account, buy and sell shares, read timely articles, and find helpful financial planning tools. We hope you will take advantage of these online services.

Historically, patient investors have achieved rewarding results by evaluating their goals, diversifying their assets globally and maintaining a disciplined investment program, all hallmarks of the Templeton investment philosophy developed more than 50 years ago. We continue to recommend investors consult their financial advisors and review their portfolios to design a longterm strategy and portfolio allocation that meet their individual needs, goals and risk tolerance. We firmly believe most people benefit from professional advice and that advice is invaluable as investors navigate changing market environments.

We thank you for investing with Franklin Templeton, welcome your comments, and look forward to serving your investment needs in the years ahead.

Sincerely,

Mark Mobius

Executive Chairman

Templeton Emerging Markets Group

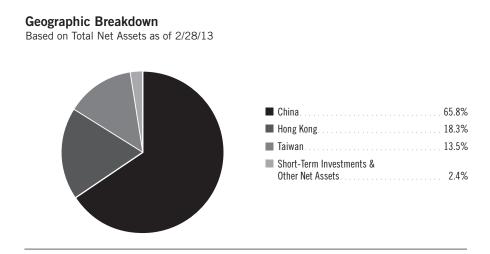
Mark Wobins

This letter reflects our analysis and opinions as of February 28, 2013. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.

Semiannual Report

Templeton China World Fund

Your Fund's Goal and Main Investments: Templeton China World Fund seeks long-term capital appreciation. Under normal market conditions, the Fund invests at least 80% of its net assets in securities of "China companies," as defined in the Fund's prospectus.



We are pleased to bring you Templeton China World Fund's semiannual report for the period ended February 28, 2013.

Economic and Market Overview

China's economy, as measured by gross domestic product (GDP), grew 7.9% year-over-year in the fourth quarter of 2012, compared to 7.4% in the third quarter, significantly outpacing many of its global counterparts.¹ For calendar year 2012, China's annual GDP grew 7.8%, which was stronger than the government's 7.5% target. Economic data generally strengthened in the latter part of 2012 but showed mixed results in the first two months of 2013. For example, growth rates for retail sales and industrial production reached highs in December and then slowed in early 2013. Investment

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 17.

^{1.} Source: The website of the National Bureau of Statistics of the People's Republic of China (www.stats.gov.cn).

growth remained robust, with fixed asset investment increasing 21.2% yearover-year in the first two months of 2013.1 Export growth accelerated, indicating improved demand for China's products and a potential recovery in global demand. The country's inflation rate rose from a 2012 low of 1.7% year-over-year in October to 3.2% in February, primarily as a result of rising food prices that many observers believed were associated with the Lunar New Year holiday.1

Global equity markets started the period strongly as several major global governments and central banks announced additional fiscal stimulus and monetary easing measures in September, including China's fiscal stimulus package to fund infrastructure projects. After cutting interest rates and reducing the reserve requirement ratio for commercial banks earlier in 2012, the People's Bank of China (PBOC) refrained from further monetary easing. In its fourth-quarter 2012 monetary policy report, the PBOC stated that with the country's economic growth momentum relatively strong, it would maintain a "prudent" monetary policy to manage inflationary pressures. In early February, the PBOC made a record liquidity injection into the financial system to meet rising cash demand for the Lunar New Year holiday and then made a record liquidity withdrawal in the second half of the month. The withdrawal drove Chinese stocks lower as many investors worried the PBOC would tighten monetary policy to cool property prices. To curb speculation and rising property prices, the PBOC said it would use home-loan policies and the government announced it would use measures such as increasing land supply and accelerating construction of government-subsidized housing. Notwithstanding the PBOC's recent liquidity withdrawal, new liquidity continued to pour into the country's economy through other channels, including foreign capital inflows. The once-a-decade change in China's top leadership took place in November as expected by many observers, with policy anticipated to remain focused on measures to boost consumers' spending ability and make China's economy more consumer driven.

Greater China stocks generated strong gains over the six-month period despite the February correction, with all countries in the region posting positive returns. For the six months ended February 28, 2013, the region recorded a +17.04% total return as measured by the MSCI Golden Dragon Index.² The region outperformed its Asia peers excluding Japan as measured by the +14.94% total return of the MSCI All Country Asia ex Japan Index, as well as global developed and emerging market stocks as measured by the

^{2.} Source: © 2013 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. The indexes are unmanaged and include reinvested dividends. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

+11.25% total return of the MSCI All Country World Index.² Among the countries within the Greater China market, China was the strongest, followed by Hong Kong and Taiwan.

Investment Strategy

Our investment strategy employs a fundamental research, value-oriented, long-term approach. We focus on the market price of a company's securities relative to our evaluation of the company's long-term earnings, asset value and cash flow potential. As we look for investments, we consider specific companies, rather than sectors, while doing in-depth research to construct an action list from which we make our buy decisions. We also consider a company's profit and loss outlook, balance sheet strength, cash flow trends and asset value in relation to the current price. Our analysis considers the company's corporate governance behavior as well as its position in its sector, the economic framework and political environment.

Performance Overview

For the six months ended February 28, 2013, Templeton China World Fund – Class A delivered a cumulative total return of +18.33%. In comparison, the MSCI Golden Dragon Index generated a +17.04% cumulative total return for the same period.² Also for comparison, the Standard & Poor's®/International Finance Corporation (S&P®/IFC) Investable China Index, which measures Chinese stock market performance, posted a +20.19% total return for the same period.3

In line with our long-term investment strategy, we are pleased with our longterm results, which you will find in the Performance Summary beginning on page 8. For example, for the 10-year period ended February 28, 2013, the Fund's Class A shares delivered a +362.42% cumulative total return, compared with the MSCI Golden Dragon Index's +253.25% cumulative total return for the same period.⁴ Please note index performance information is provided for reference and we do not attempt to track the index but rather undertake investments on the basis of fundamental research.

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. Please visit franklintempleton.com or call (800) 342-5236 for most recent month-end performance.

The indexes are unmanaged and include reinvested dividends. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

^{3.} Source: © 2013 Morningstar. STANDARD & POOR'S®, S&P® and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC.

^{4.} Source: © 2013 Morningstar. As of 2/28/13, the Fund's Class A 10-year average annual total return not including sales charges was +16.55%, compared with a 10-year average annual total return of +13.45% for the MSCI Golden Dragon Index.

