

MATTHEWS INTERNATIONAL FUNDS

Form N-Q

November 28, 2005

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM N-Q**  
**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANY**  
**Investment Company Act file number 811-08510**

**Matthews International Funds**  
(Exact name of registrant as specified in charter)  
Four Embarcadero Center, Suite 550  
San Francisco, CA 94111

(Address of principal executive offices) (Zip code)  
G. Paul Matthews, President  
Four Embarcadero Center, Suite 550  
San Francisco, CA 94111

(Name and address of agent for service)  
Registrant's telephone number, including area code: 415-788-6036  
Date of fiscal year end: December 31  
Date of reporting period: September 30, 2005

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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**Item 1. Schedule of Investments.**

The Schedules of Investments are attached herewith.

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Matthews Asian Funds

THIRD QUARTER REPORT

SEPTEMBER 30, 2005

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

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Matthews Asian Funds

Investing in the future

of Asia since 1994

**Free e-mail communications on Asia and the Funds are available at [www.matthewsfunds.com](http://www.matthewsfunds.com)**

- Asia Weekly
  - Asia Insight (monthly)
  - AsiaNow Special Reports
  - Occasional Fund Updates
-

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MESSAGE TO SHAREHOLDERS  
FROM THE INVESTMENT ADVISOR

Dear Shareholder,

Asian markets rallied strongly in the third quarter, following a generally lackluster start to the year. Following these rallies, total returns for most Asian markets were generally positive for the year to date, in spite of a backdrop of concerns ranging from rising oil prices and interest rates to ongoing debate over the sustainability of rapid growth in the region's two most populous countries, India and China. Asian regional financial markets have enjoyed relatively strong performance over the past five years as economic growth in much of the region has outpaced that of the rest of the world. However, this growth has depended in large part on the exceptional performance of the mainland Chinese economy and, more recently, that of India, while the largest economy in the region, Japan, has continued to sputter. In that respect, perhaps the most noteworthy event of the third quarter was the strong rally in the Japanese equity market following the surprise election called by Prime Minister Koizumi, and the public's apparent support of his reform program for the Japanese postal system. This rally was accompanied by reports of continued improvement in the Japanese economy and the suggestion that Japan's apparently ultra-easy monetary policy was starting to have a positive impact. While there have been many premature signs of recovery in the Japanese economy over the past several years, the prospect of true reform at the heart of what remains one of the world's largest pools of savings is perhaps more encouraging than any short-term sign of economic recovery. While we remain confident of the long-term prospects for the region outside of Japan, we believe that continued reforms in the Japanese financial markets are key to the medium-term prospects for the region.

While we were encouraged by macroeconomic developments in Japan during the third quarter, we were disappointed by the relative performance of the Funds' Japanese portfolios over the period. With our primary focus on longer time horizons, we are aware that our Japanese exposure generally lagged the benchmarks for the three months ended September 30. Over the past three to five years, our portfolios in Japan have benefited from a diverse range of companies in Japan, strongly helped by positions in Japanese financials. While financials generally performed well

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SEPTEMBER 30, 2005

in the third quarter, the individual positions in financial stocks in the Funds Japanese portfolios underperformed over this period. We have not made any dramatic changes to the Funds Japanese portfolios in recent months and remain confident in our longer-term stock selection. By contrast, we were pleased with our stock selection in South Korea in the third quarter, helped in particular by a strong showing from pharmaceutical companies. Elsewhere in the region for the quarter, we were satisfied with the Funds relative performance.

Oil prices continued to rise in the third quarter, presenting perhaps the biggest challenge faced by regional economies since the end of the financial crisis in 1999. While to date this has not had a significant impact on economic growth in the region, the recent increases are undoubtedly starting to bite. Historically, a number of countries in Asia most notably India, China and Indonesia have attempted to cushion the impact of oil price volatility by subsidizing prices for end users. These subsidies have taken various forms but generally have come under pressure as oil moved to more than \$60 a barrel. While we believe that Asian economies can withstand higher prices, we are concerned that the impact of subsidies around the region can cause dislocations and imbalances and may lead to short-term volatility.

The start of reforms to the Japanese postal savings system and the continued reform effort in China provide long-term reasons for optimism about the economic prospects for Asia. In the near term, the twin threats of rising oil prices and rising interest rates present a challenge to those growth prospects.

The timetable for the full opening of the Chinese economy, including the eventual opening of the currency market on the capital account, has for many years been subject to progress being made on substantive reform of China's banking system. While no one can be certain of the final outcome, there can be no doubt that in recent months, very significant progress has been made toward Chinese banking reform. The pace and scale of foreign bank investments in mainland banks of

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#### MESSAGE TO SHAREHOLDERS

all sorts has been dramatic so far in 2005; this trend continued to accelerate in the third quarter. There continues to be much discussion as to how sustainable China's rate of economic growth is in the short term, but we believe this is far less critical for long-term investors in the region than is the eventual success of the banking reform program, and we are encouraged by recent developments.

The start of reforms to the Japanese postal savings system and the continued reform effort in China provide long-term reasons for optimism about the economic prospects for Asia. In the near term, the twin threats of rising oil prices and rising interest rates present a challenge to those growth prospects. For all of the Funds' portfolios, we remain focused on identifying strong long-term growth companies selling at reasonable prices that can withstand the near-term uncertainties and benefit from what we continue to believe will be a long period of relative prosperity for an Asian region that understands the benefits of allowing the markets to operate as freely as possible.

On a separate subject, we are pleased to announce the addition of the Matthews India Fund to the fund family.

Launched on October 31, 2005, the Fund's investment objective is long-term capital appreciation and, under normal conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its total net assets in publicly traded common stocks, preferred stocks and convertible securities of Indian companies. For more information, please refer to the Fund's prospectus, which can be obtained at the Funds' web-site at [www.matthewsfunds.com](http://www.matthewsfunds.com).

Thank you for your continued support.

**G. Paul Matthews**

Chairman and Chief Investment Officer

Matthews International Capital Management, LLC

**Mark W. Headley**

Chief Executive Officer and Portfolio Manager

Matthews International Capital Management, LLC

**INTRODUCING THE MATTHEWS INDIA FUND**

LAUNCHED ON OCTOBER 31, 2005

For information on this new Fund and its investment objectives, please visit [www.matthewsfunds.com](http://www.matthewsfunds.com)

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SEPTEMBER 30, 2005

**REDEMPTION FEE POLICY**

The Funds assess a redemption fee of 2.00% of the total redemption proceeds if you sell or exchange your shares within 90 calendar days after purchasing them. The redemption fee is paid directly to the Funds and is designed to discourage frequent short-term trading and to offset transaction costs associated with such trading of Fund shares. For purposes of determining whether the redemption fee applies, the shares that have been held longest will be redeemed first. The redemption fee does not apply to redemptions of shares held in certain omnibus accounts and retirement plans that cannot currently implement the redemption fee. While these exceptions exist, the Funds are not accepting any new accounts that cannot implement the redemption fee. In addition, the Funds are actively discussing a schedule for implementation of the fee with these providers. For more information on this policy, please see the Funds prospectus.

**INVESTOR DISCLOSURE**

**Past Performance:** All performance quoted in this report is past performance and is no guarantee of future results. Investment return and principal value will fluctuate with changing market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the returns quoted. Returns are net of the Funds management fee and other operating expenses. If certain of the Funds fees and expenses had not been waived, returns would have been lower. For the Funds most recent month-end performance, please call 1-800-789-ASIA [2742] or visit [www.matthewsfunds.com](http://www.matthewsfunds.com).

**Investment Risk:** Mutual fund shares are not deposits or obligations of, or guaranteed by, any depository institution. Shares are not insured by the FDIC, Federal Reserve Board or any government agency and are subject to investment risks, including possible loss of principal amount invested. Investing in international markets may involve additional risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. In addition, single-country and sector funds may be subject to a higher degree of market risk than diversified funds because of concentration in a specific industry, sector or geographic location. Please see the Funds prospectus and Statement of Additional Information for more risk disclosure.

**Fund Holdings:** The Fund holdings shown in this report are as of September 30, 2005. Holdings are subject to change at any time, so holdings shown in this report may not reflect current Fund holdings. The Funds file complete schedules of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q, the first of which was filed for the quarter ended November 30, 2004. The Funds changed their fiscal year-end to December 31 in 2004. The Funds Form N-Q is available on the SEC's website at [www.sec.gov](http://www.sec.gov) and may be reviewed and copied at the Commission's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. Matthews Asian Funds publishes quarterly reports containing the information filed in the form N-Q, copies of which may be obtained by visiting the Funds website at [www.matthewsfunds.com](http://www.matthewsfunds.com) or by calling 1-800-789-ASIA [2742].

**Proxy Voting Record:** The Funds Statement of Additional Information containing a description of the policies and procedures that the Matthews Asian Funds use to vote proxies relating to portfolio securities, along with each Fund's proxy voting record relating to portfolio securities held during the 12-month period ended June 30, 2005, is available upon request, at no charge, at the Funds website at [www.matthewsfunds.com](http://www.matthewsfunds.com) or by calling 1-800-789-ASIA [2742], or on the SEC's website at [www.sec.gov](http://www.sec.gov).

*You should consider the investment objectives, risks, charges and expenses of the Matthews Asian Funds carefully before making an investment decision. A prospectus with this and other information about the Funds may be obtained by calling 800-789-ASIA [2742] or by visiting [www.matthewsfunds.com](http://www.matthewsfunds.com). Please read the prospectus carefully before you invest or send money as it explains the risks associated with investing in international markets. These include risks related to social and political instability, market illiquidity and currency volatility.*

The Matthews Asian Funds are distributed by PFPC Distributors, Inc., 760 Moore Road, King of Prussia, PA 19406.

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MATTHEWS ASIA PACIFIC FUND

**PORTFOLIO MANAGEMENT**

**SYMBOL: MPACX**

Lead Manager: Mark W. Headley

Co-Managers: G. Paul Matthews, Richard H. Gao and Andrew T. Foster

The Matthews Asia Pacific Fund invests at least 80% of its assets in the common and preferred stocks of companies located in the Asia Pacific region. The Fund may also invest in the convertible securities, of any duration or quality, of companies located in Asia Pacific.

The Asia Pacific region includes Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Pakistan, Philippines, Singapore, South Korea, Taiwan and Thailand.

**PORTFOLIO MANAGER COMMENTARY**

The Matthews Asia Pacific Fund gained 10.06% during the three months ended September 30, 2005, underperforming both the MSCI All Country Asia Pacific Index and the Lipper Pacific Region Funds Category Average, which returned 15.14% and 14.97%, respectively. The relatively poor performance of the Fund's holdings in Japan was a primary reason for the underperformance. Since its inception, the Fund has underweighted the large Japanese market. The Fund's performance for the quarter was dominated by returns from its positions in North Asia, including Japan, Korea and China. Financials bounced back strongly during the period, and technology and telecommunications holdings were also major contributors to positive Fund performance, with core positions in China taking the lead. Korean stocks saw one of the broadest rallies in recent memory, and the market managed to break an 11-year high in local currency terms. Indonesia was the primary area of significant weakness, along with several holdings in Japan. Indonesia has suffered from higher energy prices, and its currency weakened as investors became concerned that the government was too weak to make the necessary fiscal adjustments.

Overall, the portfolio is maintaining its overweight position in domestically related companies, primarily consumer/retail and financials. A number of strong global competitors in the portfolio provide significant diversification and, in many cases, some of the strongest management teams in Asia. The Fund's exposure to Japan has been modestly increased with several new positions.

The region continues to see significant inflows of foreign capital, and domestic confidence in financial markets seems to be building in a number of key countries. The portfolio has perhaps suffered from a bit too much caution as markets have moved higher in the face of a significant rise in energy and commodity prices, as well as interest rates moving modestly higher in a number of countries.

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**FUND AT A GLANCE**

All data is as of September 30, 2005, unless otherwise noted.

**PERFORMANCE AS OF SEPTEMBER 30, 2005<sup>1</sup>**

|   | <b>3 MO</b> | <b>YTD</b> | <b>1 YR</b> | <b>SINCE<br/>INCEPTION<sup>2</sup></b> |
|---|-------------|------------|-------------|--|
| Fund Inception: 10/31/03                                  |             |            |             |  |
| Matthews Asia Pacific Fund                                | 10.06%      | 11.29%     | 28.56%      | 19.41%                                 |
| MSCI All Country Asia Pacific Index <sup>3</sup>          | 15.14%      | 13.89%     | 29.89%      | 19.74%                                 |
| Lipper Pacific Region Funds Category Average <sup>4</sup> | 14.97%      | 15.14%     | 30.09%      | 19.03%                                 |

<sup>1</sup> Assumes reinvestment of all dividends. Past performance is not indicative of future results. Unusually high returns may not be sustainable. Investment return and principal value will fluctuate with changing market conditions so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns are net of the Funds' management fee and other operating expenses. Returns would have been lower if certain of the Funds' fees and expenses had not been waived. For the Funds most recent month-end performance please call 800-789-ASIA (2742) or visit [www.matthewsfunds.com](http://www.matthewsfunds.com). The performance of foreign indices may be based on different exchange rates than those used by the Fund and, unlike the Fund's NAV, is not adjusted to reflect fair

*value at the close of the  
NYSE.*

- <sup>2</sup> Average annual total  
returns
- <sup>3</sup> The MSCI All Country  
Asia Pacific Index is a  
free float-adjusted market  
capitalization-weighted  
index measuring the  
equity market  
performance in 14  
emerging and developed  
markets of the Asia  
Pacific region. As of  
9/30/05, 1.2% of the  
assets in the Matthews  
Asia Pacific Fund were  
invested in the United  
Kingdom, which is not  
included in the MSCI All  
Country Asia Pacific  
Index. Source: PFPC, Inc.

**OPERATING EXPENSES <sup>5</sup> (ANNUALIZED)**

|  |       |
|--|-------|
| For the nine months ended 9/30/05 <sup>6</sup>       | 1.35% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,8</sup> | 1.51% |

**PORTFOLIO TURNOVER<sup>9</sup>**

|   |        |
|---|--------|
| For the nine months ended 9/30/05 (annualized) <sup>6</sup> | 18.12% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,10</sup>       | 1.28%  |

- <sup>5</sup> Includes  
management fee,  
administration  
and shareholder  
services fees,  
waivers,  
reimbursements,  
recoupments and  
other expenses.  
Matthews Asian  
Funds do not  
charge 12b-1  
fees.

- <sup>6</sup> Unaudited

- <sup>7</sup> Audited

8 For the four-month period ended 12/31/04 due to the Funds change of fiscal year. The Fund's expense ratio for the 12-month period ended 12/31/04 would have been 1.59% (unaudited).

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

10 For the four-month period ended 12/31/04 due to the Funds change of fiscal year. The Fund's portfolio turnover ratio for the 12-month period ended 12/31/04 would have been 9.05% (unaudited).

