

MATTHEWS INTERNATIONAL FUNDS

Form 497

December 30, 2004

Matthews International Funds

(d/b/a Matthews Asian Funds)

WWW.MATTHEWSFUNDS.COM

**Pacific Tiger Fund
Asian Growth and Income Fund
Korea Fund
China Fund
Japan Fund
Asian Technology Fund
Asia Pacific Fund**

Statement of Additional Information

December 30, 2004

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 Asian Funds (the Funds) dated December 30, 2004. The Prospectus and the financial statements contained in the Funds Annual Report for the fiscal year ended August 31, 2004 are incorporated herein by reference. You can obtain a free copy of the current Prospectus and Annual Report on our web site at WWW.MATTHEWSFUNDS.COM or by contacting the following companies at the addresses and telephone numbers listed below.

Underwriter:
PFPC Distributors, Inc.
760 Moore Road
King of Prussia, PA 19406
(800) 892-0382

Investment Advisor:
Matthews International Capital Management, LLC
Four Embarcadero Center, Suite 550
San Francisco, CA 94111
(800) 789-2742

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 Funds or by the Underwriter in any jurisdiction in which such offering may not lawfully be made.

Matthews Asian Funds

Page 1 of 54

Table of Contents	Page
Fund History	3
Description of the Funds and Their Investments and Risks	3
Classification	3
Investment Strategies and Risks	3
Matthews Investment Process	4
Investment Strategies and Risks Common to All Funds	5
Investment Strategies Specific to Each Fund	7
Non-Principal Investment Strategies	13
Funds Policies	24
Temporary Defensive Position	25
Portfolio Turnover	25
Disclosure of Portfolio Holdings	26
Management of the Funds	26
Trustees and Officers	26
Approval of Investment Advisory Agreement	30
Compensation	31
Code of Ethics	32
Proxy Voting Policies and Procedures	32
Control Persons and Principal Holders of Securities	33
Investment Advisory & Other Service Providers	37
The Investment Advisor	37
Principal Underwriter	40
Service Agreements	40
Rule 12b-1 Plan (Distribution Plan)	41
Administration and Shareholder Services Agreement	41
Transfer Agent	42
Custodian	42
Counsel to the Trust	43
Independent Registered Public Accounting Firm	43
Brokerage Allocation and Other Practices	43
Shares of Beneficial Interest	44
Purchase, Redemption and Pricing of Shares	45
Purchase of Shares	45
Determination of Net Asset Value	45
Redemption in Kind	46
Equalization	46
Distributions	46
Taxation of the Trust	47
In General	47
Taxes Regarding Options, Futures and Foreign Currency Transactions	48
Unique Foreign Tax Issues	49
Other Information	49
Reports to Shareholders	49
Financial Statements	49
Appendix	50
Bond Ratings	50

Fund History

Matthews International Funds (d/b/a Matthews Asian Funds) (the Trust), Four Embarcadero Center, Suite 550, San Francisco, California 94111, is a family of mutual funds currently offering seven separate series of shares named:

Matthews Pacific Tiger Fund, Matthews Asian Growth and Income Fund, Matthews Korea Fund, Matthews China Fund, Matthews Japan Fund, Matthews Asian Technology Fund and Matthews Asia Pacific Fund (collectively referred to as the Funds or individually as a Fund). All seven Funds are offered in a single prospectus, referred to herein as the Prospectus.

The Trust was organized as a Delaware business trust on April 13, 1994 and commenced operations on September 12, 1994. It has never been engaged in any other business.

Description of the Funds and Their Investments and Risks

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 here supplements the information in the Prospectus.

Classification

The Trust is an open-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). Each Fund is diversified except for the Korea Fund, which is non-diversified. Diversified means that as to 75% of the assets of a Fund, one holding cannot represent more than 5% of the assets of the Fund, nor can any holding represent more than 10% of a company's outstanding voting securities. The remaining 25% of the Fund could be invested in one holding, or in multiple holdings not subject to the above limitations.

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 (the Code). Such qualification relieves the Funds of liability for federal income taxes to the extent the Funds' 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 Strategies and Risks

As a general matter, the investment advisor believes that the discipline of company evaluation and choosing good stocks (and in the case of the Asian Growth and Income Fund, convertible securities as well) is the best way to manage the assets of the Funds, and to be fully invested as appropriate with cash needs.

Matthews Asian Funds

Matthews Investment Process

Matthews International Capital Management, LLC, (Matthews or the Advisor) serves as the investment advisor to the Trust. Although the Advisor uses a multi-factor research approach when selecting investments for the Funds, primary emphasis is placed on individual stock selection (bottom up) using a Growth at a Reasonable Price process (GARP). Other factors include evaluation of each country's political stability, prospects for economic growth (inflation, interest direction, trade balance and currency strength), identification of long-term trends that might create investment opportunities, the status of the purchasing power of the people and population and composition of the work force. In reviewing potential companies in which to invest, the Advisor considers the company's quality of management, plans for long-term growth, competitive position in the industry, future expansion plans and growth prospects, valuations compared with industry average, earnings track record, technology, research and development, productivity, labor costs, raw material costs and sources, profit margins, capital resources, governmental regulation, financial leverage, and other factors. In addition, the Advisor will visit countries and companies in person to derive firsthand information for further evaluation. After evaluation of all factors, the Advisor attempts to identify those companies in such countries and industries that are best positioned and managed to take advantage of the varying economic and political factors.

The Funds may invest in securities of issuers of various sizes, large or small. 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. 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 market averages in general.

Many of the debt and convertible securities in which the Funds invest are unrated by any rating agency and, therefore, there is no objective standard against which the Advisor may evaluate such securities. The Advisor seeks to minimize the risks of investing in 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, the Advisor may assess the following factors, among others:

1) potential for capital appreciation; 2) price of security relative to price of underlying stock, if a convertible security; 3) yield of security relative to yield of other fixed-income securities; 4) interest or dividend income; 5) call and/or put features; 6) creditworthiness; 7) price of security relative to price of other comparable securities 8) size of issue; 9) currency of issue; and 10) 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) and European Depositary Receipts (EDRs). Generally, ADRs in registered form are dollar denominated securities designed for use in the U.S. securities markets, which represent and may be converted into an underlying foreign security. EDRs, in bearer form, are designed for use in the European securities markets.

The Funds may purchase securities on a when-issued basis and may purchase or sell securities on a forward commitment basis in order to hedge against anticipated changes in interest rates and prices.

Matthews Asian Funds

Page 4 of 54

Investment Strategies and Risks Common to All Funds

Below are explanations and the associated risks of certain unique securities and investment techniques. Shareholders should understand that 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 the Funds' investment objectives will be attained. Again, we remind you that generally speaking, the Trust's investment strategy is to invest the shareholders' money in equity securities (and convertible securities in the case of Asian Growth and Income Fund and Asia Pacific Fund) consistent with each Fund's investment goal.

ADRs and EDRs

For many foreign securities, there are U.S. dollar denominated ADRs, which are bought and sold in the U.S. and are issued by domestic banks. ADRs represent the right to receive securities of foreign issuers deposited in the domestic bank or a correspondent bank. ADRs do not eliminate all the risks inherent in investing in the securities of foreign issuers. By investing in ADRs rather than directly in foreign issuer's stock however, the Funds will avoid currency risks during the settlement period for either purchases or sales. 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.

EDRs are not necessarily denominated in the currency of the underlying security. The Funds have no current intention to invest in unsponsored ADRs and EDRs.

IDRs

IDRs (International Depository Receipts, also known as GDRs or Global Depository Receipts) 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 it is possible to use them for bonds, commercial paper and certificates of deposit. IDRs can be convertible to ADRs in New York making them particularly useful for arbitrage between the markets. The Funds have no current intention to invest in unsponsored IDRs.

Risks Associated with Euroconvertible Securities

Convertible securities in which the Funds invest may not be rated by any rating agency and, therefore, there is no objective standard against which the Advisor may evaluate such securities. 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.

The theoretical value of convertible securities varies with a number of factors including the value and volatility of the underlying stock, the level and volatility of the interest rates, the passage of time, dividend policy, and other variables. Euroconvertible securities, specifically, are also influenced by the level and volatility of the foreign exchange rate between the security's currency and the underlying stock's currency. While the volatility of convertible fixed income securities will typically be less than that of the underlying securities, the volatility of warrants will typically be greater than that of the underlying securities.

Risks Associated with Emerging Markets

Investing in securities of issuers in Asia and Asia Pacific involves special risks. First, the Funds' investment focus on that region makes the Funds particularly subject to political, social, or economic conditions experienced in that region. Second, many of the countries in Asia and Asia Pacific constitute so-called developing or emerging economies and markets. The risks of investing in foreign markets generally are greater for investments in developing markets. Additional risks of investment in such markets include (i) less social, political, and economic stability; (ii) the smaller size of the securities markets in such countries and the lower volume of trading, which may result in a lack of liquidity and in greater price volatility; (iii) certain national policies which may restrict the Funds' 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 the Funds' loss of their entire investment in that market; and (iv) less developed legal structures governing private or foreign investment or allowing for judicial redress for injury to private property.

