

MATTHEW 25 FUND, INC

ANNUAL REPORT

December 31, 2004

Matthew 25 Fund, Inc.
607 West Avenue
Jenkintown, PA 19046
1-888-M25-FUND

Fund Symbol: MXXVX
Website: www.matthew25fund.com

This report is provided for the general information of Matthew 25 Fund shareholders. It is not authorized for distribution unless preceded or accompanied by an effective prospectus, which contains more complete information about the Fund. Please read it carefully before you invest.

Dear Matthew 25 Fund Shareholders,

Our Fund was up **20.05%** for the year of **2004**. From its inception on **10/16/95** through **12/31/04** our Fund has gained **289.46%**. This is a compounded annual growth rate of **15.89%**.

During this same period (9 years and 76 days) an investment in the **Vanguard Index Trust 500 (VFINX)** has gained **139.88%**. This is a compounded annual growth rate of **9.96%**. Even though the comparative returns varied every year, our **Matthew 25 Fund** has returned on average **5.93%** per year better than this index fund. I chose to compare our Fund to Vanguard's index fund primarily because by being the largest index mutual fund it is by default one of the most popular ways to invest in the "market." My secondary reason for making this comparison is that VFINX is not only the grandfather of index funds, it is also the progeny of The Efficient Market Hypothesis. In case you are not sure what is meant by this hypothesis the following is a definition of this theory from Investopedia.com (Investopedia Inc.):

...The Efficient Market Hypothesis (EMH) is an idea partly developed in the 1960's by Eugene Fama. It states that it is impossible to beat the market because prices already incorporate and reflect all relevant information... Supporters of this model believe it is pointless to search for undervalued stocks or try to predict trends in the market through any technique (fundamental or technical analysis).

This theory is surprisingly very popular with academics as well as many investors.

My belief is that this theory is really just a misinterpretation of the Bell Curve. Proponents of the Efficient Market Hypothesis (EMH) observe that most investors cluster around average in their investment performance, and most perform below the market when you include costs. This is what is supposed to occur within one standard deviation of the mean in a normal distribution of the Bell Curve. This performance premise makes sense; however, it is the conclusion that is illogical. Supporters of EMH argue that it is either too difficult or outright impossible to be noticeably above average and they conclude that you should stop trying. In other words accept the market's average, and just index. By the way, the defenders of EMH don't point out that 100% of index funds will under perform the corresponding index, when you include costs. The irony is that even as a greater number of investors exclusively index, it will not eliminate a normal distribution of all investors' performances. It just narrows the curve that represents the roughly two thirds that will fall within one standard deviation above and below the mean. But there will still be those investors who will be two standard deviations above the mean or in the 84th to 98th percentile as well as those above the 98th percentile or three standard deviations from the mean. In other words, it may not be easy, but as is true in most human activities, there will

always be those few who will perform above average. But you can never be in that upper 16% unless you try.

Now that I have rejected the hypothesis (H) part of EMH, please allow me to repudiate the first two letters as well. That is the efficient market (EM) part of EMH. One famous investor who has performed a few standard deviations above average for many years has said:

"I'd be a bum in the street with a tin cup if the markets were efficient."
- *Warren Buffett*

If Mr. Buffett's testimony doesn't convince you, then look at the following price changes for the S&P 500 along with our country's Gross Domestic Product (GDP) changes for the past 10 years:

<u>YEAR</u>	<u>S&P 500</u>	<u>GDP</u>
1995	+34.11%	+4.6%
1996	+20.26%	+5.7%
1997	+31.01%	+6.2%
1998	+26.67%	+5.3%
1999	+19.53%	+6.0%
2000	-10.14%	+5.9%
2001	-13.04%	+3.2%
2002	-23.07%	+3.5%
2003	+26.38%	+4.9%
2004	+ 8.99%	+6.6%
Average annual compounded change	+ 7.68%	+5.2

Our economy as measured by GDP varies every year as it computes economic change and inflation, however it does correlate very well to the value change of our public companies. Starting with the market's bottom in 1932 and ending in 2003, the average annual growth rates for the S&P 500 and the U.S. GDP have been 7.20% and 7.65% respectively. As you can see in the above 10 year example, the stock market's value and the economy's size are heading in the same direction, but the stocks get there after many more price swings and with greater volatility. We could actually say that the market moves inefficiently to its destination, and I believe most long-term investors know this from practical experience.