# COUNTRY ALLOCATION<sup>11</sup>

|                             |       |
|-----------------------------|-------|
| Japan                       | 40.6% |
| China/Hong Kong             | 21.2% |
| South Korea                 | 12.8% |
| Singapore                   | 6.2%  |
| Taiwan                      | 4.2%  |
| Thailand                    | 3.6%  |
| Australia                   | 3.6%  |
| India                       | 3.3%  |
| Indonesia                   | 1.7%  |
| United Kingdom <sup>3</sup> | 1.2%  |

|   |       |
|---|-------|
| Cash and other                          | 1.6%  |
| <b>SECTOR ALLOCATION<sup>11</sup></b>   |       |
| Financials                              | 27.6% |
| Consumer Discretionary                  | 25.5% |
| Information Technology                  | 19.1% |
| Consumer Staples                        | 7.9%  |
| Telecom Services                        | 7.8%  |
| Industrials                             | 6.8%  |
| Health Care                             | 2.1%  |
| Materials                               | 1.1%  |
| Utilities                               | 0.5%  |
| Cash and other                          | 1.6%  |
| <b>MARKET CAP EXPOSURE<sup>11</sup></b> |       |
| Large cap (over \$5 billion)            | 51.6% |
| Mid cap (\$1-\$5 billion)               | 36.6% |
| Small cap (under \$1 billion)           | 10.2% |
| Cash and other                          | 1.6%  |

<sup>11</sup> Figures have  
been rounded to  
total 100.0%

| NAV     | FUND ASSETS     | REDEMPTION FEE                                       | 12B-1 FEES                    |   |
|---------|-----------------|--|-------------------------------|---|
| \$14.00 | \$228.8 million | 2.00% within 90 calendar days<br>800.789.ASIA [2742] | None<br>www.matthewsfunds.com | 7 |

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MATTHEWS ASIA PACIFIC FUND  
SCHEDULE OF INVESTMENTS (Unaudited)  
**EQUITIES: 98.4%\***

|  | SHARES  | VALUE             |
|--|---------|-------------------|
| <b>JAPAN: 40.6%</b>                      |         |                   |
| Mizuho Financial Group, Inc.             | 996     | \$ 6,334,672      |
| The Sumitomo Trust and Banking Co., Ltd. | 721,000 | 5,932,118         |
| Takeda Pharmaceutical Co., Ltd.          | 78,900  | 4,698,414         |
| Secom Co., Ltd.                          | 96,000  | 4,617,336         |
| Nintendo Co., Ltd.                       | 38,900  | 4,536,963         |
| T&D Holdings, Inc.                       | 72,930  | 4,342,907         |
| Ryohin Keikaku Co., Ltd.                 | 61,500  | 3,960,227         |
| Yamada Denki Co., Ltd.                   | 50,600  | 3,846,705         |
| Nomura Holdings, Inc.                    | 236,000 | 3,660,994         |
| Sharp Corp.                              | 246,000 | 3,562,579         |
| Ito En, Ltd.                             | 73,800  | 3,452,061         |
| Canon, Inc. ADR                          | 63,500  | 3,445,510         |
| NIWS Co., Ltd.                           | 2,806   | 3,361,663         |
| Monex Beans Holdings, Inc.               | 2,739   | 3,233,140         |
| Rakuten, Inc.                            | 4,191   | 3,204,535         |
| Matsushita Electric Industrial Co., Ltd. | 186,000 | 3,150,793         |
| Usen Corp.                               | 117,090 | 3,037,615         |
| Jupiter Telecommunications Co., Ltd. **  | 3,437   | 2,970,135         |
| H.I.S. Co., Ltd.                         | 132,000 | 2,895,349         |
| Makita Corp.                             | 123,000 | 2,492,072         |
| NTT DoCoMo, Inc.                         | 1,394   | 2,480,514         |
| MOS Food Service, Inc.                   | 159,000 | 2,294,239         |
| Shimano, Inc.                            | 84,800  | 2,285,835         |
| The Chiba Bank, Ltd.                     | 262,000 | 2,130,250         |
| Askul Corp.                              | 34,200  | 2,018,499         |
| Honda Motor Co., Ltd. ADR                | 57,200  | 1,624,480         |
| Nidec Corp. **                           | 21,800  | 1,296,247         |
| Nidec Corp. W/I **, ***                  | 19,100  | 1,135,703         |
| Honda Motor Co., Ltd.                    | 17,000  | 961,416           |
| <b>Total Japan</b>                       |         | <b>92,962,971</b> |

**CHINA/HONG KONG: 21.2%**

|   |            |              |
|---|------------|--------------|
| China Mobile HK, Ltd. ADR                     | 181,600    | \$ 4,474,624 |
| Lenovo Group, Ltd.                            | 9,216,000  | 4,455,130    |
| Dah Sing Financial Group                      | 589,600    | 3,952,278    |
| Giordano International, Ltd.                  | 5,368,000  | 3,702,141    |
| Television Broadcasts, Ltd.                   | 581,000    | 3,553,849    |
| Swire Pacific, Ltd. A Shares                  | 371,500    | 3,421,745    |
| PICC Property and Casualty Co., Ltd. H Shares | 12,128,000 | 3,244,098    |



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|   |           |           |
|---|-----------|-----------|
| SINA Corp. **   | 101,000   | 2,777,500 |
| Sa Sa International Holdings, Ltd.                    | 5,976,000 | 2,677,022 |
| China Vanke Co., Ltd. B Shares                        | 4,790,350 | 2,661,529 |
| Shangri-La Asia, Ltd.                                 | 1,628,000 | 2,633,812 |
| Lianhua Supermarket Holdings, Ltd. H Shares           | 2,018,000 | 2,341,263 |
| ASM Pacific Technology, Ltd.                          | 479,500   | 2,333,416 |
| Cosco Pacific, Ltd.                                   | 1,196,000 | 2,328,063 |
| China Travel International Investment Hong Kong, Ltd. | 8,506,000 | 2,302,668 |
| Hong Kong and China Gas Co., Ltd.                     | 571,000   | 1,177,722 |
| China Mobile HK, Ltd.                                 | 80,500    | 394,336   |
| Baidu.com, Inc. ADR**                                 | 1,000     | 64,020    |

**Total China/Hong Kong** **48,495,216**

**SOUTH KOREA: 12.8%**

|                                   |         |           |
|-----------------------------------|---------|-----------|
| Samsung Electronics Co., Ltd.     | 7,420   | 4,181,083 |
| AmorePacific Corp.                | 12,976  | 3,929,483 |
| SK Telecom Co., Ltd. ADR          | 148,400 | 3,241,056 |
| S1 Corp.                          | 65,640  | 3,164,056 |
| Nong Shim Co., Ltd.               | 9,580   | 2,483,364 |
| Shinhan Financial Group Co., Ltd. | 71,380  | 2,483,080 |
| NCsoft Corp. **                   | 29,730  | 2,447,347 |
| GS Home Shopping, Inc.            | 21,289  | 2,211,526 |
| Hyundai Motor Co.                 | 27,020  | 2,110,331 |
| Kookmin Bank ADR                  | 35,540  | 2,105,745 |
| Kookmin Bank                      | 16,590  | 977,753   |

**Total South Korea** **29,334,824**

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SEPTEMBER 30, 2005

|   | SHARES    | VALUE             |
|---|-----------|-------------------|
| <b>SINGAPORE: 6.2%</b>                        |           |                   |
| DBS Group Holdings, Ltd.                      | 476,700   | \$ 4,451,322      |
| Venture Corp., Ltd.                           | 404,600   | 3,467,214         |
| Fraser and Neave, Ltd.                        | 331,800   | 3,372,808         |
| Hyflux, Ltd.                                  | 1,537,812 | 2,853,775         |
| <b>Total Singapore</b>                        |           | <b>14,145,119</b> |
| <b>TAIWAN: 4.2%</b>                           |           |                   |
| Hon Hai Precision Industry Co., Ltd.          | 940,960   | 4,380,779         |
| Taiwan Semiconductor Manufacturing Co., Ltd.  | 1,719,848 | 2,762,288         |
| Taiwan Secom **                               | 1,786,020 | 2,548,343         |
| <b>Total Taiwan</b>                           |           | <b>9,691,410</b>  |
| <b>THAILAND: 3.6%</b>                         |           |                   |
| Advanced Info Service Public Co., Ltd.        | 1,591,200 | 4,186,858         |
| Bangkok Bank Public Co., Ltd.                 | 1,446,800 | 4,018,399         |
| <b>Total Thailand</b>                         |           | <b>8,205,257</b>  |
| <b>AUSTRALIA: 3.6%</b>                        |           |                   |
| AXA Asia Pacific Holdings, Ltd.               | 790,580   | 2,930,084         |
| Australia and New Zealand Banking Group, Ltd. | 149,208   | 2,730,872         |
| BHP Billiton, Ltd.                            | 146,272   | 2,481,928         |
| <b>Total Australia</b>                        |           | <b>8,142,884</b>  |
| <b>INDIA: 3.3%</b>                            |           |                   |
| Tata Consultancy Services, Ltd.               | 87,355    | 2,943,796         |
| Dabur India, Ltd.                             | 685,364   | 2,547,019         |
| HDFC Bank, Ltd.                               | 130,195   | 2,036,528         |
| <b>Total India</b>                            |           | <b>7,527,343</b>  |

**INDONESIA: 1.7%**

|                             |            |              |
|-----------------------------|------------|--------------|
| PT Ramayana Lestari Sentosa | 27,344,500 | \$ 2,070,749 |
| PT Astra International      | 1,844,500  | 1,746,007    |

**Total Indonesia** **3,816,756**

**UNITED KINGDOM: 1.2%**

|                       |        |           |
|-----------------------|--------|-----------|
| HSBC Holdings PLC ADR | 34,000 | 2,761,819 |
|-----------------------|--------|-----------|

**Total United Kingdom** **2,761,819**

**TOTAL INVESTMENTS: 98.4%** **225,083,599**  
(Cost \$191,483,967\*\*\*\*)

**CASH AND OTHER ASSETS, LESS LIABILITIES: 1.6%** **3,715,221**

**NET ASSETS: 100.0%** **\$ 228,798,820**

\* As a percentage  
of net assets as  
of  
September 30,  
2005

\*\* Non-income  
producing  
security

\*\*\* Fair valued  
under direction  
of the Board of  
Trustees

\*\*\*\* Cost of  
investments is  
\$191,483,967  
and net  
unrealized  
appreciation  
consists of:

|                               |               |
|-------------------------------|---------------|
| Gross unrealized appreciation | \$ 37,468,514 |
| Gross unrealized depreciation | (3,868,882)   |
| Net unrealized appreciation   | \$ 33,599,632 |

ADR American Depositary Receipt

W/I When Issued Shares

See accompanying notes to schedules of investments.

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MATTHEWS PACIFIC TIGER FUND

**PORTFOLIO MANAGEMENT**

**SYMBOL: MAPTX**

Lead Manager: Mark W. Headley

Co-Manager: G. Paul Matthews

The Matthews Pacific Tiger Fund invests at least 80% of its assets in the common and preferred stocks of companies located in the Pacific Tiger countries of China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

**PORTFOLIO MANAGER COMMENTARY**

For the three-month period ended September 30, 2005, the Matthews Pacific Tiger Fund gained 12.44%, versus a gain of 8.47% for the MSCI All Country Far East ex-Japan Index and a gain of 11.67% for the Lipper Pacific ex-Japan Category Average. The region as a whole saw a strong rally which was already being tested as we entered the final three months of the year.

The Fund enjoyed positive returns from every significant sector in which it was invested during one of the broadest rallies in recent years. The financials sector recovered powerfully, especially in Korea, after some weakness earlier in the year. Technology and telecommunications were significant contributors to performance, with core holdings in China doing particularly well. The Fund's consumer-related holdings also did well. The only notable area of weakness was Indonesia, where concerns over potential economic shocks from rising energy prices hit its market and currency. It is a sad irony that Indonesia, the only Asian member of OPEC, sits on vast energy reserves, yet domestic politics and corruption have slowed investment to the point where the country cannot meet its own energy needs.

The Fund continues to focus on its long-term areas of greatest interest: domestic consumption, financials and broadly defined technology. We are constantly looking for new areas of sustainable growth potential in the regional economy, as well as companies that have the ability to compete globally. We are pleased that the one-year returns for the Fund have remained competitive despite its lack of exposure to energy- and commodity-related companies.

There is no doubt that the regional markets have enjoyed a period of very strong liquidity as both foreign and local investors have added to equity holdings. While valuations in the region remain broadly reasonable, investors should be aware that sharp corrections could occur after the dramatic gains that have been seen since the dark days of the SARS epidemic. We never pretend to know where the markets will head, but with so many new participants, volatility must be anticipated.

10 MATTHEWS ASIAN FUNDS

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**FUND AT A GLANCE**

All data is as of September 30, 2005, unless otherwise noted.

**PERFORMANCE AS OF SEPTEMBER 30, 2005<sup>1</sup>**

|   | Average Annual Total Returns |        |        |        |        |           | SINCE<br>10<br>YRS<br>INCEPTION |
|---|------------------------------|--------|--------|--------|--------|-----------|---------------------------------|
|   | 3 MO                         | YTD    | 1 YR   | 3 YRS  | 5 YRS  | 10<br>YRS |                                 |
| Fund Inception: 9/12/94                                 |                              |        |        |        |        |           |                                 |
| Matthews Pacific Tiger Fund                             | 12.44%                       | 15.98% | 34.84% | 34.78% | 13.90% | 8.64%     | 7.59%                           |
| MSCI All Country Far East ex-Japan Index <sup>2</sup>   | 8.47%                        | 14.60% | 28.39% | 26.27% | 8.70%  | 0.70%     | 0.09% <sup>3</sup>              |
| Lipper Pacific ex-Japan Funds Category Avg <sup>4</sup> | 11.67%                       | 17.88% | 34.66% | 27.05% | 10.31% | 4.79%     | 2.91% <sup>3</sup>              |

<sup>1</sup> Assumes reinvestment of all dividends. Past performance is not indicative of future results. Unusually high returns may not be sustainable. Investment return and principal value will fluctuate with changing market conditions so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns are net of the Funds' management fee and other operating expenses. Returns would have been lower if certain of the Funds' fees and expenses had not been waived. For the Funds most recent month-end performance please call 800-789-ASIA (2742) or visit [www.matthewsfunds.com](http://www.matthewsfunds.com). The performance of foreign indices may be based on different exchange rates than those

*used by the Fund and, unlike the Fund's NAV, is not adjusted to reflect fair value at the close of the NYSE.*

<sup>2</sup> The MSCI All Country Far East ex-Japan Index is a free float-adjusted market capitalization-weighted index of the stock markets of Hong Kong, Taiwan, Singapore, Korea, Indonesia, Malaysia, Philippines, Thailand and China that excludes securities not available to foreign investors. As of 9/30/05, 7.6% of the assets in the Matthews Pacific Tiger Fund were invested in India, which is not included in the MSCI All Country Far East ex-Japan Index. Source: PFPC, Inc.

<sup>3</sup> Calculated from 8/31/94

<sup>4</sup> As of 9/30/05, the Lipper Pacific ex-Japan Funds Category Average consisted of 56 funds for the three-month, YTD and one-year periods; 53 funds for the three-year period; 45 funds for the five-year period; 23 funds for the 10-year period; and 13 funds since 8/31/94. Lipper, Inc. fund performance does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains, for the stated periods.

#### **OPERATING EXPENSES<sup>5</sup> (ANNUALIZED)**

|  |       |
|--|-------|
| For the nine months ended 9/30/05 <sup>6</sup>       | 1.32% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,8</sup> | 1.36% |

**PORTFOLIO TURNOVER<sup>9</sup>**

|   |       |
|---|-------|
| For the nine months ended 9/30/05 (annualized) <sup>6</sup> | 3.55% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,10</sup>       | 3.82% |

<sup>5</sup> Includes management fee, administration and shareholder services fees, waivers, reimbursements, recoupments and other expenses. Matthews Asian Funds do not charge 12b-1 fees.

<sup>6</sup> Unaudited

<sup>7</sup> Audited

<sup>8</sup> For the four-month period ended 12/31/04 due to the Funds change of fiscal year. The Funds expense ratio for the 12-month period ended 12/31/04 would have been 1.43% (unaudited).

<sup>9</sup> The lesser of fiscal year-to-date purchase costs or sales proceeds divided by the average monthly market value of long-term securities.



For the four-month period ended 12/31/04 due to the Funds change of fiscal year. The Funds portfolio turnover ratio for the 12-month period ended 12/31/04 would have been 16.27% (unaudited).