Risks Associated with Foreign Currency

The U.S. dollar market value of the Funds' investments and of dividends and interest earned by the Funds may be significantly affected by changes in currency exchange rates. The value of Fund 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 attempt to manage currency exchange rate risks, there is no assurance that the Funds will do so at an appropriate time or that they will be able to predict exchange rates accurately. For example, if the Funds increase their exposure to a currency and that currency's price subsequently falls, such currency management may result in increased losses to the Funds. Similarly, if the Funds decrease their exposure to a currency and the currency's price rises, the Funds 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 the Funds 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 consequences between certain countries and the U.S. may reduce or eliminate such taxes. In addition, foreign countries generally do not impose taxes on capital gains with respect to investments by non-resident investors.

Matthews Korea Fund does not intend to engage in activities that will create a permanent establishment in Korea within the meaning of the Korea-U.S. Tax Treaty. Therefore, Matthews Korea Fund generally will not be subject to any Korean income taxes other than Korean withholding taxes. Exemptions or reductions in these taxes apply if the Korea-U.S. Tax Treaty applies to the Fund. If the treaty provisions are not, or cease to be, applicable to Matthews Korea Fund, significant additional withholding taxes would apply.

Risks Associated with Securities Rated Below Investment Grade

Each Fund (except the Asian Growth and Income Fund) may invest up to 15% of its total assets in securities rated below investment grade (securities rated Baa or below by Moody's Investors Service, Inc. (Moody's)) or BBB or below by Standard & Poor's Corporation (S&P) or, if unrated, are

Matthews Asian Funds

comparable in quality). 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 the 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 and Moody's are evaluations of the safety of principal and interest payments, not market value risk, of lower-rated securities. These ratings are provided as an Appendix to this SAI. Also, 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, the Advisor may perform its own analysis of issuers in selecting investments for the Funds. The Advisor's analysis of issuers may include, among other things, historic and current financial condition and current and anticipated cash flows.

Investment Strategies Specific to Each Fund

Investment Strategies and Risks Specific to Matthews Pacific Tiger Fund

Equity securities in which the Fund may invest include common stocks, preferred stocks, warrants, and securities convertible into common stocks, such as convertible bonds and debentures.

The Fund may invest up to 20% of its total assets in equity and other securities of issuers located outside of the Pacific Tiger economies, including, without limitation, the U.S., and in non-convertible bonds and other debt securities issued by foreign issuers and foreign government entities.

The Advisor may invest where the Advisor believes the potential for capital growth exists and in companies which have demonstrated the ability to anticipate and adapt to changing markets. The Fund may invest in the securities of all types of issuers, large or small, whose earnings are believed by the Advisor to be in a relatively strong growth trend or whose assets are substantially undervalued.

Under normal circumstances, the Advisor expects that the portfolio of the Fund will be comprised of forty to eighty individual stocks in various countries in the Pacific Tiger economies. When purchasing

portfolio securities for the Fund, the Advisor's philosophy is a buy and hold strategy versus buying for short-term trading.

Investment Strategies and Risks Specific to Matthews Asian Growth and Income Fund

You should refer to the section of this SAI entitled "Investment Strategies and Risks Common to All Funds" for the investment strategies and risks specific to Matthews Asian Growth and Income Fund.

Investment Strategies and Risks Specific to Matthews Korea Fund

Equity securities in which the Fund may invest include South Korean common stocks, preferred stocks (including convertible preferred stock), bonds, notes and debentures convertible into common or preferred stocks, warrants and rights, equity interests in trusts, partnerships, joint ventures or similar enterprises and depositary receipts. At present, not all of these types of securities are available for investment in South Korea.

The Fund may invest 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 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 the Advisor. Securities rated BBB by S&P or Baa by Moody's are considered to have speculative characteristics. Non-convertible debt securities in which the 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. Korean law does not currently permit foreign investors such as the Fund to acquire debt securities denominated in won or equity securities of companies organized under the laws of Korea that are not listed on the Korea Stock Exchange (KSE). At the present time, however, foreign investors are permitted to invest in debt securities issued by Korean companies outside of Korea and denominated in currencies other than won.

The Fund may invest its assets in a broad spectrum of securities of Korean industries which are believed to have attractive long-term growth potential.

Because the Fund intends to invest primarily in equity securities of South Korean companies, an investor in the Fund should be aware of certain risks relating to South Korea, the Korean securities markets, and international investments generally which are not typically associated with U.S. domestic investments. In addition, the Fund may be more volatile than a geographically diverse fund.

Security Valuation Considerations

The Korean government has historically imposed significant restrictions and controls for foreign investors. As a result, the Fund may be limited in its investments or precluded from investing in certain Korean companies, which may adversely affect the performance of the Fund. Under the current regulations, foreign investors are allowed to invest in almost all shares listed on the KSE. From time to time, many of the securities trade among non-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 Korea. These transactions typically occur at a premium over prices on the KSE. There can be no assurance that the Fund, if it purchases such shares at a premium, will be able to realize such premium, on the sale of such shares or that such premium will not be adversely affected by changes in

regulations or otherwise. Such securities will be valued at fair value as determined in good faith by the Board of Trustees.

Risks Associated with Investing in Korean Securities

Investments by the Fund in the securities of Korean issuers may involve investment risks different from those of U.S. issuers, including possible political, economic or social instability in Korea, and by changes in 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 Korean securities held by the Fund. Political instability and/or military conflict involving North Korea may adversely affect the value of the Fund's 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 Korean company than about a domestic company. Brokers in Korea may not be as well capitalized as those in the U.S. so that they are more susceptible to financial failure in times of market, political, or economic stress. Additionally, 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 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 affect investments in Korea.

In addition, brokerage commissions, custodian services, withholding taxes, and other costs relating to investment in foreign markets generally are more expensive than in the United States. Therefore, the operating expense ratio of the Fund can be expected to be higher than that of a fund investing primarily in the securities of U.S. issuers.

Risks Associated with the Korean Securities Markets

In addition to the risks of investing in Korea discussed in the Prospectus, investors should know that the Korean securities markets are smaller than the securities markets of the U.S. or Japan. Certain restrictions on foreign investment in the Korean securities markets may preclude investments in certain securities by the Fund and limit investment opportunities for the Fund.

Investing in securities of South Korean companies and of the government of the Republic of Korea involves certain considerations not typically associated with investing in securities of United States companies or the United States government. Among these are the risks of political, economic and social uncertainty and instability, including the potential for increasing militarization in North Korea. Relations between North and South Korea remain tense and the possibility of military action still exists. In the event that military action were to take place, the value of the Fund's Korean assets are likely to be adversely affected. The Fund may also be affected by foreign currency fluctuations or exchange controls, differences in accounting procedures and other risks. The Fund is also subject to typical stock and bond market risk. In addition, limitations of foreign ownership currently exist which may impact the price of a Korean security paid by the Fund.

In the latter part of 1997, Korea experienced a national financial crisis requiring intervention by the International Monetary Fund (IMF) and a large infusion of foreign capital. The financial crisis led to a recessionary environment, which had serious consequences for unemployment and domestic

business activity. The government has initiated, in conjunction with the IMF, wide-ranging reform activities. The full impact on corporate Korea cannot be predicted but widespread restructuring and consolidation as well as a continued high rate of bankruptcies can be expected.

Investment Strategies and Risks Specific to Matthews China Fund

The Fund may hold a significant weighting in securities listed on either the Shanghai and/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 Fund's exposure to securities listed on either the Shanghai and Shenzhen exchanges will initially be through B shares. In addition to B shares, the Fund 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).

The Fund may invest up to 20% of its total assets in equity and other securities of issuers located outside of the China region, including, without limitation, the United States, and in non-convertible bonds and other debt securities issued by foreign issuers and foreign government entities.

The Advisor may invest where the Advisor believes the potential for capital growth exists and in companies which have demonstrated the ability to anticipate and adapt to changing markets. The Fund may invest in the securities of all types of issuers, large or small, whose earnings are believed by the Advisor to be in a relatively strong growth trend or whose assets are substantially undervalued.

Under normal circumstances, the Advisor expects that the portfolio of the Fund will be comprised of 20 to 60 individual stocks in various countries in the China region. When purchasing portfolio securities for the Fund, the Advisor's philosophy is generally a buy and hold strategy versus buying for short-term trading.

In addition to the risks of investing in China and Hong Kong discussed in the Prospectus, investors should know that China's securities markets have less regulation, are substantially smaller, less liquid and more volatile than the securities markets of more developed countries. Financial information on companies listed on these markets is limited and may be inaccurate. Companies listed on these markets may trade at prices not consistent with traditional valuation measures. Management of these companies could have conflicting financial interests or little experience managing a business.

Risks Associated with the Taiwanese Securities Markets

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

Taiwan's growth has to a significant degree been export-driven. While the percentage of Taiwan's exports purchased by the United States has been declining recently, the United States has remained a key export market. Accordingly, Taiwan is affected by changes in the economics of the United States

and other main trading partners, by protectionist impulses in those countries and by the development of export sectors in lower-wage economies. In the event that growth in the export sector declines in the future, the burden of future growth will increasingly be placed on domestic demand.