Top 10 Equity Holdings 2/28/13

	of Total : Assets
Dairy Farm International Holdings Ltd. Food & Staples Retailing, Hong Kong	10.3%
Sinopec (China Petroleum and Chemical Corp.), H Oil, Gas & Consumable Fuels, China	6.9%
CNOOC Ltd. Oil, Gas & Consumable Fuels, China	5.9%
TSMC (Taiwan Semiconductor Manufacturing Co. Ltd.) Semiconductors & Semiconductor Equipment, Taiwan	4.9%
PetroChina Co. Ltd., H Oil, Gas & Consumable Fuels, China	4.9%
China Mobile Ltd. Wireless Telecommunication Services, China	4.4%
Great Wall Motor Co. Ltd., H Automobiles, China	3.3%
Bank of China Ltd., H Commercial Banks, China	3.0%
China Construction Bank Corp., H Commercial Banks, China	3.0%
China Shenhua Energy Co. Ltd., H Oil, Gas & Consumable Fuels, China	2.8%

Manager's Discussion

During the six months under review, key contributors to the Fund's absolute performance included Hong Kong-based Dairy Farm International Holdings, a leading pan-Asian retailer whose core businesses consist of supermarkets, hypermarkets (department store and grocery market), health and beauty stores, convenience stores and home furnishing stores; Great Wall Motor, one of China's largest automobile exporters; and Sinopec (China Petroleum and Chemical), one of China's largest integrated energy companies. Dairy Farm's major businesses continued to do well, supporting the company's share price. We maintained a favorable view of the company as we believe it is well positioned to benefit from Asia's economic recovery, rising personal income and greater consumer demand. In our assessment, Dairy Farm's exposure to Asia's high-growth markets such as China, India and Vietnam should continue to support long-term earnings growth. Great Wall Motor, which focuses on the manufacture and sale of pick-up trucks and sport utility vehicles (SUVs) in China, also has vast sales networks in its major export regions and countries, which include Europe, Central and South America, the Middle East, Asia, Russia and Australia. Great Wall Motor's share price rose as the company generated strong earnings results driven largely by the introduction of new models, solid SUV sales and robust exports. Its extensive distribution network, strong market position and low production costs led us to maintain a positive view of the company. Sinopec benefited from China's continued energy demand, higher crude oil prices and increases in state-controlled retail fuel prices. In our view, returns on the company's refining operations could potentially improve should China use a more market-based pricing system.

In contrast, key detractors from absolute performance included Taiwan-based Simplo Technology, one of the world's top makers of battery packs used in notebooks, tablets, cell and smart phones, and other consumer electronic products; China Foods, a major food and beverage company with leading wine, kitchen food and confectionery brands, as well as a strategic partnership with Coca-Cola for bottling, sale and distribution of Coca-Cola products; and Baidu, one of China's most popular websites and one of the world's leading search engines. Simplo's share price was negatively affected by the company's weak earnings results stemming from lower margins despite solid market share and sales growth. Taking a long-term view, we remained positive on Simplo's earnings growth potential because of its industry leadership, solid execution and strong design capability. Despite the continued strength of its beverage business, China Foods experienced weaker performance of its wine business, which was hurt by an overall decline in China's wine consumption. In the long term, we believe the company's market leadership positions it well to potentially benefit from China's economic recovery and consumer spending growth. Baidu's share price

corrected during the period because of investor concerns about rising competition. In our analysis, Baidu's leading position in China's online search market, continued penetration in small and medium enterprises, and progress in mobile search monetization could help drive the company's long-term earnings growth.

During the reporting period, we increased the Fund's holdings in wireless telecommunication services and construction materials companies and added gas utilities and health care distributors companies based on fundamentals we considered to be attractive. Key investments included additional positions in China Mobile, one of China's major mobile telecommunication services providers, as well as new holdings in ENN Energy Holdings, one of China's largest clean energy distributors, and Shanghai Pharmaceuticals Holding, one of China's top pharmaceutical companies. Conversely, we undertook some sales in oil and gas, auto components, industrial conglomerates and food retail companies. Key sales included reduction of the Fund's positions in CNOOC, one of China's largest oil and gas exploration and production companies, and Cheng Shin Rubber Industry, a Taiwan-based tire manufacturer. Additionally, we trimmed our position in Dairy Farm International to reduce concentration in the Fund's top holding.

Thank you for your continued participation in Templeton China World Fund. We look forward to serving your future investment needs.



Mark Mobius **Executive Chairman** Templeton Emerging Markets Group

The foregoing information reflects our analysis, opinions and portfolio holdings as of February 28, 2013, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

Performance Summary as of 2/28/13

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities. The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses.

Price and Distribution Information

Class A (Symbol: TCWAX)		Change	2/28/13	8/31/12
Net Asset Value (NAV)		+\$5.40	\$39.49	\$34.09
Distributions (9/1/12-2/28/13)				
Dividend Income	\$0.6506			
Long-Term Capital Gain	\$0.1813			
Total	\$0.8319			
Class B (Symbol: TCWBX)		Change	2/28/13	8/31/12
Net Asset Value (NAV)		+\$5.87	\$39.68	\$33.81
Distributions (9/1/12-2/28/13)				
Long-Term Capital Gain	\$0.1813			
Class C (Symbol: TCWCX)		Change	2/28/13	8/31/12
Net Asset Value (NAV)		+\$5.56	\$39.11	\$33.55
Distributions (9/1/12-2/28/13)				
Dividend Income	\$0.2737			
Long-Term Capital Gain	\$0.1813			
Total	\$0.4550			
Advisor Class (Symbol: TACWX)		Change	2/28/13	8/31/12
Net Asset Value (NAV)		+\$5.35	\$39.68	\$34.33
Distributions (9/1/12-2/28/13)				
Dividend Income	\$0.7992			
Long-Term Capital Gain	\$0.1813			
Total	\$0.9805			

Performance Summary (continued)

Performance¹

Cumulative total return excludes sales charges. Average annual total returns and value of \$10,000 investment include maximum sales charges. Class A: 5.75% maximum initial sales charge; Class B: contingent deferred sales charge (CDSC) declining from 4% to 1% over six years, and eliminated thereafter; Class C: 1% CDSC in first year only; Advisor Class: no sales charges.

Class A	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return ²	+18.33%	+2.52%	+20.03%	+362.42%
Average Annual Total Return ³	+11.53%	-3.38%	+2.50%	+15.86%
Value of \$10,000 Investment ⁴	\$11,153	\$9,662	\$11,313	\$43,583
Avg. Ann. Total Return (3/31/13) ⁵		-2.15%	+3.78%	+15.51%
Total Annual Operating Expenses ⁶		1.87%		
Class B	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return ²	+17.92%	+1.81%	+15.88%	+338.06%
Average Annual Total Return ³	+13.92%	-2.19%	+2.64%	+15.92%
Value of \$10,000 Investment ⁴	\$11,392	\$9,781	\$11,390	\$43,806
Total Annual Operating Expenses ⁶		2.57%		
Class C	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return ²	+17.96%	+1.84%	+15.92%	+332.55%
Average Annual Total Return ³	+16.96%	+0.84%	+3.00%	+15.77%
Value of \$10,000 Investment ⁴	\$11,696	\$10,084	\$11,592	\$43,255
Avg. Ann. Total Return (3/31/13) ⁵		+2.11%	+4.28	+15.42%
Total Annual Operating Expenses ⁶		2.56%		
Advisor Class	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return ²	+18.53%	+2.86%	+21.85%	+377.84%
Average Annual Total Return ³	+18.53%	+2.86%	+4.03%	+16.93%
Value of \$10,000 Investment ⁴	\$11,853	\$10,286	\$12,185	\$47,784
Avg. Ann. Total Return (3/31/13) ⁵		+4.14%	+5.32%	+16.57%
Total Annual Operating Expenses ⁶		1.57%		

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to franklintempleton.com or call (800) 342-5236.

Performance Summary (continued)

Endnotes

All investments involve risks, including possible loss of principal. The government's participation in the economy is still high and, therefore, the Fund's investments in China will be subject to larger regulatory risk levels compared to many other countries. In addition, special risks are associated with international investing, including currency fluctuations, economic instability and political developments. Investments in emerging markets involve heightened risks related to the same factors. Also, as a nondiversified Fund investing in China companies, the Fund may invest in a relatively small number of issuers and, as a result, be subject to a greater risk of loss with respect to its portfolio securities. The Fund may also experience greater volatility than a fund that is more broadly diversified geographically. It is designed for the aggressive portion of a well-diversified portfolio. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

Class B: These shares have higher annual fees and expenses than Class A shares.