**COUNTRY ALLOCATION<sup>11</sup>**

|                    |       |
|--------------------|-------|
| China/Hong Kong    | 32.4% |
| South Korea        | 26.2% |
| Singapore          | 11.3% |
| Taiwan             | 9.3%  |
| India <sup>2</sup> | 7.6%  |
| Thailand           | 7.1%  |
| Indonesia          | 3.5%  |
| Philippines        | 0.2%  |
| Cash and other     | 2.4%  |

**SECTOR ALLOCATION<sup>11</sup>**

|                        |       |
|------------------------|-------|
| Financials             | 28.7% |
| Information Technology | 19.7% |
| Consumer Discretionary | 15.1% |
| Consumer Staples       | 14.6% |
| Telecom Services       | 10.7% |
| Industrials            | 6.5%  |
| Health Care            | 2.3%  |
| Cash and other         | 2.4%  |

**MARKET CAP EXPOSURE<sup>11</sup>**

|                               |       |
|-------------------------------|-------|
| Large cap (over \$5 billion)  | 30.7% |
| Mid cap (\$1 - \$5 billion)   | 54.8% |
| Small cap (under \$1 billion) | 12.1% |
| Cash and other                | 2.4%  |

<sup>11</sup> Figures have been rounded to total 100.0%

| NAV     | FUND ASSETS    | REDEMPTION FEE                | 12B-1 FEES               |
|---------|----------------|-------------------------------|--------------------------|
| \$18.44 | \$1.64 billion | 2.00% within 90 calendar days | None                     |
|         |                | 800.789.ASIA [2742]           | www.matthewsfunds.com 11 |



MATTHEWS PACIFIC TIGER FUND  
SCHEDULE OF INVESTMENTS (Unaudited)  
**EQUITIES: 97.6%\***

|   | SHARES      | VALUE         |
|---|-------------|---------------|
| <b>CHINA/HONG KONG: 32.4%</b>                 |             |               |
| Lenovo Group, Ltd.                            | 120,222,000 | \$ 58,116,818 |
| Dah Sing Financial Group                      | 7,183,200   | 48,151,289    |
| Giordano International, Ltd.                  | 64,923,000  | 44,775,348    |
| Swire Pacific, Ltd. A Shares                  | 4,691,000   | 43,207,017    |
| PICC Property and Casualty Co., Ltd. H Shares | 154,096,000 | 41,218,870    |
| Television Broadcasts, Ltd.                   | 6,409,700   | 39,206,722    |
| Hang Lung Group, Ltd.                         | 19,829,000  | 38,214,538    |
| Shangri-La Asia, Ltd.                         | 19,656,000  | 31,799,880    |
| Cosco Pacific, Ltd.                           | 16,316,000  | 31,759,763    |
| China Mobile HK, Ltd.                         | 6,327,217   | 30,994,379    |
| Sa Sa International Holdings, Ltd.            | 57,688,000  | 25,842,047    |
| Li Ning Co., Ltd.                             | 42,795,000  | 25,514,754    |
| China Mobile HK, Ltd. ADR                     | 863,450     | 21,275,408    |
| Travelsky Technology, Ltd. H Shares           | 20,406,000  | 18,413,762    |
| Integrated Distribution Services Group, Ltd.  | 9,799,000   | 10,926,586    |
| Vitasoy International Holdings, Ltd.          | 26,670,750  | 9,454,848     |
| Bank of Communications, Ltd. H Shares **      | 14,228,000  | 6,006,781     |
| China Pharmaceutical Group, Ltd. **           | 24,935,000  | 4,725,125     |
| Dickson Concepts International, Ltd.          | 1,606,500   | 2,671,511     |
| Baidu.com., Inc. ADR**                        | 7,300       | 467,346       |
| Moulin Global Eyecare Holdings, Ltd.***       | 16,266,000  | 0             |

|                              |  |                    |
|------------------------------|--|--------------------|
| <b>Total China/Hong Kong</b> |  | <b>532,742,792</b> |
|------------------------------|--|--------------------|

**SOUTH KOREA: 26.2%**

|                               |           |               |
|-------------------------------|-----------|---------------|
| Hana Bank                     | 1,452,607 | \$ 53,594,029 |
| AmorePacific Corp.            | 165,300   | 50,057,307    |
| Hite Brewery Co., Ltd.        | 371,687   | 45,948,848    |
| SK Telecom Co., Ltd.          | 210,315   | 40,813,404    |
| NHN Corp.**                   | 229,336   | 39,010,196    |
| Samsung Electronics Co., Ltd. | 65,833    | 37,096,123    |
| Nong Shim Co., Ltd.           | 141,048   | 36,562,994    |
| Samsung Securities Co., Ltd.  | 801,260   | 33,785,759    |
| S1 Corp.                      | 652,670   | 31,460,758    |
| GS Home Shopping, Inc.        | 203,486   | 21,138,364    |
| Kookmin Bank                  | 335,620   | 19,780,192    |
| SK Telecom Co., Ltd. ADR      | 362,100   | 7,908,264     |
| Kookmin Bank ADR              | 115,300   | 6,831,525     |
| Pulmuone Co., Ltd.            | 236,540   | 6,732,380     |

|  |            |                    |
|--|------------|--------------------|
| <b>Total South Korea</b>                     |            | <b>430,720,143</b> |
| <b>SINGAPORE: 11.3%</b>                      |            |                    |
| DBS Group Holdings, Ltd.                     | 5,649,750  | 52,756,154         |
| Fraser and Neave, Ltd.                       | 4,291,550  | 43,624,397         |
| Venture Corp., Ltd.                          | 4,725,800  | 40,497,680         |
| Hyflux, Ltd.                                 | 17,606,187 | 32,672,455         |
| Parkway Holdings, Ltd.                       | 12,339,000 | 15,751,449         |
| <b>Total Singapore</b>                       |            | <b>185,302,135</b> |
| <b>TAIWAN: 9.3%</b>                          |            |                    |
| Hon Hai Precision Industry Co., Ltd.         | 11,770,962 | 54,801,454         |
| Taiwan Semiconductor Manufacturing Co., Ltd. | 24,555,952 | 39,439,883         |
| President Chain Store Corp.                  | 20,532,000 | 38,359,645         |
| Taiwan Mobile Co., Ltd.                      | 21,716,000 | 20,678,477         |
| <b>Total Taiwan</b>                          |            | <b>153,279,459</b> |

SEPTEMBER 30, 2005

|   | SHARES      | VALUE                   |
|---|-------------|-------------------------|
| <b>INDIA: 7.6%</b>  |             |                         |
| Infosys Technologies, Ltd.                                    | 627,048     | \$ 35,906,718           |
| HDFC Bank, Ltd.   | 1,223,292   | 19,134,897              |
| Cipla, Ltd.   | 2,084,723   | 18,025,230              |
| Hero Honda Motors, Ltd.                                       | 1,019,800   | 17,215,143              |
| Bank of Baroda  | 3,000,492   | 16,994,028              |
| UTI Bank, Ltd.  | 2,368,570   | 14,306,799              |
| Tata Tea, Ltd.  | 180,246     | 3,448,888               |
| <b>Total India</b>  |             | <b>125,031,703</b>      |
| <b>THAILAND: 7.1%</b>   |             |                         |
| Bangkok Bank Public Co., Ltd.                                 | 20,045,800  | 55,675,995              |
| Advanced Info Service Public Co., Ltd.                        | 20,842,700  | 54,842,529              |
| Serm Suk Public Co., Ltd.                                     | 12,778,700  | 6,382,345               |
| <b>Total Thailand</b>   |             | <b>116,900,869</b>      |
| <b>INDONESIA: 3.5%</b>  |             |                         |
| PT Astra International, Inc.                                  | 21,659,230  | 20,502,669              |
| PT Bank Central Asia  | 56,484,000  | 18,919,398              |
| PT Ramayana Lestari Sentosa                                   | 247,415,500 | 18,736,320              |
| <b>Total Indonesia</b>  |             | <b>58,158,387</b>       |
| <b>PHILIPPINES: 0.2%</b>                                      |             |                         |
| SM Prime Holdings, Inc.                                       | 21,119,000  | \$ 2,711,910            |
| <b>Total Philippines</b>                                      |             | <b>2,711,910</b>        |
| <b>TOTAL INVESTMENTS: 97.6%</b><br>(Cost \$1,240,542,143****) |             | <b>1,604,847,398</b>    |
| <b>CASH AND OTHER ASSETS, LESS LIABILITIES: 2.4%</b>          |             | <b>40,055,219</b>       |
| <b>NET ASSETS: 100.0%</b>                                     |             | <b>\$ 1,644,902,617</b> |

\* As a percentage  
of net assets as  
of  
September 30,  
2005

\*\* Non income  
producing  
security

\*\*\* Illiquid and fair  
valued under  
direction of the  
Board of  
Trustees

\*\*\*\* Cost of  
investments is  
\$1,240,542,143  
and net  
unrealized  
appreciation  
consists of:

|                               |                |
|-------------------------------|----------------|
| Gross unrealized appreciation | \$ 398,509,463 |
| Gross unrealized depreciation | (34,204,208)   |
| Net unrealized appreciation   | \$ 364,305,255 |

ADR American Depositary Receipt  
See accompanying notes to schedules of investments.

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MATTHEWS ASIAN GROWTH AND INCOME FUND

**PORTFOLIO MANAGEMENT**

**SYMBOL: MACSX**

Lead Manager: G. Paul Matthews

Co Manager: Andrew T. Foster

The Matthews Asian Growth and Income Fund invests at least 80% of its assets in dividend-paying equity securities and convertible securities, of any duration or quality, of companies located in Asia, which includes China, Hong Kong, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

**Note: This fund is closed to most new investors.**

**PORTFOLIO MANAGER COMMENTARY**

For the three months ended September 30, 2005, the Matthews Asian Growth and Income Fund gained 8.05%, underperforming both its benchmark MSCI All Country Far East ex-Japan Index and the Lipper Pacific ex-Japan Funds Category Average, which returned 8.47% and 11.67%, respectively.

Asian equities generated positive returns during the third quarter, even as rising energy prices and emerging inflationary pressures were increasingly evident in the region's markets.

Regional markets digested a number of notable events during the quarter: Indonesia, India and Thailand all saw their domestic energy subsidies partially or totally undone; Japan's prime minister, Junichiro Koizumi, consolidated power and won a mandate for reform in a noteworthy snap election; and China moved off its fixed exchange rate regime, which had served the country for over a decade.

The Fund's performance was led by a number of positions not particularly unified by a common theme. Several of the Fund's holdings in Korean financials gained, driven by earnings upgrades and reported improvements in their underlying credit quality. Two consumer goods companies also delivered substantial performance during the quarter; each saw sharp recovery in its financial performance in recent months. Income-paying utilities also performed well despite energy prices that moved consistently higher throughout the quarter.

Offsetting these gains was decidedly mixed performance among the Fund's positions in banks and real estate holdings. After several months of relatively strong performance, the Fund's REIT holdings underwent a correction as markets digested the likelihood and timing of future interest-rate hikes. Several positions in Asian banks also declined marginally, driven by concerns that future rate increases might stall credit demand. Telecom shares were also notably weak, with growing concerns that current cash flows at incumbent companies will be difficult to maintain in the face of growing competitive threats from new Internet technologies.

**FUND AT A GLANCE**

All data is as of September 30, 2005, unless otherwise noted.

**PERFORMANCE AS OF SEPTEMBER 30, 2005<sup>1</sup>**

|   |        | Average Annual Total Returns |        |        |        |        |                    |
|---|--------|------------------------------|--------|--------|--------|--------|--------------------|
|   |        | SINCE INCEPTION              |        |        |        |        |                    |
| Fund Inception: 9/12/94                                 | 3 MO   | YTD                          | 1 YR   | 3 YRS  | 5 YRS  | 10 YRS |                    |
| Matthews Asian Growth and Income Fund                   | 8.05%  | 13.37%                       | 24.97% | 24.52% | 19.01% | 12.90% | 11.83%             |
| MSCI All Country Far East ex-Japan Index <sup>2</sup>   | 8.47%  | 14.60%                       | 28.39% | 26.27% | 8.70%  | 0.70%  | 0.09% <sup>3</sup> |
| Lipper Pacific ex-Japan Funds Category Avg <sup>4</sup> | 11.67% | 17.88%                       | 34.66% | 27.05% | 10.31% | 4.79%  | 2.91% <sup>3</sup> |

<sup>1</sup> Assumes reinvestment of all dividends. Past performance is not indicative of future results. Unusually high returns may not be sustainable. Investment return and principal value will fluctuate with changing market conditions so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns are net of the Funds' management fee and other operating expenses. Returns would have been lower if certain of the Funds' fees and expenses had not been waived. For the Funds most recent month-end performance please call 800-789-ASIA (2742) or visit [www.matthewsfunds.com](http://www.matthewsfunds.com). The performance of foreign indices may be based on different exchange rates than those used by the Fund and,



*unlike the Fund's NAV, is not adjusted to reflect fair value at the close of the NYSE.*

<sup>2</sup> The MSCI All Country Far East ex-Japan Index is a free float adjusted market capitalization weighted index of the stock markets of Hong Kong, Taiwan, Singapore, Korea, Indonesia, Malaysia, Philippines, Thailand and China that excludes securities not available to foreign investors. As of 9/30/05, 6.4% of the assets of the Matthews Asian Growth and Income Fund were invested in Japan, 5.0% of the Fund's assets were invested in India, 2.4% of the Fund's assets were invested in Australia, and 2.3% of the Fund's assets were invested in the United Kingdom, which are not included in the MSCI All Country Far East ex-Japan Index. Source: PFPC, Inc.

<sup>3</sup> Calculated from 8/31/94

<sup>4</sup> As of 9/30/05, the Lipper Pacific ex-Japan Funds Category Average consisted of 56 funds for the three-month, YTD and one-year periods; 53 funds for the three-year period; 45 funds for the five-year period; 23 funds for the 10-year period; and 13 funds since 8/31/94. Lipper, Inc. fund performance does not reflect sales charges and is based on total return, including reinvestment of

dividends and capital  
gains, for the stated  
periods.

**OPERATING EXPENSES<sup>5</sup> (ANNUALIZED)**

|  |       |
|--|-------|
| For the nine months ended 9/30/05 <sup>6</sup>       | 1.29% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,8</sup> | 1.31% |

**PORTFOLIO TURNOVER<sup>9</sup>**

|  |        |
|--|--------|
| For the nine months ended 9/30/05(annualized) <sup>6</sup> | 13.04% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,10</sup>      | 7.32%  |

<sup>5</sup> Includes  
management fee,  
administration  
and shareholder  
services fees,  
waivers,  
reimbursements,  
recoupments and  
other expenses.  
Matthews Asian  
Funds do not  
charge 12b-1  
fees.

<sup>6</sup> Unaudited

<sup>7</sup> Audited

<sup>8</sup> For the  
four-month  
period ended  
12/31/04 due to  
the Funds  
change of fiscal  
year. The Funds  
expense ratio for  
the 12-month  
period ended  
12/31/04 would  
have been 1.38%  
(unaudited).

<sup>9</sup> The lesser of  
fiscal  
year-to-date  
purchase costs or  
sales proceeds  
divided by the  
average monthly

market value of  
long-term  
securities.

- <sup>10</sup> For the four-month period ended 12/31/04 due to the Funds change of fiscal year. The Funds portfolio turnover ratio for the 12-month period ended 12/31/04 would have been 21.17% (unaudited).

#### **COUNTRY ALLOCATION<sup>11</sup>**

|                             |       |
|-----------------------------|-------|
| China/Hong Kong             | 37.2% |
| South Korea                 | 20.6% |
| Singapore                   | 11.6% |
| Japan <sup>2</sup>          | 6.4%  |
| Thailand                    | 5.7%  |
| Taiwan                      | 5.0%  |
| India <sup>2</sup>          | 5.0%  |
| Australia <sup>2</sup>      | 2.4%  |
| United Kingdom <sup>2</sup> | 2.3%  |
| Indonesia                   | 1.6%  |
| Malaysia                    | 0.9%  |
| Cash and other              | 1.3%  |

#### **SECTOR ALLOCATION<sup>11</sup>**

|                        |       |
|------------------------|-------|
| Financials             | 29.3% |
| Telecom Services       | 19.3% |
| Consumer Discretionary | 17.8% |
| Utilities              | 9.2%  |
| Consumer Staples       | 8.9%  |
| Industrials            | 7.4%  |
| Energy                 | 2.7%  |
| Health Care            | 2.7%  |
| Materials              | 1.4%  |
| Cash and other         | 1.3%  |

#### **BREAKDOWN BY SECURITY TYPE<sup>11</sup>**

|                    |       |
|--------------------|-------|
| Common Equities    | 73.3% |
| Convertible Bonds  | 17.9% |
| Preferred Equities | 4.3%  |
| Corporate Bonds    | 3.2%  |

|                |      |
|----------------|------|
| Cash and other | 1.3% |
|----------------|------|

**MARKET CAP EXPOSURE<sup>11</sup>**

|                               |       |
|-------------------------------|-------|
| Large cap (over \$5 billion)  | 56.5% |
| Mid cap (\$1 - \$5 billion)   | 33.2% |
| Small cap (under \$1 billion) | 9.0%  |
| Cash and other                | 1.3%  |

<sup>11</sup> Figures have  
been rounded to  
total 100.0%

|            |                    |                               |                   |
|------------|--------------------|-------------------------------|-------------------|
| <b>NAV</b> | <b>FUND ASSETS</b> | <b>REDEMPTION FEE</b>         | <b>12B-1 FEES</b> |
| \$17.72    | \$1.64 billion     | 2.00% within 90 calendar days | None              |
|            |                    | 800.789.ASIA [2742]           |                   |
|            |                    | www.matthewsfunds.<br>com     | 15                |

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MATTHEWS ASIAN GROWTH AND INCOME FUND  
SCHEDULE OF INVESTMENTS (Unaudited)

**COMMON EQUITIES: 73.3%\***

|   | SHARES     | VALUE         |
|---|------------|---------------|
| <b>CHINA/HONG KONG: 28.5%</b>                         |            |               |
| Hongkong Land Holdings, Ltd.                          | 12,632,700 | \$ 39,666,678 |
| Citic Pacific, Ltd.                                   | 13,154,000 | 36,796,303    |
| Hongkong Electric Holdings, Ltd.                      | 5,914,500  | 29,506,358    |
| MTR Corp., Ltd.                                       | 13,930,800 | 29,182,066    |
| CLP Holdings, Ltd.                                    | 4,775,200  | 28,470,161    |
| Television Broadcasts, Ltd.                           | 4,558,000  | 27,880,281    |
| China Netcom Group Corp., Ltd.                        | 16,023,500 | 27,575,619    |
| Hong Kong & China Gas Co., Ltd.                       | 11,938,000 | 24,622,842    |
| Hengan International Group Co., Ltd.                  | 22,876,000 | 21,822,194    |
| Wharf Holdings, Ltd.                                  | 5,142,000  | 20,051,371    |
| Café de Coral Holdings, Ltd.                          | 16,415,100 | 19,044,635    |
| Hang Seng Bank, Ltd.                                  | 1,366,200  | 18,368,987    |
| Shangri-La Asia, Ltd.                                 | 11,327,400 | 18,325,700    |
| Giordano International, Ltd.                          | 24,585,000 | 16,955,500    |
| Hang Lung Group, Ltd.                                 | 8,273,000  | 15,943,763    |
| I-Cable Communications, Ltd.                          | 53,762,000 | 15,593,534    |
| China Travel International Investment Hong Kong, Ltd. | 57,414,000 | 15,542,602    |
| PCCW, Ltd.  | 23,748,000 | 15,459,841    |
| Cheung Kong Infrastructure Holdings, Ltd.             | 4,475,500  | 14,942,661    |
| Vitasoy International Holdings, Ltd.                  | 31,031,000 | 11,000,567    |
| PetroChina Co., Ltd. ADR                              | 131,350    | 10,950,650    |
| PetroChina Co., Ltd. H Shares                         | 9,756,000  | 8,174,699     |
| China Hong Kong Photo Products Holdings, Ltd.         | 14,998,003 | 1,798,055     |