The island of Taiwan has limited natural resources, resulting in dependence on foreign sources for certain raw materials and vulnerability to global fluctuations of price and supply. This dependence is especially pronounced in the energy sector. In recent years, over half of Taiwan's crude oil has been supplied by Kuwait and Saudi Arabia. A significant increase in energy prices could have an adverse impact on Taiwan's economy.

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 the 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, but unskilled labor is in increasingly short supply. Recognizing the imperatives of the more competitive Asian economy, the Chinese 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 labor-intensive, manufacturing-oriented one. One result of the movement of industrial capacity offshore has been the reduction of the labor shortage in manufacturing.

Investment Strategies and Risks Specific to Matthews Japan Fund

The Fund may invest in equity and other securities of issuers located outside of Japan, including the United States, and in non-convertible bonds and other debt securities issued by foreign issuers and foreign government entities. The Fund may invest in non-convertible debt securities provided that such securities are rated, at the time of investment, BBB or higher by S&P 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 the Advisor. Securities rated BBB by S&P or Baa by Moody's are considered to have speculative characteristics. Non-convertible debt securities in which the 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 Fund may invest its assets in a broad spectrum of securities of Japanese industries which are believed to have attractive long-term growth potential. The Fund has the flexibility to invest in both large and small companies, as deemed appropriate by the Advisor. 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. 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 market averages in general. In selecting industries and companies for investment, the Advisor considers overall growth prospects, competitive position in export markets, technology, research and development, productivity, labor costs, raw material costs and sources, profit margins, capital resources, government regulation, quality of management and other factors. After evaluation of all factors, the Advisor attempts to identify those companies and industries that are best positioned and managed to take advantage of the varying economic and political factors.

Matthews Asian Funds

Under normal circumstances, the Advisor expects that the portfolio of the Fund will be comprised of 25 to 75 individual stocks in the Japanese economy. When purchasing portfolio securities for the Fund, the Advisor's philosophy is generally a buy and hold strategy versus buying for short-term trading.

Concentration in Japanese Securities

The Fund concentrates its investments in equity securities of Japanese companies. Consequently, the Fund's share price may be more volatile than that of mutual funds not sharing this geographic concentration. The value of the Fund's shares may vary in response to political and economic factors affecting companies in Japan. The Fund should not be considered a complete investment program, rather it may be used as a vehicle for diversification.

Securities in Japan are denominated and quoted in yen. Yen are fully convertible and transferable based on floating exchange rates into all readily convertible currencies, without administrative or legal restrictions for both non-residents and residents of Japan. In determining the net asset value of shares of the Fund, assets or liabilities initially expressed in terms of Japanese yen will be translated into U.S. dollars at the current selling rate of Japanese yen against U.S. dollars. As a result, in the absence of a successful currency hedge, the value of the Fund's assets as measured in U.S. dollars may be affected favorably or unfavorably by fluctuations in the value of Japanese yen relative to the U.S. dollar.

The decline in the Japanese securities markets since 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. Differences in accounting methods make it difficult to compare the earnings of Japanese companies with those of companies in other countries, especially the United States.

Japan is largely dependent on foreign economies for raw materials. International trade is important to Japan's economy, as exports provide the means to pay for many of the raw materials it must import. Because of the concentration of the Japanese exports in highly visible products such as automobiles, machine tools and semiconductors, and the large trade surpluses ensuing therefrom, Japan has entered a difficult phase in its relations with its trading partners, particularly with respect to the United States, with whom the trade imbalance is the greatest.

Investment Strategies and Risks Specific to Matthews Asian Technology Fund

Since the Fund's investments are concentrated in the technology sector, the movements in its net asset value (NAV) will follow that sector, as opposed to the general movement of the economies of the countries where the companies are located. This concentration will have a tendency to make the Fund's NAV more volatile than a non-concentrated portfolio.

Investment Strategies and Risks Specific to Matthews Asia Pacific Fund

Equity securities in which the Fund may invest include common stocks, preferred stocks, warrants, and securities convertible into common stocks, such as convertible bonds and debentures.

Matthews Asian Funds

The Fund may invest up to 20% of its total assets in equity and other securities of issuers located outside of the Asia Pacific economies, including, without limitation, the U.S., and in non-convertible bonds and other debt securities issued by foreign issuers and foreign government entities.

The Advisor may invest where the Advisor believes the potential for capital growth exists and in companies which have demonstrated the ability to anticipate and adapt to changing markets. The Fund may invest in the securities of all types of issuers, large or small, whose earnings are believed by the Advisor to be in a relatively strong growth trend or whose assets are substantially undervalued.

Under normal circumstances, the Advisor expects that the portfolio of the Fund will be comprised of forty to eighty individual stocks in various countries in the Asia Pacific economies. When purchasing portfolio securities for the Fund, the Advisor's philosophy is a buy and hold strategy versus buying for short-term trading.

Non-Principal Investment Strategies

The following strategies and specific type of investments are not the principal investment strategies of the Funds, but are reserved by the Advisor for its use in the event that the Advisor deems it appropriate to do so to achieve the Funds fundamental goals.

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:

(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) the Funds may call the loan at any time and receive the securities loaned; (3) the Funds 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 such 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 Funds will only enter into portfolio loans after a review by the Advisor, 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 the Advisor to be creditworthy, and when, in the judgment of the Advisor, 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 the Advisor.

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.

Lending portfolio securities by Matthews Korea Fund is not currently permitted under Korean laws and regulations. In the event that these laws change, the Fund will take advantage of this strategy as it deems appropriate.

2. Repurchase Agreements

The Funds may purchase repurchase agreements to earn income. The Funds may also enter into repurchase agreements with financial institutions that are deemed to be creditworthy by the Advisor, pursuant to guidelines established by the Board of Trustees. The repurchase price under the repurchase agreements equals the price paid by each 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 repurchase agreement as a security for tax diversification purposes and not as cash, a cash equivalent or receivable. Matthews Korea Fund is not currently permitted to engage in repurchase agreement transactions in Korea under Korean laws and regulations.

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 the Advisor. The Advisor 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

The Funds may enter into reverse repurchase agreements to raise cash on a short-term basis. Reverse repurchase agreements involve the sale of securities held by the Funds pursuant to the Funds' agreement to repurchase the securities at an agreed upon price, date and rate of interest. 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, the Funds

will maintain in a segregated account of cash, U.S. government securities or other liquid, high-grade debt securities in an amount 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 the Funds are 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 cannot be disposed of at the market price 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 the Advisor, pursuant to guidelines established by the Board of Trustees and subject to its quarterly review. The Advisor will monitor the liquidity of securities held by each Fund and report periodically on such decisions to the Board of Trustees.

A Fund may invest up to 15% of its net assets in equity or debt securities for which there is no ready market. 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 which can be expected to be sold immediately. The sale price of securities that are not readily marketable may be lower or higher than a Fund's most recent estimate of their 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 which 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 market price within 7 days of wanting to do so. The Funds will limit their investments in securities of issuers which are restricted

from selling to the public without registration under the 1933 Act to 15%. This 15% 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. While common stock occupies the most junior position in a company's capital structure, 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 the Advisor deems it appropriate to do so.

9. Fixed-Income Securities (Bonds etc.)

All fixed-income securities are subject to two primary types of risks: credit risk (will the borrower be able to pay back the money) 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

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. 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 price 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 replaced 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 U.S. government securities equal to the difference between the market value of the securities sold short at the time they were sold short and any cash or U.S. government securities required to be deposited as collateral with the broker in connection with 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 amount deposited with the broker as collateral be less than the market value of the securities at the time they were 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. The Funds will not enter into an interest rate futures contract if immediately thereafter more than 5% of the value of the respective 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 (i.e., the Advisor guessed wrong about how interest rates would change); (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 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, the Funds 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 will be 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 the Funds' position in a futures contract or option thereon, the Funds will create a segregated account of liquid assets, such as cash, U.S. government securities or other liquid high grade debt obligations, 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 Commodity Exchange Act, each Fund may invest in futures contracts or options on future contracts (a) for bona fide hedging purposes within the meaning of regulations of such Act, or (b) 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) the Advisor's ability to predict correctly the direction of security prices, interest rates and other economic factors.

13. Foreign Currency Hedging Strategies

a. Foreign Currency Transactions

The Funds may engage in foreign currency transactions in connection with their investment in foreign securities but will not speculate in foreign currency exchange. The Funds will conduct their 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 specified 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 traded directly between currency traders and their customers.

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. This tends to limit potential gains however, that might result from a positive change in such currency relationships. The Funds may also hedge their foreign currency exchange rate risk by engaging in currency financial futures and options transactions.