So how does all this affect our Matthew 25 Fund? I manage our Fund by looking at many stocks every year and try to find a few very good, long-term ideas. This means for each investment decision, I try to identify how much the reward potential surpasses the risk potential over a period of at least three years. Someone may look at our portfolio and not readily discern a pattern, but it should

make sense if you understand how I view companies. Most importantly, I grade stocks on four categories and each category has its risks and rewards. The four grading points are the quality of the company's business, management, financial shape and stock price. As you now know, I do believe in the Bell Curve of investment performance and that you can invest above average by buying and owning stocks of either above average companies that are selling for at least average prices or by buying stocks of average companies at below average prices. Also because of the "Inefficient Market", I suspect volatile markets and price swings will occur almost unpredictably, and I try to take advantage of the accompanying price changes by focusing on the businesses and then reacting to the stock prices.

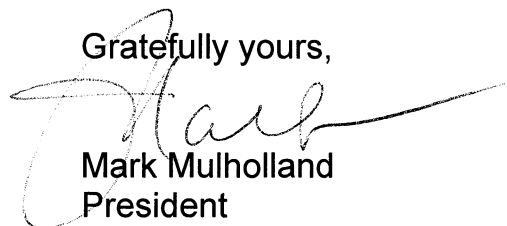
Now I'd like to relate this to our holdings. The *Schedule of Investments in Securities*, within the financial statements, will show you the stocks that we own through our Fund. It also shows the value of each stock and the profit or loss of this ownership from purchase date until year-end 2004. In the table below I have added the stock's percentage price change for the year or if new to our portfolio the price change from the initial purchase. This is followed by a grade for the four categories. The grades are the same as in academia, with an "A" for outstanding, a "B" for very good, a "C" for average, a "D" for poor, and an "F" for failure. I will even throw in a "+" or "-" to complicate matters. Ideally, I am looking for all four grades above average but I'll make concessions for one or more exceptional grades. The performance and grades are as follows:

Security	Price Change	Business	Management	Financial	Price
AC Moore Arts & Crafts Inc	+ 50%	B	A	A	B
Advanta Inc	+ 75%	C	A	D	B+
Farmer Mac	- 27%	A	B+	B	A+
Alexander & Baldwin	+ 26%	B	C	B	C
Ameritrade	+ 1%	B	B+	B	A
Black & Decker	+ 79%	B+	A	B	B
Boykin Lodging Co.	0%	B+	B+	C	A

Security	Price Change	Business	Management	Financial	Price
Berkshire Hathaway	+ 4%	A	A+	A	B
El Paso Corp.	+ 27%	B	B	D	B
First Data	+ 4%	A	B	A	B
Krispy Kreme	- 27%	B	-	B	C
MBIA Inc.	+ 7%	A	A	A	A+
Pacific Gas & Electric Preferred	+ 8%	C	B	C	D
Pfizer	+ 14%	A	A	A+	A
Polaris Ind.	+ 54%	A	A	A	C
Willow Grove Bancorp Inc.	+ 7%	B	B	B	D

Hopefully, this letter gives you more insight into our Fund's portfolio and my thoughts about the market. In order to fit a large subject into a few pages I did edit out some material; so if you have any questions please call or write. Our address and phone number are on the cover. As always, thank you for allowing us to work for you.