**Total China/Hong Kong** **467,675,067**

**SOUTH KOREA: 11.6%**

|                                   |           |               |
|-----------------------------------|-----------|---------------|
| SK Telecom Co., Ltd.              | 187,160   | \$ 36,319,981 |
| Shinhan Financial Group Co., Ltd. | 955,040   | 33,222,762    |
| Hana Bank                         | 670,170   | 24,725,966    |
| Korean Reinsurance Co.            | 2,001,610 | 18,414,428    |
| Korea Electric Power Corp.        | 480,590   | 16,395,787    |
| KT Corp.                          | 341,680   | 14,423,578    |
| KT Corp. ADR                      | 631,800   | 14,215,500    |
| SK Telecom Co., Ltd. ADR          | 395,300   | 8,633,352     |
| Daehan City Gas Co., Ltd.         | 280,300   | 7,319,765     |
| GIIR Inc.                         | 340,870   | 5,553,225     |
| Korea Electric Power Corp. ADR    | 259,750   | 4,600,173     |
| Sindo Ricoh Co., Ltd.             | 76,390    | 4,385,013     |

|   |            |                    |
|---|------------|--------------------|
| Korea Gas Corp.                         | 33,210     | 1,110,713          |
| <b>Total South Korea</b>                |            | <b>189,320,243</b> |
| <b>SINGAPORE: 9.4%</b>                  |            |                    |
| Singapore Post, Ltd.                    | 49,123,000 | 35,128,294         |
| Fraser and Neave, Ltd.                  | 3,176,820  | 32,292,961         |
| CapitaMall Trust REIT                   | 17,659,900 | 24,526,914         |
| Singapore Press Holdings, Ltd.          | 8,180,500  | 22,336,166         |
| Singapore Exchange, Ltd.                | 12,985,000 | 19,338,790         |
| Parkway Holdings, Ltd.                  | 12,739,000 | 16,262,073         |
| Yellow Pages, Ltd.                      | 6,685,000  | 4,859,520          |
| <b>Total Singapore</b>                  |            | <b>154,744,718</b> |
| <b>JAPAN: 6.4%</b>                      |            |                    |
| Kao Corp.                               | 1,220,000  | 30,037,879         |
| Nippon Building Fund, Inc. REIT         | 2,902      | 24,771,300         |
| Japan Retail Fund Investment Corp. REIT | 2,730      | 22,028,541         |
| Japan Real Estate Investment Corp. REIT | 2,258      | 18,200,053         |
| Tokyu REIT, Inc.                        | 1,516      | 10,323,009         |
| <b>Total Japan</b>                      |            | <b>105,360,782</b> |

SEPTEMBER 30, 2005

|   | SHARES     | VALUE             |
|---|------------|-------------------|
| <b>THAILAND: 5.7%</b>                   |            |                   |
| PTT Public Co., Ltd.                    | 4,320,600  | \$ 25,684,649     |
| Advanced Info Service Public Co., Ltd.  | 8,125,400  | 21,380,027        |
| BEC World Public Co., Ltd.              | 43,485,100 | 15,785,796        |
| Charoen Pokphand Foods Public Co., Ltd. | 90,606,000 | 13,796,747        |
| Bangkok Bank Public Co., Ltd.           | 4,196,300  | 11,654,969        |
| Thai Reinsurance Public Co., Ltd.       | 25,672,800 | 3,127,397         |
| AEON Thana Sinsap Public Co., Ltd.      | 2,995,600  | 2,371,958         |
| <b>Total Thailand</b>                   |            | <b>93,801,543</b> |
| <b>INDIA: 2.8%</b>                      |            |                   |
| Hindustan Lever, Ltd.                   | 6,327,142  | 26,075,800        |
| Hero Honda Motors, Ltd.                 | 812,300    | 13,712,356        |
| Dabur India, Ltd.                       | 1,523,279  | 5,660,963         |
| <b>Total India</b>                      |            | <b>45,449,119</b> |
| <b>TAIWAN: 2.6%</b>                     |            |                   |
| Chunghwa Telecom Co., Ltd. ADR          | 1,445,500  | 26,756,205        |
| Taiwan Secom                            | 9,768,960  | 13,938,625        |
| Chunghwa Telecom Co., Ltd.              | 648,000    | 1,132,543         |
| <b>Total Taiwan</b>                     |            | <b>41,827,373</b> |
| <b>AUSTRALIA: 2.4%</b>                  |            |                   |
| AXA Asia Pacific Holdings, Ltd.         | 5,843,326  | \$ 21,656,802     |
| Insurance Australia Groups, Ltd.        | 4,401,453  | 18,326,800        |
| <b>Total Australia</b>                  |            | <b>39,983,602</b> |
| <b>UNITED KINGDOM: 2.3%</b>             |            |                   |
| HSBC Holdings PLC ADR                   | 422,300    | 34,303,429        |
| HSBC Holdings PLC                       | 196,800    | 3,201,629         |
| <b>Total United Kingdom</b>             |            | <b>37,505,058</b> |

**INDONESIA: 1.6%**

|                                 |            |                   |
|---------------------------------|------------|-------------------|
| PT Telekomunikasi Indonesia ADR | 745,500    | 15,513,855        |
| PT Tempo Scan Pacific           | 12,357,000 | 7,198,252         |
| PT Ramayana Lestari Sentosa     | 44,735,500 | 3,387,737         |
| <b>Total Indonesia</b>          |            | <b>26,099,844</b> |

**TOTAL COMMON EQUITIES**

(Cost \$872,468,013)

**1,201,767,349**

See footnotes on page 19.

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MATTHEWS ASIAN GROWTH AND INCOME FUND  
SCHEDULE OF INVESTMENTS (Unaudited) (continued)

**PREFERRED EQUITIES: 4.3%\***

|   | SHARES  | VALUE             |
|---|---------|-------------------|
| <b>SOUTH KOREA: 4.3%</b>                        |         |                   |
| Hyundai Motor Co., Ltd., Pfd.                   | 510,680 | \$ 25,937,748     |
| Hyundai Motor Co., Ltd., 2nd Pfd.               | 455,790 | 24,110,789        |
| Samsung Fire & Marine Insurance Co., Ltd., Pfd. | 142,820 | 8,006,679         |
| LG Chem Ltd., Pfd.                              | 242,450 | 7,249,104         |
| LG Household & Health Care, Ltd., Pfd.          | 177,830 | 5,606,715         |
| <b>Total South Korea</b>                        |         | <b>70,911,035</b> |
| <b>TOTAL PREFERRED EQUITIES</b>                 |         |                   |
| (Cost \$24,057,770)                             |         | <b>70,911,035</b> |

**INTERNATIONAL DOLLAR BONDS: 21.1%\***

|  | FACE<br>AMOUNT | VALUE              |
|--|----------------|--------------------|
| <b>CHINA/HONG KONG: 8.7%</b>                           |                |                    |
| China Mobile Hong Kong, Ltd., Cnv.<br>2.250%, 11/03/05 | \$ 48,650,000  | \$ 48,528,375      |
| PCCW Capital II, Ltd., Cnv.<br>1.000%, 01/29/07        | 38,436,000     | 43,624,860         |
| Shangri-La Finance, Ltd., Cnv.<br>0.000%, 03/15/09     | 16,422,000     | 22,005,480         |
| Hang Lung Properties, Ltd., Cnv.<br>5.500%, 12/29/49   | 11,120,000     | 13,677,600         |
| BCA Finance, Ltd., Cnv.<br>0.000%, 11/28/08            | 12,170,000     | 10,999,246         |
| PCCW Capital, Ltd., Cnv.<br>3.500%, 12/05/05           | 3,000,000      | 3,592,500          |
| <b>Total China/Hong Kong</b>                           |                | <b>142,428,061</b> |

**SOUTH KOREA: 4.7%**

|   |            |            |
|---|------------|------------|
| Korea Deposit Insurance Corp., Cnv.<br>2.250%, 10/11/05 | 30,811,000 | 38,760,238 |
| SK Telecom Co., Ltd., Cnv.<br>0.000%, 05/27/09          | 20,300,000 | 22,685,250 |
| KT Corp.  |            |            |

|                          |            |                   |
|--------------------------|------------|-------------------|
| 5.875%, 06/24/14         | 15,200,000 | 15,948,752        |
| <b>Total South Korea</b> |            | <b>77,394,240</b> |

18 MATTHEWS ASIAN FUNDS

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SEPTEMBER 30, 2005

|   | FACE<br>AMOUNT | VALUE                |
|---|----------------|----------------------|
| <b>TAIWAN: 2.4%</b>   |                |                      |
| Cathay Financial Holding Co., Cnv.<br>0.000%, 05/20/07              | \$ 22,442,000  | \$ 27,940,290        |
| Sinopac Holdings Co., Cnv.<br>0.000%, 07/12/07                      | 9,427,000      | 11,359,535           |
| <b>Total Taiwan</b>   |                | <b>39,299,825</b>    |
| <b>SINGAPORE: 2.2%</b>  |                |                      |
| DBS Bank, Ltd.<br>7.875%, 08/10/09                                  | 32,788,000     | 36,367,138           |
| <b>Total Singapore</b>  |                | <b>36,367,138</b>    |
| <b>INDIA: 2.2%</b>  |                |                      |
| Sun Pharma Industries, Cnv.<br>0.000%, 11/26/09                     | 19,920,000     | 21,189,900           |
| Tata Motors, Ltd., Cnv.<br>1.000%, 04/27/11                         | 14,459,000     | 14,386,705           |
| <b>Total India</b>  |                | <b>35,576,605</b>    |
| <b>MALAYSIA: 0.9%</b>   |                |                      |
| Prime Venture Labuan, Ltd., Cnv.<br>1.000%, 12/12/08                | 14,740,000     | 15,384,875           |
| <b>Total Malaysia</b>   |                | <b>15,384,875</b>    |
| <b>TOTAL INTERNATIONAL<br/>DOLLAR BONDS</b><br>(Cost \$336,476,914) |                | <b>346,450,744</b>   |
|   |                | <b>VALUE</b>         |
| <b>TOTAL INVESTMENTS: 98.7%</b>                                     | <b>\$</b>      | <b>1,619,129,128</b> |

(Cost \$1,233,002,697\*\*)

**CASH AND OTHER ASSETS,  
LESS LIABILITIES:1.3%**

**21,709,633**

**NET ASSETS:100.0%**

**\$ 1,640,838,761**

\* As a percentage  
of net assets as  
of  
September 30,  
2005

\*\* Cost of  
investments is  
\$1,233,002,697  
and net  
unrealized  
appreciation  
consists of:

Gross unrealized appreciation

\$ 405,895,887

Gross unrealized depreciation

(19,769,456)

Net unrealized appreciation

\$ 386,126,431

ADR American Depositary Receipt

Cnv. Convertible

Pfd. Preferred

REIT Real Estate Investment Trust

See accompanying notes to schedules of investments.

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MATTHEWS ASIAN TECHNOLOGY FUND

**PORTFOLIO MANAGEMENT**

**SYMBOL: MATFX**

Co Managers: Mark W. Headley and Andrew T. Foster

The Matthews Asian Technology Fund invests at least 80% of its assets in the common and preferred stocks of companies located in Asia that derive greater than 50% of their revenues from the sale of products or services in technology-related industries and services. Asia includes China, Hong Kong, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

**PORTFOLIO MANAGER COMMENTARY**

For the three months ended September 30, 2005, the Matthews Asian Technology Fund gained 7.50%, slightly underperforming both the MSCI/Matthews Asian Technology Index and the Lipper Science and Technology Funds Category Average, which gained 7.72% and 7.58%, respectively.

During the quarter, Asian Internet and software and services sectors performed well. The Fund participated in this out-performance through positions in a Korean Internet company and an Indian software services company. The sectors that made the largest positive contributions to Fund performance were software and services, telecommunications services, and technology hardware and equipment. Pharmaceuticals and biotechnology-related sectors were the worst-performing sectors in the Fund and detracted from performance.

On a country basis, positions in Korea, China and Hong Kong made the largest positive contribution, while Singapore and India were the worst performers. The depreciation of the Indian currency accounted for much of the country's negative contribution during the quarter. Korean technology stocks in general continued to post gains as Korean markets overall remained on an uptrend. Taiwanese and Indian technology stocks that had posted strong gains in the previous quarter consolidated during the third quarter.

On a stock basis, a Korean Internet company, a Chinese mobile operator and a Chinese PC maker made the largest positive contributions to the Fund's performance for the quarter. A Chinese communications equipment company and a Chinese Internet-related company were the worst-performing stocks and detracted from the Fund's performance. During the quarter, the Fund made few changes to the portfolio; it continues to be positioned to benefit from increasing demand for technology products and services from Asian consumers.

**FUND AT A GLANCE**

All data is as of September 30, 2005, unless otherwise noted.

**PERFORMANCE AS OF SEPTEMBER 30, 2005<sup>1</sup>**

|   | Average Annual Total Returns<br>SINCE<br>INCEPTION |       |        |        |        |        |
|---|--|-------|--------|--------|--------|--------|
|   | 3 MO   | YTD   | 1 YR   | 3 YRS  | 5 YRS  |        |
| Fund Inception: 12/27/99                                |  |       |        |        |        |        |
| Matthews Asian Technology Fund                          | 7.50%  | 7.89% | 21.24% | 28.70% | 0.84%  | 7.93%  |
| MSCI/Matthews Asian Technology Index <sup>2</sup>       | 7.72%  | 4.88% | 17.61% | 16.11% | 6.92%  | 13.49% |
| Lipper Science and Tech Funds Category Avg <sup>4</sup> | 7.58%  | 1.00% | 17.40% | 24.73% | 17.17% | 14.16% |

<sup>1</sup> Assumes reinvestment of all dividends. Past performance is not indicative of future results. Unusually high returns may not be sustainable. Investment return and principal value will fluctuate with changing market conditions so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns are net of the Funds' management fee and other operating expenses. Returns would have been lower if certain of the Funds' fees and expenses had not been waived. For the Funds most recent month-end performance please call 800-789-ASIA (2742) or visit [www.matthewsfunds.com](http://www.matthewsfunds.com). The performance of foreign indices may be based on different exchange rates than those used by the Fund and,

*unlike the Fund's NAV, is not adjusted to reflect fair value at the close of the NYSE.*

<sup>2</sup> The MSCI/Matthews Asian Technology Index is a free float adjusted market capitalization weighted index of Asian equities tracking a broad range of technology stocks including semiconductor equipment and products, communications equipment, computers and peripherals, electronic equipment and instruments, office electronics, software, IT consulting and services, Internet software and services, diversified telecommunications services, and wireless telecommunications services. Source: Morgan Stanley Capital International.

<sup>3</sup> Calculated from 12/31/99

<sup>4</sup> As of 9/30/05, the Lipper Science and Technology Funds Category Average consisted of 302 funds for the three-month period, 290 funds for the YTD period, 288 funds for the one-year period, 265 funds for the three-year period, 210 funds for the five-year period, and 118 funds since 12/31/99. Lipper, Inc. fund performance does not reflect sales charges and is based on total return, including reinvestment of dividends and capital

gains, for the stated  
periods.

**OPERATING EXPENSES<sup>5</sup> (ANNUALIZED)**

|  |       |
|--|-------|
| For the nine months ended 9/30/05 <sup>6</sup>       | 1.49% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,8</sup> | 1.60% |

**PORTFOLIO TURNOVER<sup>9</sup>**

|   |        |
|---|--------|
| For the nine months ended 9/30/05 (annualized) <sup>6</sup> | 24.08% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,10</sup>       | 7.36%  |

<sup>5</sup> Includes management fee, administration and shareholder services fees, waivers, reimbursements, recoupments and other expenses. Matthews Asian Funds do not charge 12b-1 fees.

<sup>6</sup> Unaudited

<sup>7</sup> Audited

<sup>8</sup> For the four-month period ended 12/31/04 due to the Funds change of fiscal year. The Funds expense ratio for the 12-month period ended 12/31/04 would have been 1.79% (unaudited).

<sup>9</sup> The lesser of fiscal year-to-date purchase costs or sales proceeds divided by the average monthly



market value of  
long-term  
securities.