The Funds may enter into a forward contract to sell a different foreign currency for a fixed U.S. dollar amount where the Advisor 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 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.

b. Special Considerations

The Funds may use options and futures on foreign currencies and forward currency contracts to hedge against movements in the values of the foreign currencies in which the Funds' securities are denominated. Such currency hedges can protect against price movements in a security a 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 detriment when a currency moves against a Fund, the Advisor's ability to anticipate changes in the price of foreign currencies is not always accurate, so the hedge may limit the full benefit of a currency move in the Fund's favor. In addition, 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 interbank market might involve substantially larger amounts than those involved in the use of such hedging instruments, a Fund 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 the Advisor 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 any U.S. or foreign regulations regarding

the maintenance of foreign banking arrangements by U.S. residents and might be required to pay any fees, taxes and charges associated with such delivery assessed in the issuing country.

c. Forward Currency Contracts

A forward currency contract involves an obligation to purchase or sell a specific currency at a specified future date, which may be any fixed number of days from the contract date agreed upon by the parties, at a price set at the time the contract is entered into.

The Funds may enter into forward currency contracts to purchase or sell foreign currencies for a fixed amount of U.S. dollars or another foreign currency. The Funds also may use forward currency contracts for cross-hedging. Under this strategy, the Funds would increase their exposure to foreign currencies that the Advisor believes might rise in value relative to the U.S. dollar, or the Funds would shift their exposure to foreign currency fluctuations from one country to another.

The cost to each 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. Because forward currency contracts are usually entered into on a principal basis, no fees or commissions are involved. When a Fund enters into a forward currency contract, it relies on the contra party to make or take delivery of the underlying currency at the maturity of the contract. Failure by the contra party to do so would result in the loss of any expected benefit of the transaction.

As is the case with futures contracts, holders and writers of forward currency contracts can enter into offsetting closing transactions, similar to closing transactions on futures, by selling or purchasing, respectively, an instrument identical to the instrument held or written. 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 contra party. Thus, there can be no assurance that the Funds 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 contra party, the Funds might be unable to close out a forward currency contract at any time prior to maturity. In either event, the Funds 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.

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 projection of short-term currency market movements is extremely difficult, and the successful execution of a short-term hedging strategy is highly uncertain.

- (i) **Limitations on the Use of Forward Currency Contracts:** The Funds may enter into forward currency contracts or maintain a net exposure to such contracts only if (1) the consummation of the contracts would not obligate the Funds to deliver an amount of foreign currency in excess of the value of their portfolio securities or other assets denominated in that currency, or (2) the Funds maintain cash, U.S. government securities or liquid, high-grade debt securities in a segregated account in an amount not less than the value of their total assets committed to the consummation of the contract and not covered as provided in (1) above, as marked to market daily.

Matthews Asian Funds

14. Options

The Funds 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

The Funds may write covered call options from time to time on portions of its portfolios, without limit, as the Advisor determines is appropriate in pursuing a Fund's investment goals. The advantage to the Funds of writing covered calls is that each Fund receives a premium which is additional income. However, if the security rises in value, the respective 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, such as cash, U.S. government securities or other liquid high-grade debt obligations, 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 the Fund in liquid assets such as cash, U.S. government securities and other high-grade debt obligations in a segregated account with its custodian.

The Funds' 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 the 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 of cash or U.S. government securities 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 the Advisor 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, each 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, the 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. The Fund may not, however, effect such a closing transaction after it has been notified of the exercise of the option.

c. Purchasing Call Options

The Funds may purchase call options to the extent that premiums paid by the Funds do not aggregate more than 10% of a Fund's total assets. When the Funds purchase 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 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 intends to purchase put options 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). The Funds may sell a put option which they have 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 respective 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 the 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 or 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 that 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;

Matthews Asian Funds

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, a Fund would own more than 10% of the outstanding voting securities of such issuer; and
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.

Temporary Defensive Position

The Advisor intends to be fully invested in the economies appropriate to each Fund's investment objectives as is practicable, in light of economic and market conditions and the Funds' cash needs. When, in the opinion of the Advisor, 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.

Matthews Asian Funds

Page 25 of 54

Portfolio Turnover

The Advisor 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%. Portfolio turnover rates may vary greatly from year to year as well as within a particular year. High portfolio turnover rates (i.e. over 100%) will generally result in higher transaction costs to the Fund and also may result in a higher level of taxable gain for a shareholder. Portfolio turnover for the Funds' most recent fiscal periods are set forth in the FINANCIAL HIGHLIGHTS tables in the Prospectus.

Disclosure of Portfolio Holdings

In accordance with the Funds' policies and procedures, the Funds' transfer agent, PFPC Inc. (PFPC) is responsible for dissemination of information about the Funds' portfolio holdings. Only an officer of the Fund may authorize PFPC to disclose portfolio holdings information. The Funds, together with PFPC and the Advisor (the Service Providers) may only disclose information concerning securities held in the Funds' portfolios under the following circumstances:

- (i) 60 days following the end of each fiscal quarter, 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' Web site.
 - b. PFPC shall send portfolio holding to nationally-recognized rating agencies via electronic transmission.
- (ii) The Funds will also release top ten holdings on a monthly basis without delay via the Funds' Web site and written communication;
- (iii) The Funds or a Service Provider may disclose the Funds' portfolio securities holdings 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 the Advisor; disclosure to a newly hired investment advisor or sub-adviser prior to its commencing its duties; disclosure to third party service providers of accounting, auditing, custody, proxy voting and other services to the Funds; or disclosure to a rating or ranking organization.

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.

Matthews Asian Funds

Page 26 of 54

received by the Funds, a Service Provider or any affiliate in connection with disclosure of such information. The Funds' Board will oversee disclosure under the foregoing policies and procedures by approval in advance of disclosures for legitimate business purposes and by regular review of reports on disclosures of the Funds' portfolio holdings.

Management of the Funds

Trustees and Officers

The operations of each Fund are under the direction of the Board of Trustees. The Board establishes each Fund's policies and oversees and reviews the management of each Fund. The Board meets regularly to review the activities of the officers, who are responsible for the day-to-day operations of the Funds. The Trustees and executive officers of the Funds, their years of birth, business addresses, their principal occupations during the past five years and other directorships held are set forth below. The Fund Complex refers to the seven Funds.

Name, Year of Birth, and Address	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					
Richard K. Lyons Born 1961 Four Embarcadero Center Suite 550 San Francisco, CA 94111	Chairman of the Board of Trustees and Trustee	Since 1994	Professor, Haas School of Business University of California since 1993.	7	Director, iShares Fund Complex, consisting of iShares, Inc. and iShares Trust managed by Barclays Global Investors (83 portfolios); Trustee, Barclays Global Investor Fund Complex, consisting of Barclays Global Investor Funds and Barclays Master Investment Portfolios (13 portfolios).
Robert K. Connolly Born 1932 Four Embarcadero Center Suite 550 San Francisco, CA 94111	Trustee	Since 1994	Retired since 8/90. Prior thereto: Institutional Sales Manager and Securities Analyst for Barrington Research	7	None

Associates.

Matthews Asian Funds

Name, Year of Birth, and Address	Position(s) Held with the Trust	Term of Office and Length of Time Served¹	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
Toshi Shibano Born 1950 Four Embarcadero Center Suite 550 San Francisco, CA 94111	Trustee	Since December 31, 2003	President, Toshi Shibano Consulting, since 1995; Adjunct Associate Professor, Columbia Graduate School of Business since 2001; Associate Professor, Thunderbird American Graduate School of International Management since 2000; Faculty, General Electric Corporate Leadership Development Center since 2000; Executive Education Lecturer, Haas School of Business, University of California at Berkeley since 1995.	7	None

INTERESTED TRUSTEES²

David FitzWilliam-Lay Born 1931 Four Embarcadero Center Suite 550 San Francisco, CA 94111	Trustee	Since 1994	Retired in 1993. Prior thereto Chairman of GT Management, PLC, United Kingdom.	7	None
---	---------	------------	--	---	------

OFFICER(S) WHO ARE NOT TRUSTEES²

G. Paul Matthews Born 1956 Four Embarcadero Center, Suite 550	President	Since 1994	Chairman, Co-Chief Executive Officer and Chief Investment Officer, Matthews	N/A	N/A
--	-----------	------------	---	-----	-----

Edgar Filing: MATTHEWS INTERNATIONAL FUNDS - Form 497

San Francisco, CA 94111

International Capital Management, LLC since 1991.

Mark W. Headley
Born 1959
Four Embarcadero Center,
Suite 550
San Francisco, CA 94111

Vice President Since 1999

Co-Chief Executive Officer, President and Portfolio Manager, Matthews International Capital Management, LLC since 2001; President and Portfolio Manager, 1999-2001; Portfolio Manager and Managing Director 1996-1999.