Gratefully yours,



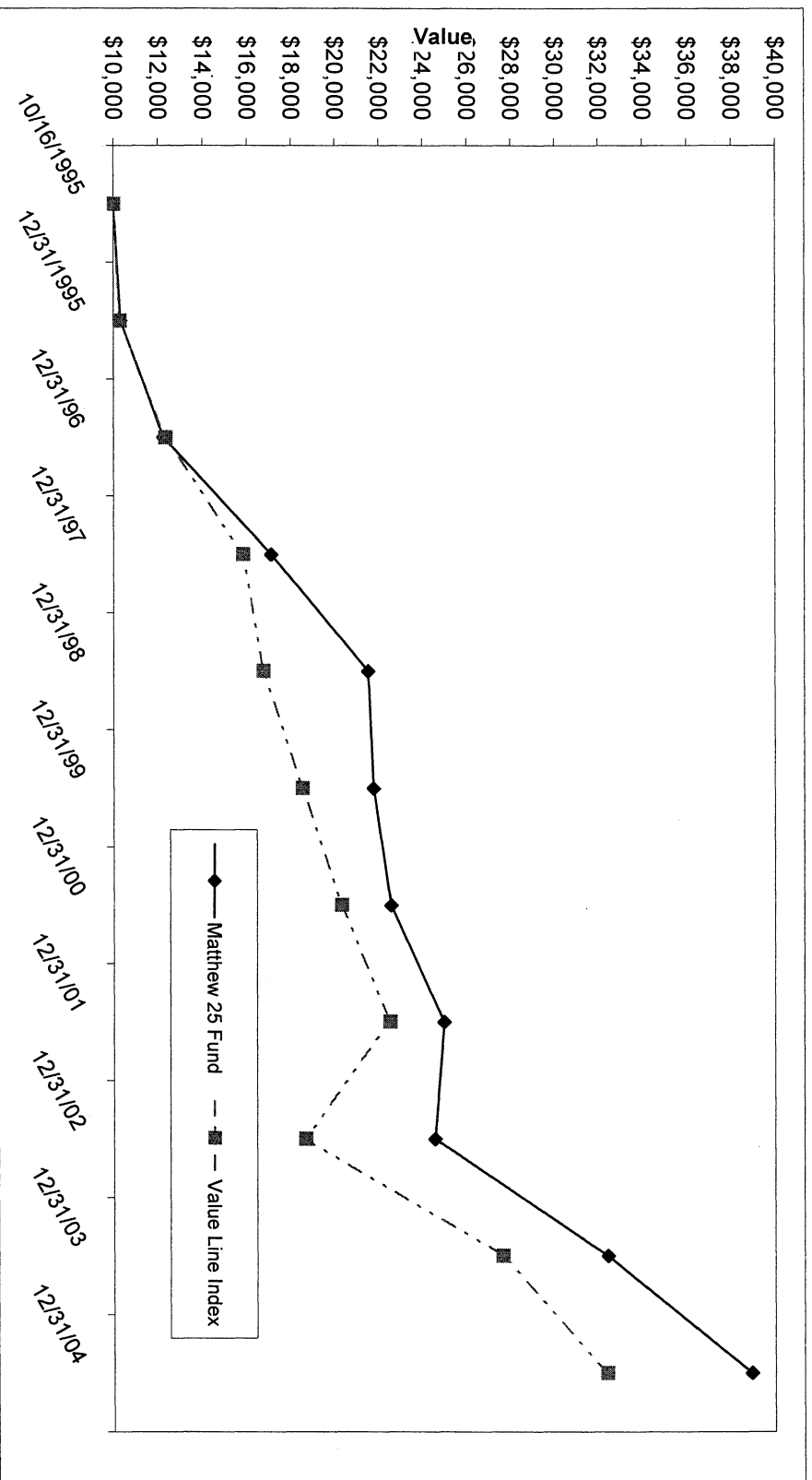
Mark Mulholland
President

Except for any historical information, the matters discussed in this letter contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve risks and uncertainties, including activities, events or developments that the Advisor expects, believes or anticipates will or may occur in the future. A number of factors could cause actual results to differ from those indicated in the forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties. Readers are cautioned that such statements are not guarantees of future performance and that actual results may differ materially from those set forth in the forward-looking statements. The Advisor undertakes no obligation to publicly update or revise forward-looking statements whether as a result of new information or otherwise.

MATTHEW 25 FUND, INC. PERFORMANCE SUMMARY

The graph below represents the changes in value for an initial \$10,000 investment in the Matthew 25 Fund from its inception, October 16, 1995 to years ending 1995 through 2004. These changes are then compared to a \$10,000 investment in the Value Line Index, which is an index comprised of 1,665 stocks, for the same period. The Fund's returns include the reinvestment of all dividends, but do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. Past performance is not predictive of future performance. Investment return and principal value will fluctuate, so that your shares, when redeemed, may be worth more or less than the original cost.