- <sup>10</sup> For the  
four-month  
period ended  
12/31/04 due to  
the Funds  
change of fiscal  
year. The Funds  
portfolio  
turnover ratio for  
the 12-month  
period ended  
12/31/04 would  
have been  
37.89%  
(unaudited).

# **COUNTRY ALLOCATION<sup>11</sup>**

|                 |       |
|-----------------|-------|
| Japan           | 25.8% |
| South Korea     | 22.0% |
| China/Hong Kong | 20.5% |
| Taiwan          | 11.8% |
| India           | 7.7%  |
| Thailand        | 4.3%  |
| Singapore       | 3.9%  |
| Indonesia       | 2.1%  |
| Australia       | 0.6%  |
| Cash and other  | 1.3%  |

# **SECTOR ALLOCATION<sup>11</sup>**

|                        |       |
|------------------------|-------|
| Information Technology | 68.5% |
| Telecom Services       | 17.8% |
| Consumer Discretionary | 9.4%  |
| Health Care            | 3.0%  |
| Cash and other         | 1.3%  |

# **MARKET CAP EXPOSURE<sup>11</sup>**

|                               |       |
|-------------------------------|-------|
| Large cap (over \$5 billion)  | 56.5% |
| Mid cap (\$1 - \$5 billion)   | 28.7% |
| Small cap (under \$1 billion) | 13.5% |
| Cash and other                | 1.3%  |

- <sup>11</sup> Figures have  
been rounded to  
total 100.0%

**NAV**  
\$5.88

**FUND ASSETS**  
\$39.4 million

**REDEMPTION FEE**  
2.00% within 90 calendar days

**12B-1 FEES**  
None



MATTHEWS ASIAN TECHNOLOGY FUND  
SCHEDULE OF INVESTMENTS (Unaudited)  
**EQUITIES: 98.7%\***

|  | SHARES    | VALUE             |
|--|-----------|-------------------|
| <b>JAPAN: 25.8%</b>                      |           |                   |
| Matsushita Electric Industrial Co., Ltd. | 78,000    | \$ 1,321,300      |
| Nintendo Co., Ltd.                       | 10,685    | 1,246,207         |
| Sharp Corp.                              | 74,000    | 1,071,670         |
| NIWS Co., Ltd.                           | 810       | 970,402           |
| Rakuten, Inc.                            | 1,161     | 887,727           |
| Usen Corp.                               | 32,300    | 837,945           |
| Square Enix Co., Ltd.                    | 26,700    | 738,531           |
| Canon, Inc. ADR                          | 11,000    | 596,860           |
| Nidec Corp.                              | 8,100     | 481,633           |
| Nidec Corp. W/I Shares **, ***           | 8,100     | 481,633           |
| Jupiter Telecommunications Co., Ltd. **  | 488       | 421,712           |
| NTT DoCoMo, Inc.                         | 230       | 409,267           |
| Macromill, Inc.                          | 78        | 329,123           |
| Kakaku.com, Inc. W/I Shares **, ***      | 74        | 260,745           |
| Kakaku.com, Inc.                         | 37        | 130,374           |
| <b>Total Japan</b>                       |           | <b>10,185,129</b> |
| <b>SOUTH KOREA: 22.0%</b>                |           |                   |
| Samsung Electronics Co., Ltd.            | 4,048     | 2,281,000         |
| NHN Corp. **                             | 12,939    | 2,200,932         |
| NCSOFT Corp. **                          | 13,463    | 1,108,262         |
| SK Telecom Co., Ltd.                     | 5,129     | 995,326           |
| LG Life Sciences, Ltd. **                | 26,212    | 968,349           |
| LG.Philips LCD Co., Ltd. ADR **          | 35,000    | 719,600           |
| Amotech Co., Ltd.                        | 36,853    | 404,376           |
| <b>Total South Korea</b>                 |           | <b>8,677,845</b>  |
| <b>CHINA/HONG KONG: 20.5%</b>            |           |                   |
| China Mobile HK, Ltd. ADR                | 76,400    | \$ 1,882,496      |
| Lenovo Group, Ltd.                       | 3,335,000 | 1,612,181         |
| ASM Pacific Technology, Ltd.             | 234,500   | 1,141,160         |
| Tencent Holdings, Ltd.                   | 803,000   | 973,038           |
| SINA Corp. **                            | 26,600    | 731,500           |
| TPV Technology, Ltd.                     | 684,000   | 489,368           |
| The9, Ltd. ADR **                        | 24,400    | 460,916           |
| ZTE Corp. H Shares                       | 139,200   | 453,093           |
| Comba Telecom Systems Holdings, Ltd.     | 1,156,000 | 327,844           |

|  |         |                  |
|--|---------|------------------|
| Baidu.com, Inc. ADR **                       | 200     | 12,804           |
| <b>Total China/Hong Kong</b>                 |         | <b>8,084,400</b> |
| <b>TAIWAN: 11.8%</b>                         |         |                  |
| Hon Hai Precision Industry Co., Ltd.         | 360,515 | 1,678,431        |
| Taiwan Semiconductor Manufacturing Co., Ltd. | 879,336 | 1,412,322        |
| Quanta Computer, Inc.                        | 412,005 | 675,388          |
| MediaTek, Inc.                               | 66,000  | 622,501          |
| Sunplus Technology Co., Ltd.                 | 299,772 | 274,610          |
| <b>Total Taiwan</b>                          |         | <b>4,663,252</b> |
| <b>INDIA: 7.7%</b>                           |         |                  |
| Infosys Technologies, Ltd.                   | 26,584  | 1,522,282        |
| Tata Consultancy Services, Ltd.              | 33,626  | 1,133,171        |
| Bharti Tele-Ventures, Ltd. **                | 50,000  | 396,428          |
| <b>Total India</b>                           |         | <b>3,051,881</b> |

SEPTEMBER 30, 2005

|  | SHARES    | VALUE                |
|--|-----------|----------------------|
| <b>THAILAND: 4.3%</b>                                |           |                      |
| Advanced Info Service Public Co., Ltd.               | 462,800   | \$ 1,217,746         |
| Shin Satellite Public Co., Ltd. **                   | 1,241,800 | 478,023              |
| <b>Total Thailand</b>                                |           | <b>1,695,769</b>     |
| <b>SINGAPORE: 3.9%</b>                               |           |                      |
| Venture Corp., Ltd.                                  | 119,600   | 1,024,911            |
| GES International, Ltd.                              | 932,000   | 503,992              |
| <b>Total Singapore</b>                               |           | <b>1,528,903</b>     |
| <b>INDONESIA: 2.1%</b>                               |           |                      |
| PT Telekomunikasi Indonesia ADR                      | 38,900    | 809,509              |
| <b>Total Indonesia</b>                               |           | <b>809,509</b>       |
| <b>AUSTRALIA: 0.6%</b>                               |           |                      |
| Novogen, Ltd. **                                     | 60,532    | 222,962              |
| <b>Total Australia</b>                               |           | <b>222,962</b>       |
| <b>TOTAL INVESTMENTS: 98.7%</b>                      |           | <b>VALUE</b>         |
| (Cost \$31,857,988*****)                             |           | <b>\$ 38,919,650</b> |
| <b>CASH AND OTHER ASSETS, LESS LIABILITIES: 1.3%</b> |           | <b>522,153</b>       |
| <b>NET ASSETS: 100.0%</b>                            |           | <b>\$ 39,441,803</b> |

\* As a percentage  
of net assets as  
of  
September 30,  
2005

\*\* Non-income  
producing  
security

\*\*\* Fair valued  
under direction  
of the Board of  
Trustees

\*\*\*\* Cost of  
investments is  
\$31,857,988 and  
net unrealized  
appreciation  
consists of:

|                               |              |
|-------------------------------|--------------|
| Gross unrealized appreciation | \$ 8,878,335 |
| Gross unrealized depreciation | (1,816,673)  |
| Net unrealized appreciation   | \$ 7,061,662 |

ADR American Depositary Receipt

W/I When Issued Shares

See accompanying notes to schedules of investments.

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**MATTHEWS CHINA FUND**  
**PORTFOLIO MANAGEMENT**

**SYMBOL: MCHFX**

Lead Manager: Richard H. Gao

Co Managers: Mark W. Headley and G. Paul Matthews

The Matthews China Fund invests at least 80% of its assets in the common and preferred stocks of companies located in China. China includes Taiwan and Hong Kong.

**PORTFOLIO MANAGER COMMENTARY**

Chinese equities in general recorded a strong rally during the third quarter of 2005. The Matthews China Fund ended the quarter up 8.43%, underperforming its benchmark MSCI China Index, which was up 14.19%, but outperforming the Lipper China Region Funds Category Average, which was up 6.19%.

Early in the quarter, China announced a long-awaited decision to appreciate its currency by 2% against the U.S. dollar and link it to a package of foreign currencies. Stock markets in Hong Kong reacted positively on the news as liquidity surged and investors chased Chinese equities on expectations of further currency appreciation. Market performance was also supported by overall strong interim company results and by the fact that China's economic growth is not rapidly slowing despite the government's tightening measures in certain areas.

During the quarter, every major sector in the portfolio except health care contributed positively to performance. The top-performing sectors were telecom services and financials. The Fund's major holding in a telecom services company continued to deliver strong earnings as it solidified its number one position in China's telecom industry. The financials sector, which includes banks, insurance and property companies, benefited from the recent currency revaluation as its underlying Renminbi assets became more attractive. Most of the losses came from the Fund's industrial/manufacturing companies as profit margins remained under pressure. The Fund increased its position in a major Chinese insurance company and reduced its holdings in a few industrial companies during the period.

As compared to its benchmark, the MSCI China Index, which has benefited so far this year from its heavy exposure to several key holdings (five holdings account for approximately 50% of the index), the Fund remains diversified across various sectors and market caps.

**MATTHEWS ASIAN FUNDS**

**FUND AT A GLANCE**

All data is as of September 30, 2005, unless otherwise noted.

**PERFORMANCE AS OF SEPTEMBER 30, 2005<sup>1</sup>**

|                               | <b>Average Annual Total Returns</b> |            |             |              |              |                     |
|-------------------------------|-------------------------------------|------------|-------------|--------------|--------------|---------------------|
|                               |                                     |            |             |              |              | <b>SINCE</b>        |
|                               | <b>3 MO</b>                         | <b>YTD</b> | <b>1 YR</b> | <b>3 YRS</b> | <b>5 YRS</b> | <b>INCEPTION</b>    |
| Fund Inception: 2/19/98       |                                     |            |             |              |              |                     |
| Matthews China Fund           | 8.43%                               | 9.28%      | 14.00%      | 24.76%       | 14.60%       | 8.07%               |
| MSCI China Index <sup>2</sup> | 14.19%                              | 20.18%     | 26.76%      | 32.28%       | 4.37%        | -5.18% <sup>3</sup> |
| Lipper China Region Funds     |                                     |            |             |              |              |                     |
| Category Average <sup>4</sup> | 6.19%                               | 7.25%      | 16.86%      | 24.51%       | 6.42%        | 6.66% <sup>3</sup>  |

<sup>1</sup> Assumes reinvestment of all dividends. Past performance is not indicative of future results. Unusually high returns may not be sustainable. Investment return and principal value will fluctuate with changing market conditions so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns are net of the Funds' management fee and other operating expenses. Returns would have been lower if certain of the Funds' fees and expenses had not been waived. For the Funds' most recent month-end performance please call 800-789-ASIA (2742) or visit [www.matthewsfunds.com](http://www.matthewsfunds.com). The performance of foreign indices may be based on different exchange rates than those used by the Fund and, unlike the Fund's NAV, is not adjusted to reflect fair value at the close of the NYSE.



<sup>2</sup> The MSCI China Index is a free float-adjusted market capitalization-weighted index of Chinese equities that includes Red Chips and H shares listed on the Hong Kong exchange, and B shares listed on the Shanghai and Shenzhen exchanges. Source: PFPC, Inc.

<sup>3</sup> Calculated from 2/28/98

<sup>4</sup> As of 9/30/05, the Lipper China Region Funds Category Average consisted of 38 funds for the three-month period, 34 funds for the YTD period, 32 funds for the one-year period, 22 funds for the three- and five-year periods, and 16 funds since 2/28/98. Lipper, Inc. fund performance does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains, for the stated periods.

#### **OPERATING EXPENSES<sup>5</sup> (ANNUALIZED)**

|  |       |
|--|-------|
| For the nine months ended 9/30/05 <sup>6</sup>       | 1.32% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,8</sup> | 1.43% |

#### **PORTFOLIO TURNOVER<sup>9</sup>**

|   |        |
|---|--------|
| For the nine months ended 9/30/05 (annualized) <sup>6</sup> | 13.61% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,10</sup>       | 4.99%  |

<sup>5</sup> Includes management fee, administration and shareholder services fees, waivers, reimbursements, recoupments and other expenses.

Matthews Asian  
Funds do not  
charge 12b-1  
fees.

6 Unaudited

7 Audited

8 For the  
four-month  
period ended  
12/31/04 due to  
the Funds  
change of fiscal  
year. The Fund's  
expense ratio for  
the 12-month  
period ended  
12/31/04 would  
have been 1.47%  
(unaudited).

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

10 For the  
four-month  
period ended  
12/31/04 due to  
the Funds  
change of fiscal  
year. The Fund's  
portfolio  
turnover ratio for  
the 12-month  
period ended  
12/31/04 would  
have been  
28.88%  
(unaudited).

**CHINA EXPOSURE<sup>11,12</sup>**

|                               |       |
|-------------------------------|-------|
| SAR (Hong Kong)               | 33.3% |
| H Share                       | 29.2% |
| China-affiliated corporations | 26.3% |
| B Share                       | 8.1%  |
| Overseas Listed               | 2.0%  |
| Cash and other                | 1.1%  |

# **SECTOR ALLOCATION<sup>11</sup>**

|                        |       |
|------------------------|-------|
| Consumer Discretionary | 20.8% |
| Financials             | 16.6% |
| Industrials            | 14.5% |
| Information Technology | 11.3% |
| Energy                 | 9.3%  |
| Telecom Services       | 9.0%  |
| Utilities              | 7.4%  |
| Consumer Staples       | 4.1%  |
| Materials              | 3.9%  |
| Health Care            | 2.0%  |
| Cash and other         | 1.1%  |

# **MARKET CAP EXPOSURE<sup>11</sup>**

|                               |       |
|-------------------------------|-------|
| Large cap (over \$5 billion)  | 37.1% |
| Mid cap (\$1-\$5 billion)     | 49.1% |
| Small cap (under \$1 billion) | 12.7% |
| Cash and other                | 1.1%  |

<sup>11</sup> Figures have been rounded to total 100.0%

<sup>12</sup> SAR (Hong Kong) companies are companies that conduct business in Hong Kong and/or mainland China. China-affiliated corporations, also known as Red Chips, are mainland China companies with partial state ownership listed and incorporated in Hong Kong. H Shares are

mainland China  
companies listed  
on the Hong  
Kong exchange  
but incorporated  
in mainland  
China. B Shares  
are mainland  
Chinese  
companies listed  
on the Shanghai  
and Shenzhen  
stock  
exchanges,  
available to both  
Chinese and  
non-Chinese  
investors.  
Overseas Listed  
companies are  
companies that  
conduct  
business in  
mainland China  
but are listed in  
overseas  
markets such as  
Japan,  
Singapore,  
Taiwan and the  
United States.

| NAV     | FUND<br>ASSETS        | REDEMPTION FEE                   | 12B-1<br>FEES |
|---------|-----------------------|----------------------------------|---------------|
| \$15.31 | \$410.9<br>million    | 2.00% within 90<br>calendar days | None          |
|         | 800.789. ASIA [ 2742] | www.matthewsfunds.com            | 25            |

MATTHEWS CHINA FUND  
SCHEDULE OF INVESTMENTS (Unaudited)  
**EQUITIES: CHINA/HONG KONG: 98.9%\***

|   | SHARES     | VALUE             |
|---|------------|-------------------|
| <b>CONSUMER DISCRETIONARY: 20.8%</b>  |            |                   |
| <b>Hotels, Restaurants &amp; Leisure: 7.0%</b>                                    |            |                   |
| Shangri-La Asia, Ltd.   | 8,953,600  | \$ 14,485,318     |
| China Travel International Investment Hong Kong, Ltd.                             | 27,450,000 | 7,431,017         |
| Café de Coral Holdings, Ltd.  | 5,880,100  | 6,822,033         |
| China Travel International Investment Hong Kong, Ltd. Warrants Expires 5/31/06 ** | 2,942,400  | 212,411           |
|   |            | <b>28,950,779</b> |
| <b>Media: 5.0%</b>  |            |                   |
| Television Broadcasts, Ltd.   | 2,542,000  | 15,548,854        |
| Clear Media, Ltd. **  | 5,534,000  | 4,958,046         |
|   |            | <b>20,506,900</b> |
| <b>Specialty Retail: 2.6%</b>   |            |                   |
| Giordano International, Ltd.  | 10,188,000 | 7,026,343         |
| Li Ning Co., Ltd.   | 6,054,000  | 3,609,448         |
|   |            | <b>10,635,791</b> |
| <b>Automobiles: 2.3%</b>  |            |                   |
| Denway Motors, Ltd.   | 25,805,200 | <b>9,397,499</b>  |
| <b>Distributors: 1.9%</b>   |            |                   |
| Li & Fung, Ltd.   | 3,316,000  | <b>7,673,007</b>  |
| <b>Household Durables: 1.1%</b>   |            |                   |
| TCL Multimedia Technology Holdings, Ltd.  | 14,000,000 | 2,598,826         |
| Lerado Group Holding Co., Ltd.  | 24,089,000 | 1,925,294         |
|   |            | <b>4,524,120</b>  |
| <b>Textiles, Apparel &amp; Luxury Goods: 0.9%</b>                                 |            |                   |
| Texwinca Holdings, Ltd.   | 5,284,000  | <b>3,610,150</b>  |

|                                     |  |                   |
|-------------------------------------|--|-------------------|
| <b>Total Consumer Discretionary</b> |  | <b>85,298,246</b> |
|-------------------------------------|--|-------------------|