N/A N/A

Rodney D. Yee
Born 1960
Four Embarcadero Center,
Suite 550
San Francisco, CA 94111

Treasurer Since 2004

Chief Financial Officer, Matthews International Capital Management, LLC since 2004; Chief Financial Officer, Corporate Secretary and Compliance Officer, Sand Hill Advisors, Inc., 2002-2004; Controller, Firsthand Capital Management, Inc., 1998-2002

N/A N/A

Matthews Asian Funds

Name, Year of Birth, and Address	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)
Downey H. Blount Born 1970 Four Embarcadero Center, Suite 550 San Francisco, CA 94111	Secretary, Chief Compliance Officer	Secretary since 2001; Chief Compliance Officer since 2004	Senior Vice President and Chief Compliance Officer, Matthews International Capital Management, LLC since 2004; Senior Vice President and Compliance Officer, 2001 - 2004, Vice President, 1999-2001; Manager, Mutual Fund Administration, Montgomery Asset Management LLC, 1997-1999.	N/A	N/A

¹ Each Trustee serves for an indefinite term, until retirement age or until his/her successor is elected. Officers serve at the pleasure of the Board of Trustees.

² These Trustees and officers are considered interested persons of the Trust as defined under the 1940 Act either because of an ownership interest in the Advisor or an office held with the Trust.

Board of Trustees. 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. Currently the Board is comprised of five individuals, two of whom are considered Interested Trustees 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 each Fund and other operational matters, including policies and procedures with respect to compliance with regulatory and other requirements. The Board met four times during the fiscal year ended August 31, 2004. Currently, the Board has an Audit Committee, a Nominating Committee and a Compensation Committee. The responsibilities of each committee and its members are described below.

Audit Committee. The Board has an Audit Committee comprised only of the Independent Trustees, (currently, Messrs. Connolly, Lyons and Shibano). Pursuant to its charter, the Audit Committee has the responsibility, among other things, to (1) recommend the selection of the Funds independent auditors; (2) review and approve the scope of the independent auditors audit activity; (3) review the financial statements which are the subject of the independent auditors certifications; and (4) review with such independent auditors the adequacy of the Funds basic accounting system and the effectiveness of the Funds internal accounting controls. During the fiscal year ended August 31, 2004, there were two meetings of the Audit Committee.

Nominating Committee. The Board has a Nominating Committee comprised only of the Independent Trustees (currently, Messrs. Connolly, Lyons and Shibano). Pursuant to its charter, the Nominating Committee has the responsibility, among other things, to nominate new Trustees to serve on the Funds board. During the fiscal year ended August 31, 2004, there was one meeting of the Nominating Committee.

Matthews Asian Funds

Page 29 of 54

Compensation Committee. The Board has a Compensation Committee comprised only of the Independent Trustees (currently, Messrs. Connolly, Lyons and Shibano). Pursuant to its charter, 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 was recently formed and therefore there were no meetings during the fiscal year ended August 31, 2004.

Security and Other Interests. The following table sets forth the dollar range of equity securities beneficially owned by each Trustee in each Fund and in all registered investment companies overseen by the Trustee within the family of investment companies, as of December 31, 2003.

Name of Director	Dollar Range of Equity Securities in each Fund	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Trustee within the Family of Investment Companies
INDEPENDENT TRUSTEES		
Richard K. Lyons	Matthews Pacific Tiger Fund \$1-\$10,000 Matthews Asian Growth and Income Fund \$50,001 - \$100,000	\$50,001-\$100,000
Robert K. Connolly	Matthews Asian Growth and Income Fund \$1-\$10,000 Matthews China Fund \$1-\$10,000	\$1-\$10,000
Norman W. Berryessa ¹	Matthews Japan Fund \$10,001-\$50,000 Matthews Asian Growth and Income Fund \$50,001-\$100,000 Matthews China Fund Above \$100,000 Matthews Asia Pacific Fund \$1-\$10,000	Above \$100,000
Toshi Shibano ²	None	None
INTERESTED TRUSTEES		
G. Paul Matthews ³	Matthews Asian Technology Fund \$10,001-\$50,000 Matthews Japan Fund \$10,001-\$50,000 Matthews Asian Growth and Income Fund \$10,001-\$50,000 Matthews China Fund \$10,001-\$50,000 Matthews Korea Fund \$10,001-\$50,000 Matthews Pacific Tiger Fund \$10,001-\$50,000 Matthews Asia Pacific Fund \$1 - \$10,000	Above \$100,000
David FitzWilliam-Lay	None	None

¹ Pursuant to the Trust's Retirement Policy, Mr. Berryessa retired as an Independent Trustee on December 31, 2003.

² Mr. Shibano was appointed as an Independent Trustee of the Trust on December 31, 2003.

³ Mr. Matthews resigned as an Interested Trustee of the trust on November 12, 2004.

As of December 31, 2003, none of the Independent Trustees or their respective immediate family members (spouse or dependent children) owned beneficially or of record an interest in the Advisor or

Matthews Asian Funds

Page 30 of 54

the Funds distributor, or in any person directly or indirectly controlling, controlled by, or under common control with the Advisor or the Funds distributor.

Shareholders Voting Powers

On any matter submitted to a vote of shareholders, all shares shall be voted separately by 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 International Capital Management, LLC (the Advisor) to manage its assets. The Advisor has been retained by each of the Funds pursuant to an investment advisory agreement (the Advisory Agreement) which has been approved by the Board of Trustees of Trust, including the Independent Trustees. The Advisory Agreement has an initial term of two years and continues in effect from year to year 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.

In approving the continuation of the Advisory Agreement at a meeting held on August 13, 2004, the Board of Trustees of the Trust (including the Independent Trustees) primarily considered, among other things, the following matters: information regarding the Advisor including those relating to the Advisor s personnel; the nature and quality of the services provided and to be provided by the Advisor under the Advisory Agreement; the fees paid to and expenses borne by the Advisor; each Fund s respective expense limitations, fee waivers, and performance relative to each Fund s benchmark; comparable fee and expense information respecting other similar unaffiliated mutual funds; the level of profits that could be expected to accrue to the Advisor from the fees payable under such Advisory Agreement; and the Funds brokerage, related commissions, and the use of soft dollars by the Advisor; the Advisor s commitment to ethical principles and internal compliance matters; the Advisor s efforts to deter activities (such as market timing) that might be harmful to long term shareholder interests; and the Advisor s other investment management activities and whether those activities created possible conflicts of interest. The Board of Trustees also considered the proposed total expenses of each Fund in comparison to other funds and whether there have been economies of scale in respect of the management of the Funds, whether the Funds have appropriately benefited from economies of scale, and whether there is potential for realization of any further economies of scale. After reviewing all the information that they deemed necessary, the Board of Trustees of the Trust (including a majority of the Independent Trustees) concluded that the approval and continuation of the Advisory Agreement , was in the best interests of each Fund and its shareholders. The Advisory Agreement may be terminated by the Trustees on behalf of the Trust or the Advisor on 60 days written notice without penalty. The Advisory Agreement will also terminate automatically in the event of their assignment, as defined in the 1940 Act.

Additional information regarding the Advisory Agreement may be found in the section entitled Investment Advisory and Other Service Providers.

Matthews Asian Funds

Compensation

The fees and expenses of the Independent Trustees are allocated among the seven series of the Trust paid by the Funds. The following table shows the fees paid during the fiscal year ended August 31, 2004 to the Independent Trustees for their service to the Funds and the total compensation paid to the Trustees by the Fund Complex.

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
Richard K. Lyons	\$ 20,000	None	None	\$ 20,000
Robert K. Connolly	\$ 20,000	None	None	\$ 20,000
Norman W. Berryessa ¹	\$ 5,000 ¹	None	None	\$ 5,000 ¹
Toshi Shibano ²	\$ 15,000 ²	None	None	\$ 15,000 ²

¹ Pursuant to the Trust's Retirement Policy, Mr. Berryessa retired as an Independent Trustee on December 31, 2003.

² Mr. Shibano was appointed as an Independent Trustee of the Trust on December 31, 2003.

No officer or employee of the Advisor receives any compensation from the Funds for acting as a Trustee of the Trust. The officers of the Trust receive no compensation directly from the Funds for performing the duties of their offices. Note that neither the Trustees nor the officers of the Trust receive any pension or retirement benefits from the Funds.

Code of Ethics

The Trust and the Advisor have adopted a Code of Ethics pursuant to Section 17(j) of the 1940 Act and Rule 17j-1 thereunder and Rule 204A-1 under the Advisers Act. Currently, the Code of Ethics prohibits personnel subject to the Code of Ethics from buying or selling securities for their own individual accounts if such securities at the time of such purchase or sale (i) are being considered for purchase or sale by the Trust or (ii) are then being purchased or sold by the Trust. Notwithstanding these prohibitions, there are limited circumstances in which personnel subject to the Code of Ethics may buy or sell securities for their own account (*e.g.* purchases which are part of an automatic dividend reinvestment plan). 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 the Advisor the authority to vote proxies of companies held in each Fund's portfolio. The Advisor intends to apply its pre-determined proxy voting guidelines when voting proxies on behalf of each Fund.

The Advisor recognizes that an investment advisor is a fiduciary that owes its clients, including the Funds, a duty of utmost good faith and full and fair disclosure of all material facts. An investment advisor's duty of loyalty requires an adviser to vote proxies in a manner consistent with the best interest of its clients and precludes the adviser from subrogating the clients' interests to its own. In addition, an investment adviser voting proxies on behalf of a fund must do so in a manner consistent with the best interests of the fund and its shareholders.