Incep.	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended
10/16/95	12/31/95	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/04
Matthew 25 Fund	\$10,000	\$10,320	\$12,248	\$17,104	\$21,539	\$21,772	\$22,560	\$24,972	\$24,554	\$32,441	\$38,946
Value Line Index	\$10,000	\$10,287	\$12,322	\$15,827	\$16,748	\$18,517	\$20,304	\$22,513	\$18,661	\$27,628	\$32,418



76	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Compounded
Days	Return	Return	Return	Return	Return	Return	Return	Return	Return	Return	Average
12/31/95	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/04	Annual
Matthew 25 Fund	3.20%	18.68%	39.65%	25.93%	1.08%	3.62%	10.69%	(1.67)%	32.12%	20.05%	15.89%
Value Line Index	2.87%	19.78%	28.45%	5.82%	10.56%	9.65%	10.88%	(17.11)%	48.05%	17.34%	13.61%

MATTHEW 25 FUND, INC.
TOP TEN HOLDINGS & ASSET ALLOCATION
DECEMBER 31, 2004

Top Ten Holdings
(% of Net Assets)

Polaris Industries, Inc.	21.44%
Federal Agricultural Mortgage Corp.	15.07%
MBIA, Inc.	11.93%
Black & Decker, Inc.	5.86%
Advanta Corporation, Class A	5.37%
El Paso Corporation	5.11%
Boykin Lodging	5.06%
First Data Corp.	4.94%
Berkshire Hathaway, Class A	4.78%
AC Moore, Inc.	4.31%
	<hr/> 83.87%

Asset Allocation
(% of Net Assets)

Miscellaneous Transportation Equipment	21.44%
Federal & Federally Sponsored Credit Agencies	15.07%
Surety Insurance	11.93%
Metalworking Machinery & Equipment	5.86%
Personal Credit Institution	5.37%
Gas Production & Distribution	5.11%
Real Estate Investment Trust	5.06%
Finance Services	4.94%
Fire, Marine & Casualty Insurance	4.78%
Electric Utility	4.39%
Miscellaneous Shopping Goods Stores	4.31%
Water Transportation	3.66%
Savings Institution	3.38%
Short-Term Investment (Money Market Fund)	1.78%
Security Brokers, Dealers & Flotation	1.70%
Drugs	1.24%
Retail Food Stores	0.04%
Other Assets less Liabilities	(0.06)%
	<hr/> 100.00%

MATTHEW 25 FUND, INC.
EXPENSE EXAMPLE
DECEMBER 31, 2004

As a shareholder of the Fund, you incur two types of costs: (1) direct costs, such as IRA fees and (2) indirect costs, including management fees and other Fund operating expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire six-month period of July 1, 2004 to December 31, 2004.

Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period. IRAs with less than \$5,000 may be charged \$14 annually for IRA Custodian Fees at the discretion of the Fund's Management or Directors. This \$14 fee is not reflected in the table below.

Hypothetical Example for Comparison Purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expenses ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any direct costs, such as IRA fees. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if IRA fees were included your costs would be higher.

	Beginning Account Value July 1, 2004	Ending Account Value December 31, 2004	Expenses Paid During Period* July 1, 2004 to December 31, 2004
Actual	\$1,000.00	\$1,181.30	\$6.53
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.15	\$6.04

* Expenses are equal to the Fund's annualized expense ratio of 1.19%, multiplied by the average account value over the period, multiplied by 184/366 to reflect the one-half year period.