**FINANCIALS: 16.6%****Real Estate: 9.1%**

|                                |            |                   |
|--------------------------------|------------|-------------------|
| Swire Pacific, Ltd. A Shares   | 2,103,500  | \$ 19,374,538     |
| China Vanke Co., Ltd. B Shares | 32,373,887 | 17,987,000        |
|                                |            | <b>37,361,538</b> |

**Commercial Banks: 4.4%**

|  |           |                   |
|--|-----------|-------------------|
| BOC Hong Kong Holdings, Ltd.                 | 7,131,500 | 14,295,452        |
| Bank of Communications Co., Ltd. H Shares ** | 9,369,000 | 3,955,407         |
|  |           | <b>18,250,859</b> |

**Insurance: 3.1%**

|  |            |                   |
|--|------------|-------------------|
| China Life Insurance Co., Ltd. H Shares ** | 16,642,000 | <b>12,871,921</b> |
|--|------------|-------------------|

|                         |  |                   |
|-------------------------|--|-------------------|
| <b>Total Financials</b> |  | <b>68,484,318</b> |
|-------------------------|--|-------------------|

**INDUSTRIALS: 14.5%****Transportation Infrastructure: 10.5%**

|  |            |                   |
|--|------------|-------------------|
| China Merchants Holdings International Co., Ltd.         | 5,205,000  | 11,674,992        |
| Cosco Pacific, Ltd.                                      | 5,948,000  | 11,578,026        |
| Zhejiang Expressway Co., Ltd. H Shares                   | 10,738,000 | 7,544,084         |
| Beijing Capital International Airport Co., Ltd. H Shares | 16,322,000 | 7,153,835         |
| GZI Transport, Ltd.                                      | 13,602,000 | 5,041,122         |
|  |            | <b>42,992,059</b> |

**Machinery: 2.7%**

|  |            |                   |
|--|------------|-------------------|
| Shanghai Zhenhua Port Machinery Co., Ltd. B Shares | 11,844,573 | <b>11,252,344</b> |
|--|------------|-------------------|

**Air Freight & Logistics: 0.9%**

|                          |            |                  |
|--------------------------|------------|------------------|
| Sinotrans, Ltd. H Shares | 10,566,000 | <b>3,711,622</b> |
|--------------------------|------------|------------------|

**Airlines: 0.4%**

|                             |           |                  |
|-----------------------------|-----------|------------------|
| Air China, Ltd. H Shares ** | 5,230,000 | <b>1,618,078</b> |
|-----------------------------|-----------|------------------|

**Total Industrials**

**59,574,103**

MATTHEWS ASIAN FUNDS 26

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SEPTEMBER 30, 2005

|   | SHARES     | VALUE             |
|---|------------|-------------------|
| <b>INFORMATION TECHNOLOGY: 11.3%</b>                      |            |                   |
| <b>Computers &amp; Peripherals: 5.9%</b>                  |            |                   |
| Lenovo Group, Ltd.  | 32,702,000 | \$ 15,808,556     |
| TPV Technology, Ltd.                                      | 11,942,000 | 8,543,910         |
|   |            | <b>24,352,466</b> |
| <b>Communications Equipment: 2.0%</b>                     |            |                   |
| ZTE Corp. H Shares  | 1,600,000  | 5,207,964         |
| Comba Telecom Systems Holdings, Ltd.                      | 11,214,000 | 3,180,313         |
|   |            | <b>8,388,277</b>  |
| <b>Internet Software &amp; Services: 1.5%</b>             |            |                   |
| SINA Corp. **   | 217,300    | 5,975,750         |
| Baidu.com, Inc. ADR **                                    | 2,200      | 140,844           |
|   |            | <b>6,116,594</b>  |
| <b>IT Services: 1.4%</b>                                  |            |                   |
| Travelsky Technology, Ltd. H Shares                       | 6,487,000  | <b>5,853,674</b>  |
| <b>Semiconductors &amp; Semiconductor Equipment: 0.5%</b> |            |                   |
| Semiconductor Manufacturing International Corp. ADR **    | 241,400    | <b>2,076,040</b>  |
| <b>Total Information Technology</b>                       |            | <b>46,787,051</b> |
| <b>ENERGY: 9.3%</b>                                       |            |                   |
| <b>Oil &amp; Gas: 7.5%</b>                                |            |                   |
| PetroChina Co., Ltd. H Shares                             | 14,476,000 | \$ 12,129,658     |
| CNOOC, Ltd.   | 14,462,000 | 10,533,275        |
| Sinopec Zhenhai Refining and Chemical Co., Ltd. H Shares  | 7,352,000  | 8,055,844         |
|   |            | <b>30,718,777</b> |
| <b>Energy Equipment &amp; Services: 1.8%</b>              |            |                   |
| China Oilfield Services, Ltd. H Shares                    | 18,018,000 | <b>7,432,641</b>  |



|                     |  |                   |
|---------------------|--|-------------------|
| <b>Total Energy</b> |  | <b>38,151,418</b> |
|---------------------|--|-------------------|

**TELECOM SERVICES: 9.0%**

**Wireless Telecom Services: 7.1 %**

|                           |           |                   |
|---------------------------|-----------|-------------------|
| China Mobile HK, Ltd.     | 5,642,083 | 27,638,195        |
| China Mobile HK, Ltd. ADR | 50,500    | 1,244,320         |
|                           |           | <b>28,882,515</b> |

**Diversified Telecom Services: 1.9%**

|                                    |            |                  |
|------------------------------------|------------|------------------|
| China Telecom Corp., Ltd. H Shares | 20,988,000 | <b>7,913,772</b> |
|------------------------------------|------------|------------------|

|                               |  |                   |
|-------------------------------|--|-------------------|
| <b>Total Telecom Services</b> |  | <b>36,796,287</b> |
|-------------------------------|--|-------------------|

See footnotes on page 29.

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MATTHEWS CHINA FUND  
SCHEDULE OF INVESTMENTS (Unaudited) (continued)  
**EQUITIES: CHINA/HONG KONG (continued)**

|  | SHARES     | VALUE             |
|--|------------|-------------------|
| <b>UTILITIES: 7.4%</b>                                   |            |                   |
| <b>Electric Utilities: 4.9%</b>                          |            |                   |
| Datang International Power Generation Co., Ltd. H Shares | 10,516,000 | \$ 8,065,925      |
| Huaneng Power International, Inc. H Shares               | 7,876,000  | 5,837,947         |
| Guangdong Electric Power Development Co., Ltd. B Shares  | 8,471,726  | 3,865,999         |
| Huaneng Power International, Inc. ADR                    | 78,800     | 2,341,148         |
|  |            | <b>20,111,019</b> |
| <b>Gas Utilities: 2.5%</b>                               |            |                   |
| Hong Kong and China Gas Co., Ltd.                        | 4,957,400  | <b>10,224,935</b> |
| <b>Total Utilities</b>                                   |            | <b>30,335,954</b> |
| <b>CONSUMER STAPLES: 4.1%</b>                            |            |                   |
| <b>Food &amp; Staples Retailing: 2.4%</b>                |            |                   |
| Lianhua Supermarket Holdings Co., Ltd. H Shares          | 8,510,000  | 9,873,217         |
| <b>Beverages: 1.7%</b>                                   |            |                   |
| Tsingtao Brewery Co., Ltd. H Shares                      | 6,351,000  | 6,836,207         |
| <b>Total Consumer Staples</b>                            |            | <b>16,709,424</b> |
| <b>MATERIALS: 3.9%</b>                                   |            |                   |
| <b>Construction Materials: 3.0%</b>                      |            |                   |
| Cheung Kong Infrastructure Holdings, Ltd.                | 3,734,500  | \$ 12,468,633     |
| <b>Metals &amp; Mining: 0.9%</b>                         |            |                   |
| China Shenhua Energy Co., Ltd. H Shares **               | 3,000,000  | 3,519,243         |
| <b>Total Materials</b>                                   |            | <b>15,987,876</b> |
| <b>HEALTH CARE: 2.0%</b>                                 |            |                   |

**Pharmaceuticals: 1.2%**

|                                    |            |                  |
|------------------------------------|------------|------------------|
| China Pharmaceutical Group, Ltd.** | 25,466,000 | <b>4,825,749</b> |
|------------------------------------|------------|------------------|

**Biotechnology: 0.8%**

|  |           |           |
|--|-----------|-----------|
| Global Bio-chem Technology Group Co., Ltd. | 7,204,000 | 3,296,770 |
|--|-----------|-----------|

|   |           |       |
|---|-----------|-------|
| Global Bio-chem Technology Group Co., Ltd. Warrants Expires 5/31/07 |           |       |
| **  | 1,089,000 | 9,827 |

**3,306,597**

**Health Care Equipment & Supplies: 0.0%**

|                                    |           |          |
|------------------------------------|-----------|----------|
| Moulin Global Eyecare Holdings *** | 7,192,000 | <b>0</b> |
|------------------------------------|-----------|----------|

**Total Health Care**

**8,132,346**

SEPTEMBER 30, 2005

|  |                                       |
|--|---------------------------------------|
| <b>TOTAL INVESTMENTS: 98.9%</b><br>(Cost \$339,644,483 ****) | <b>VALUE</b><br><b>\$ 406,257,023</b> |
| <b>CASH AND OTHER ASSETS, LESS LIABILITIES: 1.1%</b>         | <b>4,674,658</b>                      |
| <b>NET ASSETS: 100.0%</b>                                    | <b>\$ 410,931,681</b>                 |

\* As a percentage  
of net assets as  
of September  
30, 2005

\*\* Non-income  
producing  
security

\*\*\* Illiquid and fair  
valued under  
direction of the  
Board of  
Trustees

\*\*\*\* Cost of  
investments is  
\$339,644,483  
and net  
unrealized  
appreciation  
consists of:

|                               |               |
|-------------------------------|---------------|
| Gross unrealized appreciation | \$ 93,621,634 |
| Gross unrealized depreciation | (27,009,094)  |
| Net unrealized appreciation   | \$ 66,612,540 |

ADR American Depositary Receipt  
See accompanying notes to schedules of investments.

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MATTHEWS JAPAN FUND

**PORTFOLIO MANAGEMENT**

**SYMBOL: MJFOX**

Portfolio Manager: Mark W. Headley

The Matthews Japan Fund invests at least 80% of its assets in the common and preferred stocks of companies located in Japan.

**PORTFOLIO MANAGER COMMENTARY**

For the three months ended September 30, 2005, the Matthews Japan Fund gained 8.51%, underperforming its benchmarks MSCI Developed Markets Japan Index, which gained 19.22%, and the TOPIX, which gained 17.57%. The Fund also underperformed the Lipper Japanese Funds Category Average, which gained 18.31%. Such significant underperformance is obviously of concern. As long-term, fundamentally driven investors with a fairly concentrated portfolio, we accept periods of underperformance as a necessary aspect of active management; we do not seek to mirror indices or have exposure to all areas of the market.

The Japanese equity markets made gains during the quarter as Prime Minister Koizumi's landslide victory increased investor optimism, and economic conditions in Japan appeared to show signs of improvement. The Japanese yen, however, continued to weaken against the U.S. dollar, resulting in lower returns for U.S. dollar-based investors. Among the notable factors accounting for the divergence in the Fund's performance versus its benchmarks was the Fund's lack of exposure to the materials and energy sectors. Oil and commodity-related sectors, which had outperformed the broader Japanese equity market in the first part of the year, continued to strongly outperform for most of the quarter. Individual stock selection also hurt the Fund's performance in some areas. However, the Fund's concentration in the financials sector, which had detracted from Fund performance in the prior quarter, was one of the largest positive contributing sectors to performance during the third quarter. Other sectors that positively impacted the Fund's performance during the quarter were consumer discretionary and industrials.

During the quarter, the Fund added to positions in the consumer discretionary sector while slightly reducing its positions in select telecommunications and media-related stocks due to changes in company-specific fundamentals. The overall positioning of the Fund remains largely unchanged; it remains focused on the long term and continues to concentrate its holdings in three core sectors: financials, consumer discretionary and technology.

30 MATTHEWS ASIAN FUNDS

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**FUND AT A GLANCE**

All data is as of September 30, 2005, unless otherwise noted.

**PERFORMANCE AS OF SEPTEMBER 30, 2005<sup>1</sup>**

|                               | <b>Average Annual Total Returns</b> |            |             |              |              |                            |
|-------------------------------|-------------------------------------|------------|-------------|--------------|--------------|----------------------------|
|                               |                                     |            |             |              |              | <b>SINCE<br/>INCEPTION</b> |
| Fund Inception: 12/31/98      | <b>3 MO</b>                         | <b>YTD</b> | <b>1 YR</b> | <b>3 YRS</b> | <b>5 YRS</b> |                            |
| Matthews Japan Fund           | 8.51%                               | 3.66%      | 17.18%      | 21.75%       | -0.57%       | 10.19%                     |
| MSCI Developed Markets        |                                     |            |             |              |              |                            |
| Japan Index <sup>2</sup>      | 19.22%                              | 12.31%     | 27.01%      | 18.70%       | -0.93%       | 4.10%                      |
| TOPIX <sup>3</sup>            | 17.57%                              | 12.48%     | 25.22%      | 19.18%       | -0.86%       | 5.15%                      |
| Lipper Japanese Funds         |                                     |            |             |              |              |                            |
| Category Average <sup>4</sup> | 18.31%                              | 13.36%     | 26.17%      | 17.67%       | -3.71%       | 5.32%                      |

<sup>1</sup> Assumes reinvestment of all dividends. Past performance is not indicative of future results. Unusually high returns may not be sustainable. Investment return and principal value will fluctuate with changing market conditions so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns are net of the Funds' management fee and other operating expenses. Returns would have been lower if certain of the Funds' fees and expenses had not been waived. For the Funds most recent month-end performance please call 800-789-ASIA (2742) or visit [www.matthewsfunds.com](http://www.matthewsfunds.com). The performance of foreign indices may be based on different exchange rates than those used by the Fund and,

*unlike the Fund's NAV, is not adjusted to reflect fair value at the close of the NYSE.*

<sup>2</sup> The MSCI Developed Markets Japan Index is a free float-adjusted market capitalization-weighted index of Japanese equities listed in Japan. Source: PFPC, Inc.

<sup>3</sup> The Tokyo Price Index (TOPIX) is a capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange. Source: Bloomberg.

<sup>4</sup> As of 9/30/05, the Lipper Japanese Funds Category Average consisted of 41 funds for the three-month, YTD and one-year periods; 37 funds for the three-year period; 32 funds for the five-year period; and 28 funds since 12/31/98. Lipper, Inc. fund performance does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains, for the stated periods.

#### **OPERATING EXPENSES<sup>5</sup> (ANNUALIZED)**

|  |       |
|--|-------|
| For the nine months ended 9/30/05 <sup>6</sup>       | 1.30% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,8</sup> | 1.38% |

#### **PORTFOLIO TURNOVER<sup>9</sup>**

|   |        |
|---|--------|
| For the nine months ended 9/30/05 (annualized) <sup>6</sup> | 19.97% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,10</sup>       | 5.30%  |

<sup>5</sup> Includes management fee, administration

and shareholder services fees, waivers, reimbursements, recoupments and other expenses. Matthews Asian Funds do not charge 12b-1 fees.

6 Unaudited

7 Audited

8 For the four-month period ended 12/31/04 due to the Funds change of fiscal year. The Funds expense ratio for the 12-month period ended 12/31/04 would have been 1.41% (unaudited).

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

10 For the four-month period ended 12/31/04 due to the Funds change of fiscal year. The Funds portfolio turnover ratio for the 12-month



period ended  
12/31/04 would  
have been  
17.16%  
(unaudited).