The Advisor seeks to avoid material conflicts of interest by voting in accordance with its pre-determined written proxy voting guidelines (the Voting Guidelines) in an objective and consistent manner across client accounts, based on internal and external research provided by a third party vendor, and without consideration of any client relationship factors. Further, the Advisor may engage a third party as an independent fiduciary, as necessary, to vote all proxies of the Funds, and may engage an independent fiduciary to vote proxies of other issuers at its discretion.

All proxies received by the Funds are reviewed, categorized and analyzed in accordance with the Voting Guidelines. The guidelines are reviewed periodically and updated as necessary to reflect new issues and any changes in the Advisor's policies on specific issues. Items that can be categorized under the Voting Guidelines are voted in accordance with any applicable guidelines.

Proposals that cannot be categorized under the Voting Guidelines and raise a material conflict of interest between the Advisor and the Funds are referred to the Funds' Board of Trustees. Specifically, the Advisor will disclose the conflict to the Board and obtain its consent to the proposed vote in question prior to voting the securities. The disclosure to the Board will include sufficient detail regarding the matter to be voted on and the nature of the Advisor's conflict so that the Board would be able to make an informed decision regarding the vote. When the Board does not respond to such a conflict disclosure request or denies the request, the Advisor will refrain from voting the securities held by a Fund.

With regard to voting proxies of foreign companies, the Advisor weighs the cost of voting and potential inability to sell the securities (which may occur during the voting process) against the benefit of voting the proxies to determine whether or not to vote. With respect to securities lending transactions, the Advisor seeks to balance the economic benefits of continuing to participate in an open securities lending transaction against the inability to vote proxies.

When evaluating proposals, the Advisor recognizes that the management of a publicly-held company may need protection from the market's frequent focus on short-term considerations, so as to be able to concentrate on such long-term goals as productivity and development of competitive products and services. In addition, the Advisor generally supports proposals designed to provide management with short-term insulation from outside influences so as to enable them to bargain effectively with potential suitors to the extent such proposals are discrete and not bundled with other proposals. The Advisor believes that a shareholder's role in the governance of a publicly-held company is generally limited to monitoring the performance of the company and its management and voting on matters which properly come to a shareholder vote. However, the Advisor generally opposes proposals designed to insulate an issuer's management unnecessarily from the wishes of a majority of shareholders. Accordingly, the Advisor generally votes in accordance with management on issues that the Advisor believes neither unduly limit the rights and privileges of shareholders nor adversely affect the value of the investment.

Although each proxy issue will be considered individually, the Advisor generally takes the following positions pursuant to the Voting Guidelines. The Advisor generally opposes anti-takeover provisions and proposals that would result in Board entrenchment. The Advisor generally approves: (1) routine matters, including the ratification of auditors and the time and place of meetings; (2) the election of directors recommended by management, provided the Board is not entrenched; (3) limitations on charitable contributions or fees paid to lawyers; (4) confidential voting; (5) limiting directors' liability; (6) employee stock purchase plans; and (7) establishing pension plans. The Advisor will consider the

following issues on a case-by-case basis: stock compensation to directors; elimination of directors' mandatory retirement policy; option and stock grants to management and directors; and permitting indemnification of directors and/or officers.

Information regarding how the Funds voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, 2004 is available (1) without charge, by visiting www.matthewsfunds.com or (2), by calling the Funds at (800) 789-ASIA [2742] and (3) on the SEC's website at <http://www.sec.gov>.

Control Persons and Principal Holders of Securities

As of December 15, 2004 the Trustees and officers as a group owned less than 1% of the outstanding shares of any of the Funds.

The tables below show, as of December 15, 2004, 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.

Account Holders Name, Address and Percentage of Shares

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	46.86%
National Financial Services Corp FBO Exclusive Benefit of our customers C/O Sal Vella Attn: Mutual Funds, 5 th Floor 200 Liberty St. New York, NY 10281-1003	14.55%
Northern Trust Company C/F Liberty Mutual Employees Thrift Incentive Plan - DV PO Box 92994 Chicago, IL 60675	5.56%

Matthews Asian Funds

Matthews Asian Growth and Income Fund:

Charles Schwab & Co. Inc. 45.72%
 FBO Special Custody Acct for Exclusive Benefit of Customers
 Attn: Mutual Funds
 101 Montgomery Street
 San Francisco, CA 94104-4122

National Financial Services Corp 17.23%
 FBO Exclusive Benefit of our customers
 C/O Sal Vella
 Attn: Mutual Funds, 5th Floor
 200 Liberty St.
 New York, NY 10281-1003

National Investor Services 5.54%
 55 Water Street, 32nd Floor
 New York, NY 10041

Matthews Korea Fund:

Charles Schwab & Co. Inc. 28.86%
 FBO Special Custody Acct for Exclusive Benefit of Customers
 Attn: Mutual Funds
 101 Montgomery Street
 San Francisco, CA 94104-4122

National Financial Services Corp 24.05%
 FBO Exclusive Benefit of our customers
 C/O Sal Vella
 Attn: Mutual Funds, 5th Floor
 200 Liberty St.
 New York, NY 10281-1003

National Investor Services 6.12%
 55 Water Street, 32nd Floor
 New York, NY 10041

Matthews China Fund:

Charles Schwab & Co. Inc. 33.48%
 FBO Special Custody Acct for Exclusive Benefit of Customers
 Attn: Mutual Funds
 101 Montgomery Street
 San Francisco, CA 94104-4122

Matthews Asian Funds

National Financial Services Corp 23.80%
 FBO Exclusive Benefit of our customers
 C/O Sal Vella
 Attn: Mutual Funds, 5th Floor
 200 Liberty St.
 New York, NY 10281-1003

National Investor Services 5.45%
 55 Water Street, 32nd Floor
 New York, NY 10041

Matthews Japan Fund:

Charles Schwab & Co. Inc. 39.19%
 FBO Special Custody Acct for Exclusive Benefit of Customers
 Attn: Mutual Funds
 101 Montgomery Street
 San Francisco, CA 94104-4122

National Financial Services Corp 9.77%
 FBO Exclusive Benefit of our customers
 C/O Sal Vella
 Attn: Mutual Funds, 5th Floor
 200 Liberty St.
 New York, NY 10281-1003

Merrill Lynch Pierce Fenner & Smith 9.63%
 FBO Its Customers
 Attn: Service Team
 4800 Deer Lake Drive East, 3rd Floor
 Jacksonville, FL 32246

Matthews Asian Technology Fund

Charles Schwab & Co. Inc. 35.98%
 FBO Special Custody Acct for Exclusive Benefit of Customers
 Attn: Mutual Funds
 101 Montgomery Street
 San Francisco, CA 94104-4122

National Financial Services Corp 24.15%
 FBO Exclusive Benefit of our customers
 C/O Sal Vella
 Attn: Mutual Funds, 5th Floor
 200 Liberty St.
 New York, NY 10281-1003

Matthews Asian Funds

National Investor Services 55 Water Street, 32 nd Floor New York, NY 10041	6.28%
---	-------

Matthews Asia Pacific 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	27.82%
---	--------

National Financial Services Corp FBO Exclusive Benefit of our customers C/O Sal Vella Attn: Mutual Funds, 5 th Floor 200 Liberty St. New York, NY 10281-1003	19.47%
--	--------

National Investor Services 55 Water Street, 32 nd Floor New York, NY 10041	10.88%
---	--------

Merrill Lynch Pierce Fenner & Smith FBO Its Customers Attn: Service Team 4800 Deer Lake Drive East, 3rd Floor Jacksonville, FL 32246	6.49%
--	-------

Investment Advisory and Other Service Providers

The Investment Advisor

Currently the Trust employs only one investment advisor, Matthews International Capital Management, LLC. City National Corporation has an ownership interest of 10%-25% in the Advisor. The Hambrecht 1980 Revocable Trust (Hambrecht), a family trust, has an ownership interest of more than 25% in the Advisor. David FitzWilliam-Lay is an affiliated person to the Trust as well as an affiliated person to the Advisor in that he is a Trustee of the Trust and also has an ownership interest in the Advisor.

The Advisor performs its duties and is paid pursuant to its Advisory Agreement with the Funds. Some of the terms of the Advisory 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 the Advisor and the fees received by it for such services are described in the Prospectus. As stated in the Prospectus, the Advisor may from time to time voluntarily waive its advisory fees with respect to any Fund.

Matthews Asian Funds

Under the Advisory Agreement, the Advisor is not liable for any error of judgment or mistake of law or for any loss suffered by the Trust or a Fund in connection with the performance of the Advisory 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 Advisory 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 the respective Fund, or by the Board of Trustees. The Advisory 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 the Fund, at any time without penalty, on 60 days' written notice to the Advisor. The Advisor may also terminate its advisory relationship with respect to a Fund on 60 days' written notice to the Trust. The Advisory Agreement can only be assigned with prior shareholder approval. In the event that the Advisory Agreement is assigned without shareholder approval, the Advisory Agreement automatically terminates.