Class C: Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual total returns would have differed. These shares

have higher annual fees and expenses than Class A shares.

Advisor Class: Shares are available to certain eligible investors as described in the prospectus.

1. Effective after the close of business on 8/8/03, Templeton China World Fund, Inc. (Closed-End Fund), was converted into an open-end fund in a transaction whereby the Closed-End Fund transferred all of its assets, subject to its liabilities, to the Fund in exchange for Advisor Class shares. Total return information is based upon the Closed-End Fund's performance (as calculated using net asset values, not market values), which has been restated to reflect all charges, fees and expenses currently applicable to the Fund and each class. The Closed-End Fund was offered without a sales charge and Rule 12b-1 fees. On 8/11/03, the Fund began offering Class A, B and C shares. For periods prior to 8/11/03, performance quotations are based upon the Closed-End Fund's performance restated to take into account all charges, fees and expenses applicable to the Fund and each class, including that class's current, applicable, maximum sales charge and Rule 12b-1 fees. Beginning on 8/11/03, actual class performance is used reflecting all charges, fees and expenses applicable to the Fund and each class.

- 2. Cumulative total return represents the change in value of an investment over the periods indicated.
- 3. Average annual total return represents the average annual change in value of an investment over the periods indicated. Six-month return has not been annualized.
- 4. These figures represent the value of a hypothetical \$10,000 investment in the Fund over the periods indicated.
- 5. In accordance with SEC rules, we provide standardized average annual total return information through the latest calendar quarter. For Class B shares, 3/31/13 performance data are not available – all Class B shares were converted to Class A shares before the end of the guarter.
- 6. Figures are as stated in the Fund's prospectus current as of the date of this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.

Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs:

- Transaction costs, including sales charges (loads) on Fund purchases; and
- Ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses.

The following table shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

Actual Fund Expenses

The first line (Actual) for each share class listed in the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of Fund expenses.

You can estimate the expenses you paid during the period by following these steps. Of course, your account value and expenses will differ from those in this illustration:

- 1. Divide your account value by \$1,000. If an account had an \$8,600 value, then $$8,600 \div $1,000 = 8.6$.
- 2. Multiply the result by the number under the heading "Expenses Paid During Period." If Expenses Paid During Period were \$7.50, then $8.6 \times $7.50 = 64.50 .

In this illustration, the estimated expenses paid this period are \$64.50.

Hypothetical Example for Comparison with Other Funds

Information in the second line (Hypothetical) for each class in the table can help you compare ongoing costs of investing in the Fund with those of other mutual funds. This information may not be used to estimate the actual ending account balance or expenses you paid during the period. The hypothetical "Ending Account Value" is based on the actual expense ratio for each class and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Expenses Paid During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds.

Your Fund's Expenses (continued)

Please note that expenses shown in the table are meant to highlight ongoing costs and do not reflect any transaction costs, such as sales charges. Therefore, the second line for each class is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transaction costs were included, your total costs would have been higher. Please refer to the Fund prospectus for additional information on operating expenses.

Class A	Beginning Account Value 9/1/12	Ending Account Value 2/28/13	Expenses Paid During Period* 9/1/12–2/28/13
Actual	\$1,000	\$1,183.30	\$10.12
Hypothetical (5% return before expenses)	\$1,000	\$1,015.52	\$ 9.35
Class B			
Actual	\$1,000	\$1,179.20	\$13.72
Hypothetical (5% return before expenses)	\$1,000	\$1,012.20	\$12.67
Class C			
Actual	\$1,000	\$1,179.60	\$13.83
Hypothetical (5% return before expenses)	\$1,000	\$1,012.10	\$12.77
Advisor Class			
Actual	\$1,000	\$1,185.30	\$ 8.45
Hypothetical (5% return before expenses)	\$1,000	\$1,017.06	\$ 7.80

^{*}Expenses are calculated using the most recent six-month expense ratio, annualized for each class (A: 1.87%; B: 2.54%; C: 2.56%; and Advisor: 1.56%), multiplied by the average account value over the period, multiplied by 181/365 to reflect the one-half year period.

Financial Highlights

	Six Months Ende February 28, 201		Ye	ar Ended Aug	ust 31,	
Class A	(unaudited)	2012	2011	2010	2009	2008
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$34.09	\$37.62	\$33.89	\$29.91	\$34.78	\$41.29
Income from investment operations ^a :						
Net investment income (loss) ^b	(0.12)	0.56	0.25	0.17	0.48	0.34
Net realized and unrealized gains (losses)	6.35	(3.53)	3.90	4.23	(2.04)	(4.47)
Total from investment operations	6.23	(2.97)	4.15	4.40	(1.56)	(4.13)
Less distributions from:						
Net investment income	(0.65)	(0.25)	(0.35)	(0.42)	(0.30)	(0.41)
Net realized gains	(0.18)	(0.31)	(0.07)		(3.01)	(1.97)
Total distributions	(0.83)	(0.56)	(0.42)	(0.42)	(3.31)	(2.38)
Redemption fees ^c		_	_	_	_	d
Net asset value, end of period	\$39.49	\$34.09	\$37.62	\$33.89	\$29.91	\$34.78
Total returne	18.33%	(7.86)%	12.22%	14.76%	(1.10)%	(11.63)%
Ratios to average net assets ^f						
Expenses	1.87%	1.87%	1.92%	2.02%	2.04%g	2.00%g
Net investment income	(0.63)%	1.56%	0.65%	0.54%	1.92%	0.86%
Supplemental data						
Net assets, end of period (000's)	\$574,679	\$482,277	\$550,539	\$462,960	\$404,877	\$414,194
Portfolio turnover rate	4.38%	7.13%	5.55%	9.94%	22.36%	10.37%

^aThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

^bBased on average daily shares outstanding.

cEffective September 1, 2008, the redemption fee was eliminated.

dAmount rounds to less than \$0.01 per share.

eTotal return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

fRatios are annualized for periods less than one year.

 $^{{\}ensuremath{\sf gBenefit}}$ of expense reduction rounds to less than 0.01%.

Financial Highlights (continued)

	Six Months Ended February 28, 201		Yea	r Ended Augu	st 31,	
Class B	(unaudited)	2012	2011	2010	2009	2008
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$33.81	\$37.30	\$33.60	\$29.74	\$34.44	\$40.95
Income from investment operations ^a :						
Net investment income (loss) ^b	(0.12)	0.12	(0.03)	(0.05)	0.31	0.06
Net realized and unrealized gains (losses)	6.17	(3.30)	3.87	4.20	(1.99)	(4.45)
Total from investment operations	6.05	(3.18)	3.84	4.15	(1.68)	(4.39)
Less distributions from:						
Net investment income	_	_	(0.07)	(0.29)	(0.01)	(0.15)
Net realized gains	(0.18)	(0.31)	(0.07)	_	(3.01)	(1.97)
Total distributions	(0.18)	(0.31)	(0.14)	(0.29)	(3.02)	(2.12)
Redemption fees ^c		_	_	_	_	d
Net asset value, end of period	\$39.68	\$33.81	\$37.30	\$33.60	\$29.74	\$34.44
Total return ^e	17.92%	(8.50)%	11.40%	13.97%	(1.81)%	(12.22)%
Ratios to average net assets ^f						
Expenses	2.54%	2.57%	2.62%	2.70%	2.75%g	2.67%g
Net investment income (loss)	(1.30)%	0.86%	(0.05)%	(0.14)%	1.21%	0.19%
Supplemental data						
Net assets, end of period (000's)	\$118	\$2,081	\$8,450	\$9,981	\$10,760	\$14,272
Portfolio turnover rate	4.38%	7.13%	5.55%	9.94%	22.36%	10.37%

^aThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

^bBased on average daily shares outstanding.

cEffective September 1, 2008, the redemption fee was eliminated.

dAmount rounds to less than \$0.01 per share.

eTotal return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

fRatios are annualized for periods less than one year.