# **COUNTRY ALLOCATION<sup>11</sup>**

|                |       |
|----------------|-------|
| Japan          | 97.8% |
| Cash and other | 2.2%  |

# **SECTOR ALLOCATION<sup>11</sup>**

|                        |       |
|------------------------|-------|
| Consumer Discretionary | 35.9% |
| Financials             | 23.1% |
| Information Technology | 14.8% |
| Industrials            | 7.4%  |
| Health Care            | 5.8%  |
| Consumer Staples       | 5.8%  |
| Telecom Services       | 5.0%  |
| Cash and other         | 2.2%  |

# **MARKET CAP EXPOSURE<sup>11</sup>**

|                               |       |
|-------------------------------|-------|
| Large cap (over \$5 billion)  | 55.9% |
| Mid cap (\$1-\$5 billion)     | 29.6% |
| Small cap (under \$1 billion) | 12.3% |
| Cash and other                | 2.2%  |

<sup>11</sup> Figures have  
been rounded to  
total 100.0%

| NAV     | FUND<br>ASSETS  | REDEMPTION FEE  | 12B-1<br>FEES |
|---------|-----------------|---|---------------|
| \$16.71 | \$248.0 million | 2.00% within 90<br>calendar days  | None          |
|         |                 | 800.789. ASIA [2742] <a href="http://www.matthewsfunds.com">www.matthewsfunds.com</a> | 31            |

MATTHEWS JAPAN FUND  
SCHEDULE OF INVESTMENTS (Unaudited)  
**EQUITIES: JAPAN: 97.8%\***

|  | SHARES  | VALUE             |
|--|---------|-------------------|
| <b>CONSUMER DISCRETIONARY: 35.9%</b>           |         |                   |
| <b>Household Durables: 8.4%</b>                |         |                   |
| Sharp Corp.                                    | 461,000 | \$ 6,676,215      |
| Matsushita Electric Industrial Co., Ltd.       | 377,000 | 6,386,284         |
| Makita Corp.                                   | 286,000 | 5,794,574         |
| Sony Corp. ADR                                 | 70,200  | 2,329,938         |
|  |         | <b>21,187,011</b> |
| <b>Specialty Retail: 5.5%</b>                  |         |                   |
| Nitori Co., Ltd.                               | 68,050  | 5,700,806         |
| Yamada Denki Co., Ltd.                         | 73,200  | 5,564,799         |
| Gulliver International Co., Ltd.               | 21,570  | 2,280,127         |
|  |         | <b>13,545,732</b> |
| <b>Hotels, Restaurants &amp; Leisure: 4.5%</b> |         |                   |
| Resorttrust, Inc.                              | 166,440 | 4,647,770         |
| H.I.S. Co., Ltd.                               | 170,500 | 3,739,826         |
| MOS Food Service, Inc.                         | 191,000 | 2,755,972         |
|  |         | <b>11,143,568</b> |
| <b>Multiline Retail: 4.2%</b>                  |         |                   |
| Ryohin Keikaku Co., Ltd.                       | 100,700 | 6,484,470         |
| Mitsukoshi, Ltd.                               | 802,000 | 3,878,594         |
|  |         | <b>10,363,064</b> |
| <b>Leisure, Equipment &amp; Products: 3.8%</b> |         |                   |
| Shimano, Inc.                                  | 209,000 | 5,633,721         |
| Studio Alice Co., Ltd.                         | 187,600 | 3,809,179         |
|  |         | <b>9,442,900</b>  |
| <b>Internet &amp; Catalog Retail: 3.5%</b>     |         |                   |
| Rakuten, Inc.                                  | 5,898   | 4,509,746         |

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|                   |        |                  |
|-------------------|--------|------------------|
| Askul Corp.       | 70,000 | 4,131,431        |
| Belluna Co., Ltd. | 781    | 24,630           |
|                   |        | <b>8,665,807</b> |

**Automobiles: 3.4%**

|                           |         |                  |
|---------------------------|---------|------------------|
| Honda Motor Co., Ltd. ADR | 193,400 | 5,492,560        |
| Toyota Motor Corp. ADR    | 30,600  | 2,826,522        |
|                           |         | <b>8,319,082</b> |

**Media: 2.6%**

|  |       |                  |
|--|-------|------------------|
| Jupiter Telecommunications Co., Ltd.** | 5,643 | 4,876,483        |
| Fuji Television Network, Inc.          | 675   | 1,510,307        |
|  |       | <b>6,386,790</b> |

**Total Consumer Discretionary** **89,053,954**

**FINANCIALS: 23.1%**

**Commercial Banks: 12.4%**

|  |           |                   |
|--|-----------|-------------------|
| The Sumitomo Trust and Banking Co., Ltd. | 1,210,000 | \$ 9,955,426      |
| Mizuho Financial Group, Inc.             | 1,491     | 9,482,928         |
| The Joyo Bank, Ltd.                      | 1,165,000 | 7,101,656         |
| The Chiba Bank, Ltd.                     | 485,000   | 3,943,402         |
|  |           | <b>30,483,412</b> |

**Capital Markets: 4.6%**

|                            |         |                   |
|----------------------------|---------|-------------------|
| Nomura Holdings, Inc.      | 395,000 | 6,127,511         |
| Monex Beans Holdings, Inc. | 4,570   | 5,394,468         |
|                            |         | <b>11,521,979</b> |

**Real Estate: 3.1%**

|   |     |                  |
|---|-----|------------------|
| Japan Retail Fund Investment Corp. REIT | 487 | 3,929,634        |
| Japan Real Estate Investment Corp. REIT | 459 | 3,699,656        |
|   |     | <b>7,629,290</b> |

**Insurance: 3.0%**

|                    |         |           |
|--------------------|---------|-----------|
| T&D Holdings, Inc. | 126,445 | 7,529,671 |
|--------------------|---------|-----------|

|                         |  |                   |
|-------------------------|--|-------------------|
| <b>Total Financials</b> |  | <b>57,164,352</b> |
|-------------------------|--|-------------------|

**INFORMATION TECHNOLOGY: 14.8%****Software: 5.3%**

|                       |         |                   |
|-----------------------|---------|-------------------|
| Nintendo Co., Ltd.    | 61,915  | 7,221,235         |
| Square Enix Co., Ltd. | 219,400 | 6,068,675         |
|                       |         | <b>13,289,910</b> |

**Office Electronics: 2.6%**

|                 |         |           |
|-----------------|---------|-----------|
| Canon, Inc. ADR | 117,900 | 6,397,254 |
|-----------------|---------|-----------|

**Electronic Equipment & Instruments: 2.5%**

|                                |        |                  |
|--------------------------------|--------|------------------|
| Murata Manufacturing Co., Ltd. | 41,300 | 2,302,933        |
| Nidec Corp.                    | 32,700 | 1,944,371        |
| Nidec Corp. W/I **, ***        | 32,700 | 1,944,371        |
|                                |        | <b>6,191,675</b> |

**IT Services: 2.3%**

|                |       |           |
|----------------|-------|-----------|
| NIWS Co., Ltd. | 4,734 | 5,671,459 |
|----------------|-------|-----------|

**Internet Software & Services: 2.1%**

|                              |     |                  |
|------------------------------|-----|------------------|
| Macromill, Inc.              | 599 | 2,527,493        |
| Kakaku.com, Inc. W/I **, *** | 506 | 1,782,932        |
| Kakaku.com, Inc.             | 253 | 891,473          |
|                              |     | <b>5,201,898</b> |

|                                     |  |                   |
|-------------------------------------|--|-------------------|
| <b>Total Information Technology</b> |  | <b>36,752,196</b> |
|-------------------------------------|--|-------------------|

SEPTEMBER 30, 2005

|   | SHARES  | VALUE             |
|---|---------|-------------------|
| <b>INDUSTRIALS: 7.4%</b>                          |         |                   |
| <b>Commercial Services &amp; Supplies: 3.9%</b>   |         |                   |
| Secom Co., Ltd.                                   | 158,500 | \$ 7,623,414      |
| Toppan Forms Co., Ltd.                            | 168,400 | 2,076,815         |
|   |         | <b>9,700,229</b>  |
| <b>Air Freight &amp; Logistics: 2.0%</b>          |         |                   |
| Yamato Transport Co., Ltd.                        | 305,000 | <b>5,013,478</b>  |
| <b>Building Products: 1.5%</b>                    |         |                   |
| Toto, Ltd.  | 464,000 | <b>3,678,647</b>  |
| <b>Total Industrials</b>                          |         | <b>18,392,354</b> |
| <b>HEALTH CARE: 5.8%</b>                          |         |                   |
| <b>Health Care Equipment &amp; Supplies: 3.4%</b> |         |                   |
| Nakanishi, Inc.                                   | 48,000  | 5,006,342         |
| Terumo Corp.                                      | 108,000 | 3,472,516         |
|   |         | 8,478,858         |
| <b>Pharmaceuticals: 2.4%</b>                      |         |                   |
| Takeda Pharmaceutical Co., Ltd.                   | 100,200 | 5,966,808         |
| <b>Total Health Care</b>                          |         | <b>14,445,666</b> |
| <b>CONSUMER STAPLES: 5.8%</b>                     |         |                   |
| <b>Beverages: 2.1%</b>                            |         |                   |
| Ito En, Ltd.                                      | 111,600 | <b>5,220,190</b>  |
| <b>Food Products: 1.8%</b>                        |         |                   |
| Hokuto Corp.                                      | 250,780 | <b>4,365,233</b>  |
| <b>Personal Products: 1.3%</b>                    |         |                   |
| Shiseido Co., Ltd.                                | 232,000 | <b>3,343,481</b>  |

**Food Staples & Retailing: 0.6%**

|                                 |        |           |
|---------------------------------|--------|-----------|
| Seven & I Holdings Co., Ltd. ** | 43,000 | 1,424,242 |
|---------------------------------|--------|-----------|

|                               |  |                   |
|-------------------------------|--|-------------------|
| <b>Total Consumer Staples</b> |  | <b>14,353,146</b> |
|-------------------------------|--|-------------------|

**TELECOM SERVICES:5.0%**

**Diversified Telecom Services: 3.4%**

|            |         |              |
|------------|---------|--------------|
| Usen Corp. | 185,170 | \$ 4,803,785 |
|------------|---------|--------------|

|  |         |           |
|--|---------|-----------|
| Nippon Telegraph and Telephone Corp. ADR | 149,425 | 3,708,728 |
|--|---------|-----------|

**8,512,513**

**Wireless Telecom Services: 1.6%**

|                  |       |           |
|------------------|-------|-----------|
| NTT DoCoMo, Inc. | 2,211 | 3,934,302 |
|------------------|-------|-----------|

|                               |  |                   |
|-------------------------------|--|-------------------|
| <b>Total Telecom Services</b> |  | <b>12,446,815</b> |
|-------------------------------|--|-------------------|

|                                 |  |                    |
|---------------------------------|--|--------------------|
| <b>TOTAL INVESTMENTS: 97.8%</b> |  | <b>242,608,483</b> |
|---------------------------------|--|--------------------|

(Cost \$210,261,554\*\*\*\*\*)

|  |  |                  |
|--|--|------------------|
| <b>CASH AND OTHER ASSETS, LESS LIABILITIES: 2.2%</b> |  | <b>5,362,859</b> |
|--|--|------------------|

|                           |  |                       |
|---------------------------|--|-----------------------|
| <b>NET ASSETS: 100.0%</b> |  | <b>\$ 247,971,342</b> |
|---------------------------|--|-----------------------|

\* As a percentage  
of net assets as  
of  
September 30,  
2005

\*\* Non income  
producing  
security

\*\*\* Fair valued  
under direction  
of the Board of  
Trustees

\*\*\*\* Cost of  
investments is  
\$210,261,554  
and net

unrealized  
appreciation  
consists of:

|                               |               |
|-------------------------------|---------------|
| Gross unrealized appreciation | \$ 37,151,451 |
| Gross unrealized depreciation | (4,804,522)   |
| Net unrealized appreciation   | \$ 32,346,929 |

ADR American Receipt Depositary

REIT Real Estate Investment Trust

W/I When Issued Shares

See accompanying notes to schedules of investments.

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MATTHEWS KOREA FUND

**SYMBOL: MAKOX**

**PORTFOLIO MANAGEMENT**

Co Managers: G. Paul Matthews and Mark W. Headley

The Matthews Korea Fund invests at least 80% of its assets in the common and preferred stocks of companies located in South Korea ( Korea ).

**PORTFOLIO MANAGER COMMENTARY**

For the three months ended September 30, 2005, the Matthews Korea Fund gained 20.44%, outperforming both its bench-mark KOSPI and the Lipper Pacific ex-Japan Funds Category Average, which gained 20.19% and 11.67%, respectively. The Korean equity market surged during the quarter and broke through the all-time high index level in local currency terms that was last reached in November 1994.

Inflows from domestic funds continued to push the market higher, while foreign net inflows remained modest. The level of interest in the equity market among local institutional and retail investors rose throughout the quarter.

Nevertheless, the ownership level of the Korean market by local institutions remains relatively low when compared with other markets in Asia. The overall growth of the Korean economy picked up during the third quarter, mostly due to rising consumer demand and strong exports to China and the United States.

The Fund saw positive returns from the sectors in which it was invested during the quarter. The financials sector contributed most to Fund performance, followed by the consumer and information technology sectors; the utilities and materials sectors underperformed. As far as individual stocks, the Fund's positions in an Internet search firm and a bank made the largest positive contributions to performance. Companies that derived most of their earnings from the domestic market generally performed well during the quarter, while cyclical stocks that strongly outperformed in the first half of the year slightly underperformed during the third quarter, contributing to the Fund's relative performance. During the quarter, the Fund added two new positions: one in the industrials sector and one in the consumer discretionary sector. During the quarter, the Fund was invested in approximately 40 individual securities across nine sectors. Its focus on the consumer, financials and technology sectors remained largely unchanged.

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**FUND AT A GLANCE**  
**PERFORMANCE AS OF SEPTEMBER 30, 2005<sup>1</sup>**

All data is as of September 30, 2005, unless otherwise noted.

|                                 | Average Annual Total Returns |        |        |        |        |           | SINCE<br>INCEPTION |
|---------------------------------|------------------------------|--------|--------|--------|--------|-----------|--------------------|
|                                 | 3 MO                         | YTD    | 1 YR   | 3 YRS  | 5 YRS  | 10<br>YRS |                    |
| Fund Inception: 1/3/95          |                              |        |        |        |        |           |                    |
| Matthews Korea Fund             | 20.44%                       | 34.31% | 57.20% | 30.30% | 25.23% | 5.45%     | 4.78%              |
| KOSPI <sup>2</sup>              | 20.19%                       | 36.18% | 61.54% | 31.48% | 17.02% | 0.22%     | 0.25%              |
| Lipper Pacific ex-Japan         |                              |        |        |        |        |           |                    |
| Funds Category Avg <sup>3</sup> | 11.67%                       | 17.88% | 34.66% | 27.05% | 10.31% | 4.79%     | 4.89% <sup>4</sup> |

<sup>1</sup> Assumes reinvestment of all dividends. Past performance is not indicative of future results. Unusually high returns may not be sustain-able. Investment return and principal value will fluctuate with changing market conditions so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns are net of the Funds' management fee and other operating expenses. Returns would have been lower if certain of the Funds' fees and expenses had not been waived. For the Funds most recent month-end performance please call 800-789-ASIA (2742) or visit [www.matthewsfunds.com](http://www.matthewsfunds.com). The performance of foreign indices may be based on different exchange rates than those used by the Fund and, unlike the Fund's NAV, is

*not adjusted to reflect fair value at the close of the NYSE.*

<sup>2</sup> The South Korea Stock Price Index (KOSPI) is a capitalization-weighted index of all common stocks listed on the Korea Stock Exchange. Source: PFPC, Inc.

<sup>3</sup> As of 9/30/05, the Lipper Pacific ex-Japan Funds Category Average consisted of 56 funds for the three-month, YTD and one-year periods; 53 funds for the three-year period; 45 funds for the five-year period; 23 funds for the 10-year period; and 16 funds since 12/31/94. Lipper, Inc. fund performance does not reflect sales charges and is based on total return, including reinvestment of dividends and capital gains, for the stated periods.

<sup>4</sup> Calculated from 12/31/94

#### **OPERATING EXPENSES<sup>5</sup> (ANNUALIZED)**

|  |       |
|--|-------|
| For the nine months ended 9/30/05 <sup>6</sup>       | 1.36% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,8</sup> | 1.31% |

#### **PORTFOLIO TURNOVER<sup>9</sup>**

|   |       |
|---|-------|
| For the nine months ended 9/30/05 (annualized) <sup>6</sup> | 4.92% |
| For Fiscal Year 2004 (ended 12/31/04) <sup>7,10</sup>       | 6.53% |

<sup>5</sup> Includes management fee, administration and shareholder services fees, waivers, reimbursements, recoupments and other expenses.

Matthews Asian  
Funds do not  
charge 12b-1  
fees.