MATTHEW 25 FUND, INC.
SCHEDULE OF INVESTMENTS IN SECURITIES
DECEMBER 31, 2004

	<u>Number of Shares</u>	<u>Historical Cost</u>	<u>Value</u>
COMMON STOCKS -- 93.89%			
DRUGS -- 1.24%			
Pfizer, Inc.	42,500	\$ 1,094,409	\$ 1,142,825
FEDERAL & FEDERALLY SPONSORED CREDIT AGENCY -- 15.07%			
Federal Agricultural Mortgage Corp.	595,000	14,729,194	13,863,500
FINANCE SERVICES -- 4.94%			
First Data Corp.	106,750	3,873,989	4,541,145
FIRE, MARINE & CASUALTY INSURANCE -- 4.78%			
Berkshire Hathaway, Class A *	50	3,234,977	4,395,000
GAS PRODUCTION & DISTRIBUTION -- 5.11%			
El Paso Corporation	452,500	3,249,045	4,706,000
METALWORKING MACHINERY & EQUIPMENT -- 5.86%			
Black & Decker, Inc.	61,000	2,421,589	5,388,130
MISC. SHOPPING GOODS STORE -- 4.31%			
AC Moore, Inc.*	137,500	2,593,634	3,961,375
MISC. TRANSPORTATION EQUIPMENT -- 21.44%			
Polaris Industries, Inc.	290,000	6,855,905	19,725,800
PERSONAL CREDIT INSTITUTION -- 5.37%			
Advanta Corporation, Class A	218,300	2,089,929	4,937,946
REAL ESTATE INVESTMENT TRUST -- 5.06%			
Boykin Lodging *	508,300	4,352,294	4,656,028

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

MATTHEW 25 FUND, INC.
SCHEDULE OF INVESTMENTS IN SECURITIES (CONTINUED)
DECEMBER 31, 2004

	<u>Number of Shares</u>	<u>Historical Cost</u>	<u>Value</u>
RETAIL FOOD STORE -- 0.04%			
Krispy Kreme Doughnuts *	3,000 \$	39,971 \$	37,800
SAVINGS INSTITUTION -- 3.38%			
Willow Grove Bancorp, Inc.	164,405	714,242	3,110,543
SECURITY BROKERS, DEALERS & FLOTATION -- 1.70%			
Ameritrade Clearing, Inc. *	110,000	1,336,333	1,564,200
SURETY INSURANCE -- 11.93%			
MBIA, Inc.	173,500	7,898,944	10,979,080
WATER TRANSPORTATION -- 3.66%			
Alexander & Baldwin	79,467	<u>1,831,951</u>	<u>3,370,990</u>
TOTAL COMMON STOCKS		<u>56,316,406</u>	<u>86,380,362</u>
PREFERRED STOCKS -- 4.39%			
ELECTRIC UTILITIES -- 4.39%			
Pacific G&E Corp. 6% Preferred	112,800	2,051,048	2,859,480
Pacific G&E Corp. 4.8% Preferred	54,300	<u>538,407</u>	<u>1,186,455</u>
TOTAL PREFERRED STOCKS		<u>2,589,455</u>	<u>4,045,935</u>
SHORT-TERM INVESTMENTS -- 1.78%			
Dreyfus Treasury Prime Fund Class B	1,640,083	<u>1,640,083</u>	<u>1,640,083</u>
TOTAL INVESTMENTS -- 100.06%		<u>\$ 60,545,944</u>	92,066,380
Other Assets Less Liabilities -- (0.06)%			<u>(55,201)</u>
NET ASSETS 100.00%			<u>\$ 92,011,179</u>

*Non-income producing security during the year.

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

MATTHEW 25 FUND, INC.
STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2004

ASSETS

Investments in securities at value (cost \$60,545,944)	\$ 92,066,380
Cash	342,715
Receivables:	
Fund shares sold	110,040
Dividends	61,875
Interest	1,600
TOTAL ASSETS	<u>92,582,610</u>

LIABILITIES

Payable for securities purchased	516,425
Payable for dividends	48,988
Accrued expenses	5,959
Payable for shares redeemed	59
TOTAL LIABILITIES	<u>571,431</u>

NET ASSETS: (Equivalent to \$17.22 per share based on 5,342,791 shares of capital stock outstanding 100,000,000 shares authorized, \$0.01 par value)	\$ <u>92,011,179</u>
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COMPOSITION OF NET ASSETS

Shares of common stock	\$ 53,428
Additional paid-in capital	60,437,315
Net unrealized appreciation of investments	<u>31,520,436</u>
NET ASSETS	\$ <u>92,011,179</u>

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

MATTHEW 25 FUND, INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004

INVESTMENT INCOME:

Dividends	\$ 1,519,807
Interest	<u>5,577</u>

TOTAL INVESTMENT INCOME	<u>1,525,384</u>
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EXPENSES:

Investment advisory fee (Note 2)	693,753
Registration and compliance	20,523
Office expense	18,672
Directors' fees and expenses	15,764
Insurance	12,724
Custodian fees	12,599
Postage and printing	12,235
Audit	12,013
Software	7,610
Shareholder reporting	7,122
Bank fees	4,774
State and local taxes	4,200
Telephone	4,158
IRA expense	<u>3,643</u>

TOTAL EXPENSES	<u>829,790</u>
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NET INVESTMENT INCOME	<u>695,594</u>
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REALIZED AND UNREALIZED GAIN ON INVESTMENTS (Note 6)

Net realized gain on investments	1,635,057
Net change in unrealized appreciation of investments	<u>11,705,936</u>
Net realized and unrealized gain on investments	<u>13,340,993</u>

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 14,036,587</u>
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The accompanying notes are an integral part of these financial statements.

MATTHEW 25 FUND, INC.
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
INCREASE IN NET ASSETS FROM OPERATIONS:		
Net Investment income (loss)	\$ 695,594	\$ (2,552)
Net realized gain on investments	1,635,057	2,696,755
Net change in unrealized appreciation on investments	<u>11,705,936</u>	<u>11,271,079</u>
 NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS:	 14,036,587	 13,965,282
 DISTRIBUTIONS TO SHAREHOLDERS	 (2,330,651)	 (2,695,051)
RETURN OF CAPITAL DISTRIBUTION	-	(45,052)
CAPITAL SHARE TRANSACTIONS (Note 5)	<u>20,303,769</u>	<u>6,877,527</u>
 TOTAL INCREASE	 32,009,705	 18,102,706
NET ASSETS, BEGINNING OF YEAR	<u>60,001,474</u>	<u>41,898,768</u>
 NET ASSETS, END OF YEAR	 <u>\$ 92,011,179</u>	 <u>\$ 60,001,474</u>

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

MATTHEW 25 FUND, INC.

FINANCIAL HIGHLIGHTS AND RELATED RATIOS / SUPPLEMENTAL DATA

For a Share Outstanding Throughout the Year:

	12/31/04	12/31/03	12/31/02	12/31/01	12/31/00
Net asset value, Beginning of year.....	\$14.72	\$11.68	\$11.97	\$10.90	\$10.55
Income from investment operations					
Net investment income (loss).....	0.13	0.00	0.09	0.00	(0.01)
Net gains (loss) on investments both realized and unrealized.....	<u>2.82</u>	<u>3.74</u>	<u>(0.29)</u>	<u>1.17</u>	<u>0.39</u>
Total from investment operations.....	<u>2.95</u>	<u>3.74</u>	<u>(0.20)</u>	<u>1.17</u>	<u>0.38</u>
Less distributions.....	(0.45)	(0.69)	(0.09)	(0.10)	(0.03)
Return of capital distribution.....	<u>0.00</u>	<u>(0.01)</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total distributions.....	<u>(0.45)</u>	<u>(0.70)</u>	<u>(0.09)</u>	<u>(0.10)</u>	<u>(0.03)</u>
Net asset value, End of year.....	\$17.22	\$14.72	\$11.68	\$11.97	\$10.90
Total return.....	20.05%	32.12%	(1.67)%	10.69%	3.62%
Net assets, end of year (000's omitted).....	\$92,011	\$60,001	\$41,899	\$35,621	\$27,050
Ratio of expenses, to average net assets.....	1.19%	1.23%	1.24%	1.23%	1.22%
Ratio of net investment income, to average assets.....	1.00%	(0.01)%	0.85%	0.04%	(0.07)%
Portfolio turnover rate.....	12.46%	23.52%	38.68%	26.42%	30.80%

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

MATTHEW 25 FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - *Summary of Significant Accounting Policies*

Nature of Operations

Matthew 25 Fund, Inc. ("the Fund") was incorporated on August 28, 1995 in Pennsylvania and commenced operations on October 16, 1995. The Fund is registered as an open-end, non-diversified management investment company under the Investment Company Act of 1940, and its shares are registered under the Securities Act of 1933. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. These policies are in conformity with accounting principles generally accepted in The United States of America.