 $^{{\}ensuremath{\tt g}}\mbox{Benefit}$ of expense reduction rounds to less than 0.01%.

Financial Highlights (continued)

	Six Months Ende February 28, 201		Year Ended August 31,			
Class C	(unaudited)	2012	2011	2010	2009	2008
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$33.55	\$37.02	\$33.39	\$29.58	\$34.29	\$40.79
Income from investment operations ^a :						
Net investment income (loss) ^b	(0.25)	0.28	(0.01)	(0.05)	0.30	0.07
Net realized and unrealized gains (losses)	6.26	(3.44)	3.83	4.17	(1.98)	(4.42)
Total from investment operations	6.01	(3.16)	3.82	4.12	(1.68)	(4.35)
Less distributions from:						
Net investment income	(0.27)	_	(0.12)	(0.31)	(0.02)	(0.18)
Net realized gains	(0.18)	(0.31)	(0.07)		(3.01)	(1.97)
Total distributions	(0.45)	(0.31)	(0.19)	(0.31)	(3.03)	(2.15)
Redemption fees ^c		_	_	_	_	d
Net asset value, end of period	\$39.11	\$33.55	\$37.02	\$33.39	\$29.58	\$34.29
Total return ^e	17.96%	(8.51)%	11.41%	13.97%	(1.77)%	(12.21)%
Ratios to average net assets ^f						
Expenses	2.56%	2.56%	2.62%	2.71%	2.75%g	2.66%g
Net investment income (loss)	(1.32)%	0.87%	(0.05)%	(0.15)%	1.21%	0.20%
Supplemental data						
Net assets, end of period (000's)	\$152,787	\$134,050	\$169,667	\$153,897	\$135,688	\$153,068
Portfolio turnover rate	4.38%	7.13%	5.55%	9.94%	22.36%	10.37%

^aThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

^bBased on average daily shares outstanding.

cEffective September 1, 2008, the redemption fee was eliminated.

dAmount rounds to less than \$0.01 per share.

eTotal return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

fRatios are annualized for periods less than one year.

 $^{{\}ensuremath{\tt g}}\mbox{Benefit}$ of expense reduction rounds to less than 0.01%.

Financial Highlights (continued)

	Six Months End February 28, 20		Ye	ar Ended Aug	ust 31,	
Advisor Class	(unaudited)	2012	2011	2010	2009	2008
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$34.33	\$37.91	\$34.13	\$30.06	\$35.03	\$41.55
Income from investment operations ^a :						
Net investment income (loss) ^b	(0.05)	0.68	0.39	0.29	0.55	0.50
Net realized and unrealized gains (losses)	6.38	(3.58)	3.91	4.24	(2.08)	(4.51)
Total from investment operations	6.33	(2.90)	4.30	4.53	(1.53)	(4.01)
Less distributions from:						
Net investment income	(0.80)	(0.37)	(0.45)	(0.46)	(0.43)	(0.54)
Net realized gains	(0.18)	(0.31)	(0.07)		(3.01)	(1.97)
Total distributions	(0.98)	(0.68)	(0.52)	(0.46)	(3.44)	(2.51)
Redemption fees ^c		_	_	_	_	d
Net asset value, end of period	\$39.68	\$34.33	\$37.91	\$34.13	\$30.06	\$35.03
Total return ^e	18.53%	(7.57)%	12.52%	15.12%	(0.84)%	(11.32)%
Ratios to average net assets ^f						
Expenses	1.56%	1.57%	1.62%	1.71%	1.76%g	1.67%g
Net investment income	(0.32)%	1.86%	0.95%	0.85%	2.20%	1.19%
Supplemental data Net assets, end of period (000's)	\$384,342	\$354,249	\$368,992	\$330,254	\$268,107	\$288,072
Portfolio turnover rate	4.38%	7.13%	5.55%	9.94%	22.36%	10.37%

^aThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

^bBased on average daily shares outstanding.

cEffective September 1, 2008, the redemption fee was eliminated.

dAmount rounds to less than \$0.01 per share.

eTotal return is not annualized for periods less than one year.

fRatios are annualized for periods less than one year.

 $^{{\}ensuremath{\tt g}}\mbox{Benefit}$ of expense reduction rounds to less than 0.01%.

Statement of Investments, February 28, 2013 (unaudited)

	Country	Shares	Value
Common Stocks 97.6%			
Air Freight & Logistics 0.1%			
Sinotrans Ltd., H	China	8,586,000	\$ 1,693,797
Auto Components 1.5%			
Cheng Shin Rubber Industry Co. Ltd.	Taiwan	6,249,220	16,982,034
Automobiles 6.3%			
Chongqing Changan Automobile Co. Ltd., B	China	3,565,351	3,443,207
Dongfeng Motor Group Co. Ltd., H	China	13,005,478	19,049,503
Great Wall Motor Co. Ltd., H	China	9,269,345	36,333,031
Guangzhou Automobile Group Co. Ltd., H	China	3,510,493	2,924,015
Jiangling Motors Corp. Ltd., B	China	3,159,786	8,490,522
			70,240,278
Beverages 0.4%			
Yantai Changyu Pioneer Wine Co. Ltd., B	China	993,862	4,910,555
		•	
Commercial Banks 9.9% Bank of China Ltd., H	China	71,466,800	33,818,115
BOC Hong Kong (Holdings) Ltd.	Hong Kong	6,503,500	21,886,013
China Construction Bank Corp., H	China	40,648,926	33,543,475
Industrial and Commercial Bank of China Ltd., H	China	29,010,725	20,834,965
medatrial and commortal barn of china Etal, in	Ollina	23,010,720	110,082,568
Commercial Services & Supplies 0.0%			
a,b Fook Woo Group Holdings Ltd	China	7,317,000	256,614
Computers & Peripherals 3.9%			
Asustek Computer Inc	Taiwan	1,571,684	19,076,407
Lite-On IT Corp	Taiwan	10,479,085	11,500,142
^a Pegatron Corp	Taiwan	2,443,377	3,295,181
Simplo Technology Co. Ltd	Taiwan	2,059,948	9,132,946
			43,004,676
Construction Materials 3.6%			
Asia Cement China Holdings Corp	China	11,712,871	6,327,853
BBMG Corp., H	China	5,042,000	4,446,701
China National Building Material Co. Ltd	China	16,450,000	25,112,885
Huaxin Cement Co. Ltd., B	China	2,449,516	4,502,210
		, ,	40,389,649
Distributors 1 FO/			
Distributors 1.5% Dah Chong Hong Holdings Ltd	China	15 224 562	15 655 514
Xinhua Winshare Publishing and Media Co. Ltd., H	China	15,234,563 1,405,000	15,655,514 791,656
Annua minoriale i abriorinig and media 60. Eta., 11	Giilla	1,400,000	
			16,447,170