6 Unaudited

7 Audited

8 For the  
four-month  
period ended  
12/31/04 due to  
the Funds  
change of fiscal  
year. The Fund's  
expense ratio for  
the 12-month  
period ended  
12/31/04 would  
have been 1.44%  
(unaudited).

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

10 For the  
four-month  
period ended  
12/31/04 due to  
the Funds  
change of fiscal  
year. The Fund's  
portfolio  
turnover ratio for  
the 12-month  
period ended  
12/31/04 would  
have been  
20.62%  
(unaudited).

#### COUNTRY ALLOCATION<sup>11</sup>

|                |       |
|----------------|-------|
| South Korea    | 98.9% |
| Cash and other | 1.1%  |

**SECTOR ALLOCATION<sup>11</sup>**

|                        |       |
|------------------------|-------|
| Financials             | 20.5% |
| Information Technology | 20.3% |
| Consumer Discretionary | 17.0% |
| Consumer Staples       | 11.4% |
| Telecom Services       | 10.8% |
| Health Care            | 8.7%  |
| Industrials            | 8.1%  |
| Utilities              | 1.5%  |
| Materials              | 0.6%  |
| Cash and other         | 1.1%  |

**MARKET CAP EXPOSURE <sup>11</sup>**

|                               |       |
|-------------------------------|-------|
| Large cap (over \$5 billion)  | 45.3% |
| Mid cap (\$1 - \$5 billion)   | 32.2% |
| Small cap (under \$1 billion) | 21.4% |
| Cash and other                | 1.1%  |

<sup>11</sup> Figures have  
been rounded to  
total 100.0%

| NAV    | FUND ASSETS     | REDEMPTION FEE  | 12B-1 FEES   |
|--------|-----------------|---|--|
| \$5.48 | \$195.2 million | 2.00% within 90<br>calendar days<br>800.789.ASIA [2742] | None<br><a href="http://www.matthewsfunds.com">www.matthewsfunds.com</a> |

MATTHEWS KOREA FUND  
SCHEDULE OF INVESTMENTS (Unaudited)  
**EQUITIES: SOUTH KOREA: 98.9%\***

|  | SHARES  | VALUE             |
|--|---------|-------------------|
| <b>FINANCIALS: 20.5%</b>                                   |         |                   |
| <b>Commercial Banks: 14.3%</b>                             |         |                   |
| Hana Bank  | 262,654 | \$ 9,690,636      |
| Kookmin Bank   | 156,102 | 9,200,070         |
| Shinhan Financial Group Co., Ltd.                          | 195,082 | 6,786,274         |
| Kookmin Bank ADR   | 38,339  | 2,271,586         |
|  |         | <b>27,948,566</b> |
| <b>Capital Markets: 3.5%</b>                               |         |                   |
| Samsung Securities Co., Ltd.                               | 159,625 | <b>6,730,714</b>  |
| <b>Insurance: 2.7%</b>                                     |         |                   |
| Samsung Fire & Marine Insurance Co., Ltd.                  | 51,373  | <b>5,316,995</b>  |
| <b>Total Financials</b>                                    |         | <b>39,996,275</b> |
| <b>INFORMATION TECHNOLOGY: 20.3%</b>                       |         |                   |
| <b>Semiconductors &amp; Semiconductor Equipment: 10.7%</b> |         |                   |
| Samsung Electronics Co., Ltd.                              | 33,141  | 18,674,564        |
| Samsung Electronics Co., Ltd., Pfd.                        | 5,260   | 2,288,491         |
|  |         | <b>20,963,055</b> |
| <b>Internet Software &amp; Services: 3.9%</b>              |         |                   |
| NHN Corp. **   | 44,772  | <b>7,615,745</b>  |
| <b>Software: 2.6%</b>                                      |         |                   |
| NCsoft Corp. **  | 62,526  | <b>5,147,085</b>  |
| <b>Computers &amp; Peripherals: 1.6%</b>                   |         |                   |
| LG.Philips LCD Co., Ltd. ADR **                            | 147,900 | <b>3,040,824</b>  |

**Electronic Equipment & Instruments: 1.5%**

|                       |         |                  |
|-----------------------|---------|------------------|
| Daeduck GDS Co., Ltd. | 164,500 | 1,600,072        |
| Amotech Co., Ltd.     | 117,970 | 1,294,448        |
|                       |         | <b>2,894,520</b> |

|                                     |  |                   |
|-------------------------------------|--|-------------------|
| <b>Total Information Technology</b> |  | <b>39,661,229</b> |
|-------------------------------------|--|-------------------|

**CONSUMER DISCRETIONARY: 17.0%****Media: 5.3%**

|                            |         |                   |
|----------------------------|---------|-------------------|
| Cheil Communications, Inc. | 26,190  | \$ 5,019,645      |
| CJ Entertainment, Inc.     | 249,530 | 3,622,788         |
| IHQ, Inc. **               | 132,680 | 1,041,351         |
| GIIR, Inc.                 | 37,090  | 604,245           |
|                            |         | <b>10,288,029</b> |

**Automobiles: 5.2%**

|                         |        |                   |
|-------------------------|--------|-------------------|
| Hyundai Motor Co.       | 86,641 | 6,766,882         |
| Hyundai Motor Co., Pfd. | 67,900 | 3,448,682         |
|                         |        | <b>10,215,564</b> |

**Multiline Retail: 3.8%**

|                                    |         |                  |
|------------------------------------|---------|------------------|
| Hyundai Department Store Co., Ltd. | 85,450  | 5,740,340        |
| Taegu Department Store Co., Ltd.   | 133,110 | 1,715,697        |
|                                    |         | <b>7,456,037</b> |

**Internet & Catalog Retail: 2.4%**

|                        |        |                  |
|------------------------|--------|------------------|
| GS Home Shopping, Inc. | 45,505 | <b>4,727,113</b> |
|------------------------|--------|------------------|

**Textiles, Apparel & Luxury Goods: 0.3%**

|                    |        |                |
|--------------------|--------|----------------|
| Handsome Co., Ltd. | 56,699 | <b>581,389</b> |
|--------------------|--------|----------------|

|                                     |  |                   |
|-------------------------------------|--|-------------------|
| <b>Total Consumer Discretionary</b> |  | <b>33,268,132</b> |
|-------------------------------------|--|-------------------|

**CONSUMER STAPLES: 11.4%****Food Products: 4.4%**

|                     |        |           |
|---------------------|--------|-----------|
| Nong Shim Co., Ltd. | 17,390 | 4,507,901 |
|---------------------|--------|-----------|

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|                                |        |                   |
|--------------------------------|--------|-------------------|
| ORION Corp.                    | 15,760 | 2,794,059         |
| Pulmuone Co., Ltd.             | 43,510 | 1,238,378         |
|                                |        | <b>8,540,338</b>  |
| <b>Personal Products: 3.7%</b> |        |                   |
| AmorePacific Corp.             | 24,112 | <b>7,301,765</b>  |
| <b>Beverages: 3.3%</b>         |        |                   |
| Hite Brewery Co., Ltd.         | 52,531 | <b>6,494,010</b>  |
| <b>Total Consumer Staples</b>  |        | <b>22,336,113</b> |

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|   | SHARES  | VALUE             |
|---|---------|-------------------|
| <b>TELECOM SERVICES: 10.8%</b>                  |         |                   |
| <b>Wireless Telecom Services: 8.0%</b>          |         |                   |
| SK Telecom Co., Ltd.                            | 57,415  | \$ 11,141,866     |
| KT Freetel Co., Ltd.                            | 95,231  | 2,386,479         |
| SK Telecom Co., Ltd. ADR                        | 96,700  | 2,111,928         |
|   |         | <b>15,640,273</b> |
| <b>Diversified Telecom Services: 2.8%</b>       |         |                   |
| KT Corp.  | 65,880  | 2,781,039         |
| KT Corp. ADR                                    | 118,200 | 2,659,500         |
|   |         | <b>5,440,539</b>  |
| <b>Total Telecom Services</b>                   |         | <b>21,080,812</b> |
| <b>HEALTH CARE: 8.7%</b>                        |         |                   |
| <b>Pharmaceuticals: 8.7%</b>                    |         |                   |
| Hanmi Pharm Co., Ltd.                           | 65,351  | 6,118,632         |
| Yuhan Corp.                                     | 39,433  | 5,177,116         |
| LG Life Sciences, Ltd. **                       | 85,790  | 3,169,338         |
| Daewoong Pharmaceutical Co., Ltd.               | 83,960  | 2,590,812         |
| <b>Total Health Care</b>                        |         | <b>17,055,898</b> |
| <b>INDUSTRIALS: 8.1%</b>                        |         |                   |
| <b>Commercial Services &amp; Supplies: 5.8%</b> |         |                   |
| S1 Corp.  | 120,455 | 5,806,312         |
| Sindo Ricoh Co., Ltd.                           | 56,306  | 3,232,132         |
| Shinsegae Food Systems Co., Ltd.                | 56,342  | 2,262,319         |
|   |         | <b>11,300,763</b> |
| <b>Construction &amp; Engineering: 1.2%</b>     |         |                   |
| Tae Young Corp.                                 | 66,010  | <b>2,403,814</b>  |



**Industrial Conglomerates: 1.1%**

|                   |        |                  |
|-------------------|--------|------------------|
| GS Holdings Corp. | 79,090 | <b>2,016,094</b> |
|-------------------|--------|------------------|

**Total Industrials****15,720,671****UTILITIES: 1.5%****Electric Utilities: 1.2%**

|                            |        |                     |
|----------------------------|--------|---------------------|
| Korea Electric Power Corp. | 68,510 | <b>\$ 2,337,284</b> |
|----------------------------|--------|---------------------|

**Gas Utilities: 0.3%**

|                     |       |                |
|---------------------|-------|----------------|
| Samchully Co., Ltd. | 5,470 | <b>529,439</b> |
|---------------------|-------|----------------|

**Total Utilities****2,866,723****MATERIALS: 0.6%****Chemicals: 0.6%**

|               |        |                  |
|---------------|--------|------------------|
| LG Chem, Ltd. | 24,420 | <b>1,050,750</b> |
|---------------|--------|------------------|

**Total Materials****1,050,750****TOTAL INVESTMENTS: 98.9%****193,036,603**

(Cost \$101,034,741\*\*\*)

**CASH AND OTHER ASSETS, LESS LIABILITIES: 1.1%****2,163,995****NET ASSETS: 100.0%****\$ 195,200,598**

\* As a percentage  
of net assets as  
of  
September 30,  
2005

\*\* Non income  
producing  
security

\*\*\* Cost of  
investments is  
\$101,034,741  
and net

unrealized  
appreciation  
consists of:

|                               |               |
|-------------------------------|---------------|
| Gross unrealized appreciation | \$ 93,005,500 |
| Gross unrealized depreciation | (1,003,638)   |
| Net unrealized appreciation   | \$ 92,001,862 |

ADR American  
Depositary  
Receipt

GDS Global  
Depositary  
Shares

Pfd. Preferred

See accompanying notes to schedules of investments.

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NOTES TO SCHEDULES OF INVESTMENTS

**SIGNIFICANT ACCOUNTING POLICIES** (unaudited)

**A. SECURITY VALUATION:** The Funds' equity securities are valued based on market quotations or at fair value as determined in good faith by or under the direction of the Board of Trustees (the Board) when no market quotations are available or when market quotations have become unreliable. The Board has delegated the responsibility of making fair value determinations to the Pricing Committee of Matthews International Capital Management, LLC, subject to the Funds' Pricing Policies. The Board has retained a third-party pricing service which may be utilized by the Pricing Committee under circumstances described in the Pricing Policies to provide fair value prices for certain securities held by the Funds. When fair value pricing is employed, the prices of securities used by a Fund to calculate its NAV differ from quoted or published prices for the same securities for that day. All fair value determinations are made subject to the Board's oversight.

The books and records of the Funds are maintained in U.S. Dollars. Transactions denominated in foreign currencies are recorded at the current prevailing exchange rates. All assets and liabilities denominated in foreign currencies are translated into U.S. Dollars at the current exchange rate. Translation gains or losses resulting from changes in the exchange rate during the reporting period and realized gains and losses on the settlement of foreign currency transactions are reported in the results of operations for the current period. The Funds do not isolate that portion of gains and losses on investment in equity securities which is due to changes in the foreign exchange rate from that which is due to changes in market prices of equity securities. International dollar bonds are issued offshore, pay interest and principal in U.S. Dollars, and are denominated in U.S. Dollars.

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. Foreign securities are valued as of the close of trading on the primary exchange on which they trade. The value is then converted to U.S. dollars using current exchange rates and in accordance with the Pricing Policies. Foreign currency exchange rates are generally determined prior to the close of trading on the New York Stock Exchange, Inc. (NYSE). Occasionally, events affecting the value of foreign investments and such exchange rates occur between the time at which they are determined and the close of trading on the NYSE. Such events would not normally be reflected in a calculation of a Funds' NAV on that day. If events that materially affect value of the Funds' foreign investments or the foreign currency exchange rates occur during such period, the investments will be valued at their fair value as described above. Foreign securities held by the Funds may be traded on days and at times when the NYSE is closed. Accordingly, the NAV of the Funds may be significantly affected on days when shareholders have no access to the Funds. For valuation purposes, quotations of foreign portfolio securities, other assets and liabilities, and forward contracts stated in foreign currency are translated into U.S.-dollar equivalents at the prevailing market rates.

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SEPTEMBER 30, 2005

**B. TAX INFORMATION:** Under current tax law, capital and currency losses realized after October 31 and prior to the Fund's fiscal year end may be deferred as occurring on the first day of the following fiscal year. Post October losses at fiscal year end December 31, 2004 were as follows:

|                                       | <b>POST<br/>OCTOBER<br/>CAPITAL<br/>LOSSES</b> | <b>POST<br/>OCTOBER<br/>CURRENCY<br/>LOSSES</b> |
|---------------------------------------|--|---|
| Matthews Asia Pacific Fund            | \$   | (\$9,385)                                       |
| Matthews Pacific Tiger Fund           |  | (97,522)  |
| Matthews Asian Growth and Income Fund |  | (68,447)  |
| Matthews Asian Technology Fund        | (35,907)                                       |   |
| Matthews China Fund                   | (1,905,409)                                    |   |
| Matthews Korea Fund                   |  | (52,643)  |

For Federal income tax purposes, the Funds indicated below have capital loss carryforwards as of December 31, 2004, which expire in the year indicated, and are available to offset future capital gains, if any:

| <b>LOSSES DEFERRED EXPIRING IN:</b> | <b>2007</b> | <b>2008</b>   | <b>2009</b>   | <b>2010</b>   | <b>2011</b> | <b>2012</b> | <b>TOTAL</b>   |
|-------------------------------------|-------------|---------------|---------------|---------------|-------------|-------------|----------------|
| Matthews Asian Technology Fund      | (\$22,583)  | (\$5,375,361) | (\$5,967,059) | (\$3,461,198) | \$          | \$          | (\$14,826,201) |
| Matthews China Fund                 |             |               |               |               |             | (78,979)    | (78,979)       |
| Matthews Japan Fund                 |             |               |               | (3,216,093)   |             |             | (3,216,093)    |

For additional information regarding the accounting policies of the Matthews Asian Funds, refer to the most recent financial statements in the N-CSR filing at [www.sec.gov](http://www.sec.gov).

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MATTHEWS ASIAN FUNDS

SEPTEMBER 30, 2005

**BOARD OF TRUSTEES**

**Independent Trustees:**

Richard K. Lyons, Chairman

Robert K. Connolly

Toshi Shibano

**Interested Trustee<sup>1</sup>:**

David FitzWilliam-Lay

**OFFICERS**

G. Paul Matthews

Mark W. Headley

Manoj K. Pombra

John P. McGowan

Andrew T. Foster

Shai Malka

**INVESTMENT ADVISOR**

Matthews International Capital Management, LLC

Four Embarcadero Center, Suite 550

San Francisco, CA 94111

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**ACCOUNT SERVICES**

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King of Prussia, PA 19406

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**CUSTODIAN**

The Bank of New York

One Wall Street

New York, NY 10286

**LEGAL COUNSEL**

Paul, Hastings, Janofsky & Walker, LLP

55 Second Street

San Francisco, CA 94105

<sup>1</sup> As defined under the Investment Company Act of 1940, as amended.

FOR MORE INFORMATION ABOUT MATTHEWS ASIAN FUNDS 800.789.ASIA [2742]

[www.matthewsfunds.com](http://www.matthewsfunds.com)

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**Item 2. Controls and Procedures.**

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 3. Exhibits.**

Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Matthews International Funds

By (Signature and Title)\* /s/ G. Paul Matthews

G. Paul Matthews,  
President  
(principal executive officer)

Date November 28, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)\* /s/ G. Paul Matthews

G. Paul Matthews,  
President  
(principal executive  
officer)

Date November 28, 2005

By (Signature and Title)\* /s/ Shai Malka

Shai Malka, Treasurer  
(principal financial officer)

Date November 28, 2005

\* Print the name and title of each signing officer under his or her signature.