Under the Investment Advisory Agreement, each Fund pays the following expenses:

1. the fees and expenses of the Trust's Independent Trustees;
2. the salaries and expenses of any of the Trust's officers or employees who are not affiliated with the Advisor;
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 Trust's 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 Trust's legal existence and of shareholders' meetings;
12. expenses of preparation and distribution to existing shareholders of reports, proxies and prospectuses; and
13. fees and expenses of membership in industry organizations. The ratio of each Fund's expenses to its relative net assets can be expected to be higher than the expense ratios of funds investing solely in

Matthews Asian Funds

domestic securities, since the cost of maintaining the custody of foreign securities and the rate of investment management fees paid by each Fund generally are higher than the comparable expenses of such other funds.

14. Expenses related to the development and maintenance of the Trust's Compliance Program as required by the 1940 Act.

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, 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 Matthews Asian Funds complex pays the Advisor an annual fee as a percentage of total net assets for advisory services. Under the Advisory Agreement, the Funds pay the Advisor 0.75% of assets in the Matthews Asian Funds family from \$0 to \$2 billion, 0.70% on assets in Matthews Asian Funds family between \$2 billion and \$5 billion, and 0.65% on assets in the Matthews Asian Funds family over \$5 billion. During the fiscal years ended August 31, 2002, 2003 and 2004 the aggregate advisory fees earned by the Advisor, before voluntary waivers, totaled \$4,353,546, \$6,452,630, and \$21,186,939 respectively. The Advisor may also voluntarily waive a portion of management fees, and thereby reduce expenses of the funds, from time to time. Such waivers are not required under the investment advisory agreement and may be discontinued without notice.

Under a written agreement between the Funds and the Advisor, the Advisor agrees to reimburse money to a Fund if its expense ratio exceeds a certain percentage level. For Matthews Korea Fund, Matthews China Fund, Matthews Japan Fund and Matthews Asian Technology Fund, this level is 2.00%. For Matthews Pacific Tiger Fund, Matthews Asian Growth and Income Fund and Matthews Asia Pacific Fund, the level is 1.90%. In turn, if a Fund's expenses fall below the level noted within three years after the Advisor has made such a reimbursement, the Fund may reimburse the Advisor up to an amount not to exceed its expense limitation. This agreement will continue through at least August 31, 2005.

FYE 08-31, 2002

Matthews Fund	Gross Advisory Fees Earned	Advisor Fee Waivers and Expenses Waived, Reimbursed or Recaptured	Net Advisory Fees
Pacific Tiger	\$ 1,002,556	\$ 85,156	\$ 1,087,612
Growth and Income	\$ 630,055	\$ 17,499	\$ 647,554
Korea	\$ 2,221,793		\$ 2,221,793
China	\$ 291,484	\$ 8,342	\$ 299,826
Japan	\$ 96,012	\$ 8,426	\$ 104,438
Asian Technology	\$ 111,646	(\$ 767)	\$ 110,879
Asia Pacific	*	*	*

* The Matthews Asia Pacific Fund commenced operations on October 31, 2003.

Matthews Asian Funds

FYE 08-31, 2003

Matthews Fund	Gross Advisory Fees Earned	Advisor Fee Waivers and Expenses Waived, Reimbursed or Recaptured	Net Advisory Fees
Pacific Tiger	\$1,228,434		\$1,228,434
Growth and Income	\$2,621,177		\$2,621,177
Korea	\$1,926,780		\$1,926,780
China	\$ 514,561	\$ 6,379	\$ 520,940
Japan	\$ 89,871	\$ 7,306	\$ 97,177
Asian Technology	\$ 71,807	(\$ 7,313)	\$ 63,774
Asia Pacific	*	*	*

* The Matthews Asia Pacific Fund commenced operations on October 31, 2003.

FYE 08-31, 2004

Matthews Fund	Gross Advisory Fees Earned	Advisor Fee Waivers and Expenses Waived, Reimbursed or Recaptured	Net Advisory Fees
Pacific Tiger	\$5,143,536	(\$ 67,924)	\$5,075,612
Growth and Income	\$9,079,372	(\$ 111,382)	\$8,967,990
Korea	\$2,001,270	(\$ 22,659)	\$1,978,611
China	\$3,208,027	(\$ 44,176)	\$3,163,851
Japan	\$1,020,695	(\$ 10,801)	\$1,009,894
Asian Technology	\$ 340,330	\$ 95,490	\$ 435,820
Asia Pacific	\$ 393,709	(\$ 6,346)	\$ 387,363
Principal Underwriter			

The Trust entered into an Underwriting Agreement dated December 31, 2000 (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 an 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 pursuant to the Underwriting Agreement approved by the Board of Trustees.

In this regard, PFPC Distributors has agreed at its own expense to qualify as a broker-dealer under all applicable Federal or state laws in those states which 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 National Association of Securities Dealers, Inc.

Pursuant to its Underwriter Compensation Agreement with the Trust, PFPC Distributors is paid for certain registration and transaction fees.

Service Agreements

PFPC Inc. is currently located at 760 Moore Road, King of Prussia, PA 19406 (PFPC or the Administrator). PFPC provides certain administrative services to the Trust pursuant to an Investment Company Services Agreement (the Investment Company Services Agreement).

Matthews Asian Funds

Page 40 of 54

Under the Investment Company Services Agreement, PFPC: (1) coordinates with the custodian and transfer agent and monitors the services they provide to the Funds; (2) coordinates with and monitors any other third parties furnishing services to the Funds; (3) provides the Funds with necessary office space, telephones and other communications facilities and personnel competent to perform administrative and clerical functions; (4) supervises the maintenance by third parties of such books and records of the Funds as may be required by applicable Federal or state law; (5) 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; (6) prepares and files and arranges for the distribution of proxy materials and periodic reports to shareholders of the Funds as required by applicable law; (7) 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; (8) 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 (9) 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 agreement.

During the fiscal years ended August 31, 2002, 2003, and 2004, the aggregate fees paid to the Administrator by the Funds totaled \$731,732, \$902,719, and \$1,552,920 respectively and are broken down as follows:

Matthews Fund	Admin. Fees Paid During FYE 08-31, 2002	Admin Fees Paid During FYE 08-31, 2003	Admin Fees Paid During FYE 08-31, 2004
Pacific Tiger	\$ 168,544	\$ 172,777	\$ 372,635
Growth and Income	\$ 107,375	\$ 360,349	\$ 670,926
Korea	\$ 372,633	\$ 276,040	\$ 160,989
China	\$ 49,666	\$ 71,071	\$ 233,293
Japan	\$ 15,216	\$ 12,503	\$ 65,785
Asian Technology	\$ 18,298	\$ 9,979	\$ 25,085
Asia Pacific	*	*	\$ 24,207

* The Matthews Asia Pacific Fund commenced operations on October 31, 2003.

Rule 12b-1 Plan (Distribution Plan)

The 12b-1 Plan (the Plan) authorizes the use of the Funds' assets to compensate parties which 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. The Plan currently is not active but will be reviewed by the Board annually in the event that it determines it is necessary to utilize the Plan.

Administration and Shareholder Servicing Agreement

The Trust entered into a Shareholder Services Agreement with Matthews International Capital Management, LLC, the investment advisor to the Funds, on April 17, 1998. A new Administration and Shareholder Servicing Agreement (the Services Agreement) dated August 31, 2004 was approved by the Board of Trustees at a meeting on August 13, 2004. The Advisor (or its affiliate) serves as the service provider under the Services Agreement and, as such, receives any fees paid by the Funds pursuant to the Services Agreement.

Under the Services Agreement, each Fund will pay a continuing administration and shareholder service fee to the Advisor or other service providers, as a percentage of the average daily net assets of each Fund, computed and prorated on a daily basis. Under the Services Agreement, the Fund complex pays an annual fee of 0.25% of the average daily net assets in the Matthews Asian Funds family between \$0 and \$2 billion, 0.20% on assets in the Matthews Asian Fund family between \$2 billion and \$5 billion, and 0.15% on assets in the Matthews Asian Fund family in excess of \$5 billion. Such amounts are compensation for providing certain administrative and shareholder services to current shareholders of the Funds, including: overseeing the Funds' transfer agent, accounting agent, custodian and administrator; 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 the Funds' third-party administrator for the Trust's Board meetings; responding to shareholder communications; coordinating shareholder mailings, which includes transmitting proxy statements, annual reports, prospectuses, and other correspondence from the Funds to shareholders; providing regular communications and investor education materials to shareholders, which may include communications via electronic means, such as electronic mail; providing certain shareholder services not handled by the Funds' transfer agent; communicating with investment advisers whose clients own or hold shares of the Funds; and providing such other information and assistance to shareholders as may be reasonably requested by such shareholders. Fees charged under the shareholder servicing fee arrangement for the year ended August 31, 2004, were as follows:

Matthews Fund	Shareholder Servicing Fees	Fee in Basis Points
Pacific Tiger	\$ 297,638	0.06%
Growth and Income	520,383	0.06%
Korea	114,766	0.06%
China	184,606	0.06%
Japan	61,055	0.06%
Asian Technology	19,715	0.06%
Asia Pacific	23,822	0.06%

Transfer Agent

PFPC Inc. (PFPC) 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, PFPC maintains records pertaining to the sale, redemption, and transfer of Fund shares and distributes each Fund's cash distributions to shareholders.