Statement of Investments, February 28, 2013 (unaudited) (continued)

	Country	Shares	Value
Common Stocks (continued)			
Diversified Telecommunication Services 0.5%			
China Telecom Corp. Ltd., H	China	2,123,833	\$ 1,100,843
China Unicom (Hong Kong) Ltd.	China	2,930,168	4,231,453
			5,332,296
Electric Utilities 2.0%			
Cheung Kong Infrastructure Holdings Ltd	Hong Kong	3,338,548	21,846,037
Electrical Equipment 0.1%			
Dongfang Electric Corp. Ltd., H	China	800,400	1,500,550
Electronic Equipment, Instruments & Components 0.8%			
Synnex Technology International Corp.	Taiwan	4,302,094	8,702,820
Energy Equipment & Services 0.0%†			
Anhui Tianda Oil Pipe Co. Ltd., H	China	1,083,000	188,513
Food 9 Stoples Potailing 12 49/			
Food & Staples Retailing 13.4% Beijing Jingkelong Co. Ltd., H	China	3,939,471	2,001,304
China Resources Enterprise Ltd.	China	5,108,000	16,662,893
Dairy Farm International Holdings Ltd	Hong Kong	8,637,676	114,967,468
President Chain Store Corp.	Taiwan	2,797,259	15,466,975
			149,098,640
Food Products 1.9%			
China Foods Ltd.	China	9,352,000	6,137,638
Shenguan Holdings Group Ltd.	China	11,230,000	5,733,951
Uni-President China Holdings Ltd.	China	5,968,700	7,311,094
Uni-President Enterprises Corp.	Taiwan	1,264,305	2,365,776
		, , , , , , , , , , , , , , , , , , , ,	21,548,459
Gas Utilities 0.7% ENN Energy Holdings Ltd	China	1 476 100	7,346,527
EININ EITERBY HOIGHINGS Ltd.	Cillia	1,476,100	7,346,327
Health Care Providers & Services 0.3%	01.	1 607 600	0.457.407
Shanghai Pharmaceuticals Holding Co. Ltd., H	China	1,607,600	3,457,427
Hotels, Restaurants & Leisure 0.7%			
a 7 Days Group Holdings Ltd., ADR	China	52,686	704,412
SJM Holdings Ltd	Hong Kong	2,775,000	6,905,566
			7,609,978
Industrial Conglomerates 2.6%			
Hopewell Holdings Ltd	Hong Kong	4,339,000	19,049,596
Shanghai Industrial Holdings Ltd	China	3,024,253	9,865,467
			28,915,063

Statement of Investments, February 28, 2013 (unaudited) (continued)

	Country	Shares	Value
Common Stocks (continued)			
Insurance 1.3%			
AIA Group Ltd.	Hong Kong	3,116,500	\$ 13,581,972
China Life Insurance Co. Ltd., H	China	293,000	880,243
			14,462,215
Internet Software & Services 1.1%			
^a Baidu Inc., ADR	China	70,200	6,371,352
^a Sohu.com Inc.	China	123,267	5,502,639
			11,873,991
IT Caminas 0.39/			
IT Services 0.3% Travelsky Technology Ltd., H	China	4,921,941	3,223,882
Travelsky Technology Etc., n	Cillia	4,921,941	3,223,002
Leisure Equipment & Products 0.1%			
Yorkey Optical International Cayman Ltd	China	7,933,000	792,717
Machinery 1.5%			
c Lonking Holdings Ltd.	China	10,295,000	2,774,289
^c Zoomlion Heavy Industry Science and Technology Development Co. Ltd., H	China	10,240,420	13,494,216
			16,268,505
Marine 1.0%	01.	10.050.000	0.660.057
a China Shipping Container Lines Co. Ltd., H	China	12,353,000	3,663,357
China Shipping Development Co. Ltd., H	China China	7,774,000 9,708,500	4,330,193 2,728,900
Sillotralis Silippilig Ltd.	Cillia	9,708,500	
			10,722,450
Metals & Mining 2.4%			
^a Angang Steel Co. Ltd., H	China	3,628,000	2,432,482
Jiangxi Copper Co. Ltd., H	China	10,078,043	24,117,549
			26,550,031
Multiline Retail 0.1%			
Springland International Holdings Ltd	China	2,560,500	1,492,252
Oil, Gas & Consumable Fuels 23.3%			
China Coal Energy Co. Ltd., H	China	6,852,000	6,776,286
China Petroleum and Chemical Corp., H	China	67,133,395	76,345,983
China Shenhua Energy Co. Ltd., H	China	8,186,500	31,033,060
CNOOC Ltd.	China	33,376,000	65,670,121
PetroChina Co. Ltd., H	China	39,241,903	53,936,935
Yanzhou Coal Mining Co. Ltd., H	China	16,684,000	25,814,304
			259,576,689
Damos 9 Favort Draduate 1 39/			
Paper & Forest Products 1.3%	China	14 020 000	14 016 400
Nine Dragons Paper Holdings Ltd.	China	14,920,000	14,216,486
Pharmaceuticals 0.9%			
Tong Ren Tang Technologies Co. Ltd., H	China	3,761,000	10,571,554

Statement of Investments, February 28, 2013 (unaudited) (continued)

	Country	Shares	Value
Common Stocks (continued) Real Estate Management & Development 2.0%			
Agile Property Holdings Ltd	China Hong Kong China	5,754,800 359,690 11,972,645	\$ 7,405,251 5,593,127 9,308,644 22,307,022
Semiconductors & Semiconductor Equipment 5.7% MediaTek Inc. Realtek Semiconductor Corp. Taiwan Semiconductor Manufacturing Co. Ltd.	Taiwan Taiwan Taiwan	683,138 310,700 15,506,330	7,681,272 739,562 54,632,889 63,053,723
Textiles, Apparel & Luxury Goods 0.6% ^c Anta Sports Products Ltd	China	6,914,855	6,606,635
Transportation Infrastructure 1.4% COSCO Pacific Ltd	China China	7,797,797 7,418,000	12,507,523 2,553,742 15,061,265
Wireless Telecommunication Services 4.4% China Mobile Ltd	China	4,458,770	49,096,659 1,085,429,727
Short Term Investments 3.4% Money Market Funds (Cost \$25,972,552) 2.3% a.d Institutional Fiduciary Trust Money Market Portfolio	United States	25,972,552	25,972,552
e Investments from Cash Collateral Received for Loaned Securities (Cost \$12,006,978) 1.1% Money Market Funds 1.1% f BNY Mellon Overnight Government Fund, 0.144%	United States	12,006,978	12,006,978
Total Investments (Cost \$627,357,750) 101.0% Other Assets, less Liabilities (1.0)% Net Assets 100.0%			1,123,409,257 (11,483,420) \$1,111,925,837

See Abbreviations on page 34.

[†]Rounds to less than 0.1% of net assets.

^aNon-income producing.

bSecurity has been deemed illiquid because it may not be able to be sold within seven days.

cA portion or all of the security is on loan at February 28, 2013. See Note 1(c).

dSee Note 7 regarding investments in the Institutional Fiduciary Trust Money Market Portfolio.