Security Valuations

Equity securities are valued by using market quotations. Securities that are traded on any stock exchange or on the NASDAQ over-the-counter market are valued at the last quoted sale price. Lacking a last sale price, an equity security is generally valued at its last bid price. When market quotations are not readily available, or when the Advisor determines that the market quotation does not accurately reflect the current market value, or when restricted or illiquid securities are being valued, such securities may be valued as determined in good faith by the Board of Directors. The Board has adopted guidelines for good faith pricing, and has delegated to the Advisor the responsibility for determining fair value prices, subject to review by the Board of Directors.

Federal Income Taxes

The Fund's policy is to comply with the requirements of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all its taxable income to its shareholders. Therefore, no federal income tax provision is required.

Distributions to Shareholders

The Fund intends to distribute to its shareholders substantially all of its net investment income, if any, and net realized capital gains, if any, at year end.

Other

The Fund follows industry practice and records security transactions on the trade date. The specific identification method is used for determining gains or losses for financial statements and income tax purposes. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis.

Estimates

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

MATTHEW 25 FUND, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2004

NOTE 2 - Investment Advisory Agreement and Other Related Transactions

The Fund has an investment advisory agreement with The Matthew 25 Management Corporation, (The Advisor) whereby The Advisor receives a fee of 1% per year on the net assets of the Fund. All fees are computed on the average daily closing net asset value of the Fund and are payable monthly. The Advisor has agreed to decrease the investment advisory fee or, if necessary, to reimburse the Fund if and to the extent that the Fund's aggregate annual operating expenses exceed 2.0% of the first \$10,000,000 and 1.5% of the next \$20,000,000.

The management fee for 2004, as computed pursuant to the investment advisory agreement, totaled \$693,753.

Mr. Mark Mulholland is the sole director and officer of The Advisor and is also the President of the Fund. In addition, Mr. Mulholland is a broker at Boenning & Scattergood Inc. During the year ended December 31, 2004, the Fund paid brokerage commissions of \$153 to Boenning & Scattergood Inc. of which Mr. Mulholland received compensation totaling \$0. Boenning & Scattergood Inc. is not otherwise associated with Matthew 25 Fund, Inc. or The Advisor and is not responsible for any of the investment advice rendered to the Fund by The Advisor or Mr. Mulholland.

NOTE 3 - Investments

For the year ended December 31, 2004, purchases and sales of investment securities other than short-term investments aggregated \$26,033,059 and \$8,597,790 respectively. At December 31, 2004, the gross unrealized appreciation for all securities totaled \$32,388,301 and the gross unrealized depreciation for all securities totaled \$867,865 or a net unrealized appreciation of \$31,520,436. The aggregate cost of securities for federal income tax purposes at December 31, 2004 was \$60,545,944, including short-term investments.

NOTE 4 - Capital Share Transactions

As of December 31, 2004 there were 100,000,000 shares of \$.01 per value capital stock authorized. The total par value and paid-in capital totaled \$60,490,743. Transactions in capital stock were as follows for the years ended:

	December 31, 2004		December 31, 2003	
	Shares	Amount	Shares	Amount
Shares sold	1,489,112	\$ 23,399,607	756,747	\$ 9,676,482
Shares issued in reinvestment of dividends	131,915	2,276,856	186,948	2,740,103
Shares redeemed	(353,285)	(5,372,694)	(456,995)	(5,539,058)
Net Increase	<u>1,267,742</u>	<u>\$ 20,303,769</u>	<u>486,700</u>	<u>\$ 6,877,527</u>

NOTE 5 - Distributions to Shareholders

On December 28, 2004, a distribution of \$0.13 per share aggregating \$695,594 was paid to shareholders of record on this same date from net investment income.

On December 28, 2004, a distribution of \$0.32 per share aggregating \$1,635,057 was paid to shareholders of record on this same date from net long-term capital gains.