Custodian

The Bank of New York, One Wall Street, New York, New York 10286 is the custodian of the Trust's assets pursuant to a custodian agreement. Under the custodian agreement, The Bank of New York (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.

Matthews Asian Funds

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

Tait, Weller & Baker, 1818 Market Street, Suite 2400, Philadelphia, Pennsylvania 19103 serves as the independent auditors of the Trust. The Independent Registered Public Accounting 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 Tait, Weller & Baker.

Brokerage Allocation and Other Practices

The Advisor 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 prompt execution of orders in an efficient manner at the most favorable price.

In selecting and monitoring broker-dealers and negotiating commissions, the Advisor 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.

The Advisor may also purchase from a broker or allow a broker to pay for certain research services, 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. Matthews Asian Funds does 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.

The Advisor may 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 research services. In such a case, however, the Advisor 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 the Advisor's overall responsibilities to the portfolios over which the Advisor exercises investment authority. Research services furnished by brokers through whom the Advisor intends to effect securities transactions may be used in servicing all of the Advisor's accounts; not all of such services may be used by the Advisor in connection with accounts which paid commissions to the broker providing such services. In conducting all of its soft dollar relationships, the Advisor will seek to take advantage of the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended.

The Advisor will attempt to equitably allocate portfolio transactions among the Funds and other accounts 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

Matthews Asian Funds

Funds and the other accounts. In some cases, this procedure could have an adverse effect on the Funds. In the opinion of the Advisor, however, the results of such procedures will, on the whole, be in the best interests of each of the clients.

For the fiscal years ended August 31, 2002, 2003 and 2004, the aggregate brokerage commissions paid by the Trust on behalf of the Funds amounted to \$2,140,750, \$2,673,074, and \$5,615,208 respectively. The total brokerage commissions attributable to each Fund are set forth below.

Matthews Fund	Brokerage Commissions Paid During FYE 08-31, 2002	Brokerage Commissions Paid During FYE 08-31, 2003	Brokerage Commissions Paid During FYE 08-31, 2004
Pacific Tiger	\$ 600,298	\$ 573,829	\$ 1,682,724
Growth and Income	\$ 366,305	\$ 1,058,167	\$ 1,643,576
Korea	\$ 870,314	\$ 622,621	\$ 400,354
China	\$ 152,710	\$ 303,807	\$ 1,147,258
Japan	\$ 54,669	\$ 51,730	\$ 372,641
Asian Technology	\$ 96,454	\$ 62,860	\$ 131,688
Asia Pacific	*	*	\$ 236,967

* The Matthews Asia Pacific Fund was not in operation during the fiscal year.

For the fiscal year ended August 31, 2004, the total brokerage commissions paid by the Funds then in existence to brokers and dealers in transactions identified for execution primarily on the basis of research and other services provided to the Funds are summarized below.

Fund Name	Commissions	Transactions
Matthews Pacific Tiger Fund	\$ 102,094	\$ 26,094,950
Matthews Asian Growth and Income Fund	\$ 132,213	\$ 33,483,568
Matthews Korea Fund	\$ 4,993	\$ 1,981,301
Matthews China Fund	\$ 32,805	\$ 13,106,772
Matthews Japan Fund	\$ 3,520	\$ 2,278,095
Matthews Asian Technology Fund	\$ 5,260	\$ 1,496,072
Matthews Asia Pacific	\$ 1,563	\$ 501,778

There are no brokers which the Advisor uses which are affiliated with the Trust or the Advisor.

Shares of Beneficial Interest

Each Fund is authorized to issue an unlimited number of shares of beneficial interest, each with a \$0.001 par value. Shares of each 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.

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.

Matthews Asian Funds

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 net asset value (NAV) per share of a 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 NAVs of their respective shares on days in which the NYSE is closed for trading. The NYSE is closed on the day 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.

Market values for equity securities are determined based on the last sale price on the principal exchange or over-the-counter market on which the security is traded. If a reliable last sale price is not available, market values for equity securities are determined using the mean between the last available bid and asked price. Securities are valued through valuations obtained from a commercial pricing service or at the most recent mean of the bid and asked prices provided by investment dealers in accordance with procedures established by the Board of Trustees.

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 Fund will 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.

Portfolio securities for Matthews Korea Fund and Matthews Japan Fund which are traded on the Korean and Japanese exchanges, respectively, are valued at the most recent sale price reported on the exchange. If no sale occurred, the security is then valued at the calculated mean between the most recent bid and asked quotations. If there are no such bid and asked quotations, the most recent bid quotation is used. All other securities are valued at fair value as determined in good faith by the Board of Trustees including certain investments in Korean equity securities and Japanese equity securities that have met the limit for aggregate foreign ownership and for which premiums to the local stock exchange prices are offered by prospective foreign investors.

Generally portfolio securities subject to a foreign share premium are valued at the local share prices (i.e., without including any foreign share premium) because of the uncertainty of realizing the premium and the recent trend toward the reduction or disappearance of such foreign premiums.

Matthews Asian Funds

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

The calculation of the Funds' NAVs may not take place contemporaneously with the determination of the prices of portfolio securities held by the Funds. Events affecting the values of portfolio securities that occur between the time their prices are determined and the close of the NYSE will not be reflected in the Funds' calculation of NAV unless the Board of Trustees deems that the particular event would materially affect the NAV in which case an adjustment will be made. 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. The fair value of all other assets is added to the value of securities to arrive at the total assets.

The Advisor has a Pricing Committee, comprised of one Trustee of the Trust, as well as certain officers of the Trust and employees of the Advisor, which reviews and monitors the pricing policies adopted by the Board. The Pricing Committee is responsible for determining the fair value of each Fund's securities as needed in accordance with the pricing policies and performs such other tasks as the Board deems necessary. The Pricing 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 Pricing Committee's meeting. During the fiscal year ended August 31, 2004, there were 89 meetings of the Pricing Committee.

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-day period to the lesser of \$250,000 or 1 percent of the NAV of a 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 a Fund, pay a redemption with the securities held in that Fund's portfolio. If this occurred, the shareholder receiving these portfolio securities would incur transaction charges if they were to convert the securities into cash. Due to market restrictions in certain markets, the option of a Fund to redeem in kind may be limited.

Equalization

For any of its fiscal years, each Fund may use the equalization method to allocate taxable income. Equalization allocates a pro-rata share of taxable income to departing shareholders when they redeem shares of a Fund, reducing the amount of the distribution to be made to remaining shareholders of that Fund. This should contribute to the tax-efficiency of a Fund for its long-term shareholders.

Distributions

Dividends from net investment income, if any, are normally declared and paid by each Fund in December. Capital Gains distributions, if any, are normally made after October 31. A Fund may make

additional payments of dividends or distributions if it deems desirable and in the best interests of shareholders at other times during the year. Any dividend or distribution paid by a Fund has the effect of reducing the net asset value per share on the record date by the amount of the dividend or distribution. To the extent a Fund makes a mid-year distribution of realized capital gains, the Fund runs 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 gain is in effect a return of capital. Therefore, a Fund will only make a special mid-year distribution of capital gain 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 Trust

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; (ii) distribute at least 90% of its dividend, interest and certain other taxable 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.

To the extent the Funds qualify for treatment as regulated investment companies, 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 the Funds' 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 capital gain net income recognized during the one-year period ending on October 31 plus undistributed amounts from prior years. The Funds intend to make distributions sufficient to avoid imposition of the excise tax. For a distribution to qualify as such with respect to a calendar year under the foregoing rules, it must be declared by a Fund 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 Funds. 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.

Matthews Asian Funds

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 deduction.

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 them 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 which a Fund has written expires on its stipulated expiration date, the Fund recognizes a short-term capital gain. If the Fund enters into a closing purchase transaction with respect to an option which 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 which 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 the Fund for the purchase of a put option is recorded in the 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 which 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, it 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. When 60% of any net gain or loss is 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 the Funds 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.

Matthews Asian Funds

Page 48 of 54

Unique Foreign Tax Issues

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

The foregoing discussion relates solely to U.S. Federal income tax law. 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 unaudited 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 the Advisor at (800) 789-2742.

Financial Statements

The financial statements for the Funds, including the notes thereto as of August 31, 2004 are incorporated by reference from the Funds' 2004 Annual Report to Shareholders and the Funds' 2004 Semi-Annual Report to Shareholders as filed with the SEC on Form N-CSR.

Matthews Asian Funds

Page 49 of 54

Appendix

Bond Ratings

Moody's Investors Service, Inc. (Moody's) describes classifications of 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

Matthews Asian Funds

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.

Standard & Poor's Corporation (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.

Matthews Asian Funds

Page 52 of 54