 $^{{}^{\}mathrm{e}}\mathrm{See}$ Note 1(c) regarding securities on loan.

The rate shown is the annualized seven-day yield at period end.

Financial Statements

Statement of Assets and Liabilities

February 28, 2013 (unaudited)

Assets:	
Investments in securities:	A 601 005 100
Cost - Unaffiliated issuers	\$ 601,385,198
Cost - Sweep Money Fund (Note 7)	25,972,552
Total cost of investments	\$ 627,357,750
Value - Unaffiliated issuers	\$1,097,436,705
Value - Sweep Money Fund (Note 7)	25,972,552
Total value of investments (includes securities loaned in the amount of \$11,291,158)	1,123,409,257
Foreign currency, at value (cost \$3,020)	3,021
Receivables:	
Investment securities sold	337,980
Capital shares sold	3,821,037
Dividends	93,687
Other assets	469
Total assets	1,127,665,451
Liabilities:	
Payables:	
Investment securities purchased	14,435
Capital shares redeemed	1,760,137
Affiliates	1,505,530
Allocator Funds (Note 9)	9,643
Payable upon return of securities loaned	12,006,978
Accrued expenses and other liabilities	442,891
Total liabilities	15,739,614
Net assets, at value	\$1,111,925,837
Net assets consist of:	
Paid-in capital	\$ 611,815,017
Distributions in excess of net investment income	(7,847,342)
Net unrealized appreciation (depreciation)	496,053,298
Accumulated net realized gain (loss)	11,904,864
Net assets, at value	\$1,111,925,837

Financial Statements (continued)

Statement of Assets and Liabilities (continued)

February 28, 2013 (unaudited)

Class A:

Net assets, at value	\$574,679,280
Shares outstanding	14,551,938
Net asset value per share ^a	\$39.49
Maximum offering price per share (net asset value per share ÷ 94.25%)	\$41.90
Class B:	
Net assets, at value	\$ 117,759
Shares outstanding	2,968
Net asset value and maximum offering price per share ^a	\$39.68
Class C:	
Net assets, at value	\$152,786,829
Shares outstanding	3,907,020
Net asset value and maximum offering price per share ^a	\$39.11
Advisor Class:	
Net assets, at value	\$384,341,969
Shares outstanding	9,685,103
Net asset value and maximum offering price per share	\$39.68

^a Redemption price is equal to net asset value less contingent deferred sales charges, if applicable.

Financial Statements (continued)

Statement of Operations

for the six months ended February 28, 2013 (unaudited)

Investment income:		
Dividends (net of foreign taxes of \$460,482)	\$	5,828,739
Income from securities loaned		587,095
Total investment income		6,415,834
Expenses:		
Management fees (Note 3a)		5,727,309
Administrative fees (Note 3b)		1,030,279
Distribution fees: (Note 3c)		
Class A		795,553
Class B		6,699
Class C		714,689
Transfer agent fees (Note 3e)		828,457
Special servicing agreement fees (Note 9)		79,741
Custodian fees (Note 4)		155,732
Reports to shareholders		78,080
Registration and filing fees		58,434
Professional fees		40,744
Trustees' fees and expenses		42,802
Other		15,490
Total expenses		9,574,009
Net investment income (loss)		(3,158,175)
Realized and unrealized gains (losses):		
Net realized gain (loss) from:		
Investments	2	25,267,653
Foreign currency transactions		53,298
Net realized gain (loss)	- 2	25,320,951
Net change in unrealized appreciation (depreciation) on:		
Investments	14	18,888,773
Translation of other assets and liabilities denominated in foreign currencies		(3,052)
Net change in unrealized appreciation (depreciation)	14	18,885,721
Net realized and unrealized gain (loss)	17	74,206,672
Net increase (decrease) in net assets resulting from operations		71,048,497
The mercade (desirede), in not assets resulting from operations	Ψ17	1,0-0,-07

Financial Statements (continued)

Statements of Changes in Net Assets

	Six Months Ended February 28, 2013 (unaudited)	Year Ended August 31, 2012
Increase (decrease) in net assets:	(,
Operations:		
Net investment income (loss)	\$ (3,158,175)	\$ 16,163,417
Net realized gain (loss) from investments and foreign currency transactions Net change in unrealized appreciation (depreciation) on investments and translation of	25,320,951	(6,505,769)
other assets and liabilities denominated in foreign currencies	148,885,721	(100,703,939)
Net increase (decrease) in net assets resulting from operations	171,048,497	(91,046,291)
Distributions to shareholders from:		
Net investment income:		
Class A	(8,755,180)	(3,473,640)
Class C	(1,024,644)	_
Advisor Class	(7,477,886)	(3,595,104)
Net realized gains:		
Class A	(2,439,553)	(4,405,371)
Class B	(6,145)	(54,037)
Class C	(678,687)	(1,386,060)
Advisor Class	(1,696,402)	(3,035,843)
Total distributions to shareholders	(22,078,497)	(15,950,055)
Capital share transactions: (Note 2)		
Class A	18,686,598	(15,607,499)
Class B	(2,240,246)	(5,783,763)
Class C	(2,705,422)	(20,318,520)
Advisor Class	(23,442,634)	23,714,687
Total capital share transactions	(9,701,704)	(17,995,095)
Net increase (decrease) in net assets	139,268,296	(124,991,441)
Net assets:		
Beginning of period	972,657,541	1,097,648,982
End of period	\$1,111,925,837	\$ 972,657,541
Undistributed net investment income (distributions in excess of net investment income)		
included in net assets:		
End of period	\$ (7,847,342)	\$ 12,568,543

Notes to Financial Statements (unaudited)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Templeton China World Fund (Fund) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company. The Fund offers four classes of shares: Class A, Class B, Class C, and Advisor Class. Effective March 1, 2005, the Fund no longer offered Class B shares for purchase. As disclosed in the fund prospectus, Class B shares convert to Class A shares after eight years of investment; therefore, all Class B shares will convert to Class A by March 2013. Each class of shares differs by its initial sales load, contingent deferred sales charges, distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Under procedures approved by the Fund's Board of Trustees (the Board), the Fund's administrator, investment manager and other affiliates have formed the Valuation and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or the NYSE, whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities. Investments in open-end mutual funds and non-registered money market funds are valued at the closing net asset value.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may

Notes to Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation (continued)

also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before the daily close of business on the NYSE. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at the close of the NYSE. In order to minimize the potential for these differences, the VLOC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments on the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference

Notes to Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

b. Foreign Currency Translation (continued)

between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

c. Securities Lending

The Fund participates in an agency based securities lending program. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the market value of loaned securities, as determined at the close of fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is invested in a non-registered money fund as indicated on the Statement of Investments. The Fund receives income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower.

d. Income and Deferred Taxes

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

The Fund recognizes the tax benefits of uncertain tax positions only when the position is "more likely than not" to be sustained upon examination by the tax authorities based on the technical merits of the tax position. As of February 28, 2013, and for all open tax years, the Fund has determined that no liability for unrecognized tax benefits is required in the Fund's financial statements related to uncertain tax positions taken on a tax return (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

Notes to Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

e. Security Transactions, Investment Income, Expenses and Distributions

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Estimated expenses are accrued daily. Dividend income is recorded on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the Fund is notified of the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Realized and unrealized gains and losses and net investment income, not including class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

f. Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

g. Guarantees and Indemnifications

Under the Fund's organizational documents, its officers and trustees are indemnified by the Fund against certain liabilities arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. Currently, the Fund expects the risk of loss to be remote.

Notes to Financial Statements (unaudited) (continued)

2. SHARES OF BENEFICIAL INTEREST

At February 28, 2013, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Six Months Ended February 28, 2013		Year E August 3	
	Shares	Amount	Shares	Amount
Class A Shares:				
Shares sold	2,327,639	\$ 90,441,332	3,838,887	\$137,198,103
distributions	275,172	10,638,152	222,893	7,453,536
Shares redeemed	(2,198,163)	(82,392,886)	(4,548,326)	(160,259,138)
Net increase (decrease)	404,648	\$ 18,686,598	(486,546)	\$ (15,607,499)
Class B Shares:				
Shares sold	252	\$ 9,134	2,744	\$ 93,300
distributions	129	5,032	1,406	46,849
Shares redeemed	(58,945)	(2,254,412)	(169,148)	(5,923,912)
Net increase (decrease)	(58,564)	\$ (2,240,246)	(164,998)	\$ (5,783,763)
Class C Shares:				
Shares sold	540,739	\$ 20,617,483	729,993	\$ 25,726,758
distributions	36,928	1,415,444	34,168	1,130,278
Shares redeemed	(665,800)	(24,738,349)	(1,352,071)	(47,175,556)
Net increase (decrease)	(88,133)	\$ (2,705,422)	(587,910)	\$ (20,318,520)
Advisor Class Shares:				
Shares sold	1,420,645	\$ 54,745,331	2,962,061	\$108,093,107
Shares issued in reinvestment of				
distributions	155,202	6,024,932	140,853	4,732,656
Shares redeemed	(2,210,083)	(84,212,897)	(2,517,931)	(89,111,076)
Net increase (decrease)	(634,236)	\$(23,442,634)	584,983	\$ 23,714,687

3. Transactions with Affiliates

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Fund are also officers and/or directors of the following subsidiaries:

Subsidiary	Affiliation
Templeton Asset Management Ltd. (TAML)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

Notes to Financial Statements (unaudited) (continued)

3. Transactions with Affiliates (continued)

a. Management Fees

The Fund pays an investment management fee to TAML based on the average weekly net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
1.100%	Up to and including \$1 billion
1.050%	Over \$1 billion, up to and including \$5 billion
1.000%	Over \$5 billion, up to and including \$10 billion
0.950%	Over \$10 billion, up to and including \$15 billion
0.900%	Over \$15 billion, up to and including \$20 billion
0.850%	In excess of \$20 billion

b. Administrative Fees

The Fund pays an administrative fee to FT Services of 0.20% per year of the average daily net assets of the Fund.

Effective November 1, 2012, FT Services has voluntarily agreed to waive or limit its fund administration fees so that such fees do not exceed 0.185% on fund asset levels over \$2.5 billion and 0.175% on fund asset levels over \$5 billion. FT Services may discontinue this waiver at any time.

c. Distribution Fees

The Board has adopted distribution plans for each share class, with the exception of Advisor Class shares, pursuant to Rule 12b-1 under the 1940 Act. Distribution fees are not charged on shares held by affiliates. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods. In addition, under the Fund's Class B and C compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class.

The maximum annual plan rates, based on the average daily net assets, for each class, are as follows:

Class A	 0.35%
Class B	 1.00%
Class C	 1.00%

The Board has set the current rate at 0.30% per year for Class A shares until further notice and approval by the Board.

Notes to Financial Statements (unaudited) (continued)

3. Transactions with Affiliates (continued)

d. Sales Charges/Underwriting Agreements

Front-end sales charges and contingent deferred sales charges (CDSC) do not represent expenses of the Fund. These charges are deducted from the proceeds of sales of Fund shares prior to investment or from redemption proceeds prior to remittance, as applicable. Distributors has advised the Fund of the following commission transactions related to the sales and redemptions of the Fund's shares for the period:

Sales charges retained net of commissions	
paid to unaffiliated broker/dealers	\$130,144
CDSC retained	\$ 42.534

e. Transfer Agent Fees

For the period ended February 28, 2013, the Fund paid transfer agent fees of \$828,457, of which \$383,895 was retained by Investor Services.

4. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended February 28, 2013, there were no credits earned.

5. INCOME TAXES

For tax purposes, capital losses may be carried over to offset future capital gains, if any.

At August 31, 2012, the capital loss carryforwards were as follows:

Canital	Ince	carryforwards:

Short term	\$ 785,309
Long term	6,025,364
Total capital loss carryforwards	\$6,810,673

At February 28, 2013, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	\$632,765,516
Unrealized appreciation	\$529,036,867
Unrealized depreciation	(38,393,126)
Net unrealized appreciation (depreciation)	\$490,643,741

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of corporate actions and wash sales.

Notes to Financial Statements (unaudited) (continued)

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the period ended February 28, 2013, aggregated \$44,930,251 and \$104,531,966, respectively.

7. INVESTMENTS IN INSTITUTIONAL FIDUCIARY TRUST MONEY MARKET PORTFOLIO

The Fund invests in the Institutional Fiduciary Trust Money Market Portfolio (Sweep Money Fund), an open-end investment company managed by Franklin Advisers, Inc. (an affiliate of the investment manager). Management fees paid by the Fund are reduced on assets invested in the Sweep Money Fund, in an amount not to exceed the management and administrative fees paid by the Sweep Money Fund.

8. Concentration of Risk

Investing in securities of "China companies" may include certain risks and considerations not typically associated with investing in U.S. securities. In general, China companies are those that are organized under the laws of, or with a principal office or principal trading market in, the People's Republic of China, Hong Kong, or Taiwan. Such risks include fluctuating currency values and changing local and regional economic, political and social conditions, which may result in greater market volatility. In addition, these securities may not be as liquid as U.S. securities.

9. SPECIAL SERVICING AGREEMENT

The Fund, which is an eligible underlying investment of one or more of the Franklin Templeton Fund Allocator Series Funds (Allocator Funds), participates in a Special Servicing Agreement (SSA) with the Allocator Funds and certain service providers of the Fund and the Allocator Funds. Under the SSA, the Fund may pay a portion of the Allocator Funds' expenses (other than any asset allocation, administrative, and distribution fees) to the extent such payments are less than the amount of the benefits realized or expected to be realized by the Fund (e.g., due to reduced costs associated with servicing accounts) from the investment in the Fund by the Allocator Funds. The Allocator Funds are either managed by Franklin Advisers, Inc. or administered by FT Services, affiliates of TAML. For the period ended February 28, 2013, the Fund was held by one or more of the Allocator Funds and the amount of expenses borne by the Fund is noted in the Statement of Operations. At February 28, 2013, 6.91% of the Fund's outstanding shares were held by one or more of the Allocator Funds. Effective May 1, 2013, the SSA will be discontinued until further notice and approval by the Board.

Notes to Financial Statements (unaudited) (continued)

10. CREDIT FACILITY

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling \$1.5 billion (Global Credit Facility) which matures on January 17, 2014. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.07% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses on the Statement of Operations. During the period ended February 28, 2013, the Fund did not use the Global Credit Facility.

11. FAIR VALUE MEASUREMENTS

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

- Level 1 quoted prices in active markets for identical financial instruments
- Level 2 other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of financial instruments)

The inputs or methodology used for valuing financial instruments are not an indication of the risk associated with investing in those financial instruments.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

Notes to Financial Statements (unaudited) (continued)

11. FAIR VALUE MEASUREMENTS (continued)

A summary of inputs used as of February 28, 2013, in valuing the Fund's assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:				
Equity Investments:				
Commercial Services & Supplies	\$	\$ —	\$256,614	\$ 256,614
All Other Equity Investments ^a	1,085,173,113	_	_	1,085,173,113
Short Term Investments	25,972,552	12,006,978	_	37,979,530
Total Investments in Securities	\$1,111,145,665	\$12,006,978	\$256,614	\$1,123,409,257

^aFor detailed categories, see the accompanying Statement of Investments.

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 investments at the end of the period.

12. New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The amendments in the ASU enhance disclosures about offsetting of financial assets and liabilities to enable investors to understand the effect of these arrangements on a fund's financial position. In January 2013, FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The amendments in ASU No. 2013-01 clarify the intended scope of disclosures required by ASU No. 2011-11. These ASUs are effective for interim and annual reporting periods beginning on or after January 1, 2013. The Fund believes the adoption of these ASUs will not have a material impact on its financial statements.

13. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

ABBREVIATIONS

Selected Portfolio

ADR - American Depositary Receipt

Shareholder Information

Proxy Voting Policies and Procedures

The Fund's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

Quarterly Statement of Investments

The Fund files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

This page intentionally left blank.

Franklin Templeton Funds

Literature Request. To receive a summary prospectus and/or prospectus, please call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information. Please carefully read a prospectus before investing. To ensure the highest quality of service, we may monitor, record and access telephone calls to or from our service departments. These calls can be identified by the presence of a regular beeping tone.

VALUE

Franklin All Cap Value Fund
Franklin Balance Sheet Investment Fund
Franklin Large Cap Value Fund
Franklin MicroCap Value Fund
Franklin MidCap Value Fund
Franklin Small Cap Value Fund
Mutual Beacon Fund
Mutual Quest Fund
Mutual Recovery Fund²
Mutual Shares Fund

BLEND

Franklin Focused Core Equity Fund Franklin Large Cap Equity Fund Franklin Rising Dividends Fund

GROWTH

Franklin DynaTech Fund Franklin Flex Cap Growth Fund Franklin Growth Fund Franklin Growth Opportunities Fund Franklin Small Cap Growth Fund Franklin Small-Mid Cap Growth Fund

SECTOR

Franklin Biotechnology Discovery Fund Franklin Global Real Estate Fund Franklin Gold & Precious Metals Fund Franklin Natural Resources Fund Franklin Real Estate Securities Fund Franklin Utilities Fund Mutual Financial Services Fund

GLOBAL

Franklin World Perspectives Fund Mutual Global Discovery Fund Templeton Global Opportunities Trust Templeton Global Smaller Companies Fund Templeton Growth Fund Templeton World Fund

INTERNATIONAL

Franklin India Growth Fund
Franklin International Growth Fund
Franklin International Small Cap Growth Fund
Mutual European Fund
Mutual International Fund
Templeton Asian Growth Fund
Templeton BRIC Fund
Templeton China World Fund
Templeton Developing Markets Trust
Templeton Emerging Markets Small Cap Fund
Templeton Foreign Fund
Templeton Foreign Smaller Companies Fund
Templeton Frontier Markets Fund

HYBRID

Franklin Balanced Fund
Franklin Convertible Securities Fund
Franklin Equity Income Fund
Franklin Income Fund
Templeton Emerging Markets Balanced Fund
Templeton Global Balanced Fund

ASSET ALLOCATION

Franklin Templeton Corefolio® Allocation Fund Franklin Templeton Founding Funds Allocation Fund Franklin Templeton Conservative Allocation Fund

Franklin Templeton Growth Allocation Fund Franklin Templeton Moderate Allocation Fund Franklin LifeSmart 2015 Retirement Target Fund³ Franklin LifeSmart 2025 Retirement Target Fund³ Franklin LifeSmart 2035 Retirement Target Fund³ Franklin LifeSmart 2045 Retirement Target Fund³ Franklin Templeton Global Allocation Fund Franklin Templeton Multi-Asset Real Return Fund

FIXED INCOME

Franklin Adjustable U.S. Government Securities Fund⁴ Franklin Floating Rate Daily Access Fund Franklin High Income Fund Franklin Limited Maturity U.S. Government

Securities Fund⁴

Franklin Low Duration Total Return Fund

Franklin Real Return Fund Franklin Strategic Income Fund Franklin Strategic Mortgage Portfolio Franklin Templeton Hard Currency Fund

Franklin Total Return Fund

Franklin U.S. Government Securities Fund4

Templeton Global Bond Fund Templeton Global Total Return Fund Templeton International Bond Fund

TAX-FREE INCOME⁵

National

Double Tax-Free Income Fund⁶ Federal Tax-Free Income Fund High Yield Tax-Free Income Fund Insured Tax-Free Income Fund^{7,8}

Limited-/Intermediate-Term

California Intermediate-Term Tax-Free Income Fund Federal Intermediate-Term Tax-Free Income Fund Federal Limited-Term Tax-Free Income Fund New York Intermediate-Term Tax-Free Income Fund

State-Specific

Michigan Alabama Arizona Minnesota California (4 funds)8 Missouri Colorado New Jersey Connecticut New York (2 funds) Florida North Carolina Georgia Ohio Kentucky Oregon Louisiana Pennsylvania Maryland Tennessee

Virginia

INSURANCE FUNDS

Massachusetts

Franklin Templeton Variable Insurance Products Trust⁹

- 1. The fund is closed to new investors. Existing shareholders and select retirement plans can continue adding to their accounts.
- 2. The fund is a continuously offered, closed-end fund. Shares may be purchased daily; there is no daily redemption. However, each quarter, pending board approval, the fund will authorize the repurchase of 5%–25% of the outstanding number of shares. Investors may tender all or a portion of their shares during the tender period.
- 3. Effective 5/1/13, the Franklin Templeton Retirement Target Funds changed their names to Franklin LifeSmart Retirement Target Funds. The funds' investment goals and principal investment strategies remained unchanged.
- 4. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.
- For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.
- 6. The fund is closed to all new investments (other than reinvestment of dividends and capital gains distributions).
- 7. The fund invests primarily in insured municipal securities.
- 8. Effective at the close of market 1/18/13, Franklin Insured Tax-Free Income Fund and Franklin California Insured Tax-Free Income Fund closed to new investors, and effective at the close of market 3/1/13, to all new investments (other than reinvestment of dividends and capital gains distributions).
- 9. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts.

VALUE BLEND GROWTH SECTOR GLOBAL INTERNATIONAL HYBRID ASSET ALLOCATION FIXED INCOME TAX-FREE INCOM



< GAIN FROM OUR PERSPECTIVE® >

Semiannual Report and Shareholder Letter TEMPLETON CHINA WORLD FUND

Investment Manager

Templeton Asset Management Ltd.

Distributor

Franklin Templeton Distributors, Inc. (800) DIAL BEN®/342-5236 franklintempleton.com

Shareholder Services (800) 632-2301

Authorized for distribution only when accompanied or preceded by a summary prospectus and/or prospectus. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. A prospectus contains this and other information; please read it carefully before investing.

To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular beeping tone.