MATTHEW 25 FUND, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2004

NOTE 6 - *Federal Income Taxes*

Income and long-term capital gain distributions are determined in accordance with Federal income tax regulations, which may differ from accounting principles generally accepted in the United States. As of December 31, 2004, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	\$	0
Undistributed long-term capital gain	\$	0
Unrealized appreciation	\$	31,520,436

The tax character of distributions paid during the years ended December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Ordinary income	\$ 695,594	\$ 0
Long-term capital gain	\$ 1,635,057	\$ 2,695,051
Return of capital distribution	\$ 0	\$ 45,052

Reclassification: In accordance with SOP 93-2, the Fund has recorded a reclassification in the capital accounts. As of December 31, 2003, the Fund recorded permanent book/tax differences of \$848 from net investment loss to Paid-in capital. This reclassification has no impact on the net asset value of the Fund and is designed generally to present undistributed income and net realized gains on a tax basis, which is considered to be more informative to shareholders.

NOTE 7 - *Lease Commitments*

The Fund leases office space under a lease that expires February of 2007. Rent expense was \$11,571 for the year ended December 31, 2004.

Minimum lease payments over the course of the term of the lease are as follows:

2005	\$	11,905
2006	\$	11,965
2007	\$	1,994

ADDITIONAL INFORMATION

PROXY VOTING GUIDELINES

Matthew 25 Management Corp., the Fund's Advisor, is responsible for exercising the voting rights associated with the securities held by the Fund. A description of the policies and procedures used by the Advisor in fulfilling this responsibility is available without charge, upon request, by calling 1-888-M25-FUND.

QUARTERLY FILING OF PORTFOLIO HOLDINGS

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov>. The Fund's Forms N-Q may also be reviewed and copied at the SEC'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.

ADDITIONAL INFORMATION (Continued)
BOARD OF DIRECTORS INFORMATION
Matthew 25 Fund
December 31, 2004

The business and affairs of the Fund are managed under the direction of the Fund's Board of Directors. Information pertaining to the Directors of the Fund are set forth below. The Fund's SAI includes additional information about the Fund's Directors, and is available without charge, by calling 1-888-M25-FUND. Each director may be contacted by writing to the director c/o Matthew 25 Fund, 607 West Avenue, Jenkintown, PA 19046

INDEPENDENT DIRECTORS

Name and Age	Position with Fund	Term of Office and Length of Time Served	Principle Occupation During Last Five Years	Other Directorships
Philip J. Cinelli, D.O. Age 44	Director	1 year with election held annually He has been a Director since 7/8/1996	Physician in Family Practice	Not a director for any other public companies
Samuel B. Clement Age 46	Director	1 year with election held annually He has been a Director since 7/8/1996	Stockbroker with Securities of America	Not a director for any other public companies
Linda Guendelsberger Age 45	Director Secretary of Fund	1 year with election held annually She has been a Director since 7/8/1996	CPA and Partner with Fishbein & Co.	Not a director for any other public companies
Scott Satell Age 41	Director	1 year with election held annually He has been a Director since 7/8/1996	Manufacturer's Representative with BPI Ltd.	Not a director for any other public companies

INTERESTED DIRECTORS

Steven D. Buck, Esq. Age 44	Director	1 year with election held annually He has been a Director since 7/8/1996	Attorney and Shareholder with Stevens & Lee	Not a director for any other public companies
Mark Mulholland Age 45	Director President of Fund	1 year with election held annually He has been a Director since 7/8/1996	President of Matthew 25 Fund President of Matthew 25 Management Corp. Stockbroker with Boenning & Scattergood	Not a director for any other public companies

Mr. Buck and Mr. Mulholland are Directors of the Fund and are considered "interested persons" as defined by the Investment Company Act of 1940. Mr. Mulholland is an interested person insofar as he is President and owner of the Fund's Investment Adviser. Mr. Buck is not an independent director as long as he or his law firm provides legal advice to the Fund for compensation. Additionally, Mr. Buck's sister Lesley Buck, is the Operations Officer of Matthew 25 Management Corp.

Sanville & Company

CERTIFIED PUBLIC ACCOUNTANTS

ROBERT F. SANVILLE, CPA
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
Matthew 25 Fund, Inc.
Jenkintown, Pennsylvania

We have audited the accompanying statement of assets and liabilities of Matthew 25 Fund, Inc. (the "Fund"), including the schedule of investments, as of December 31, 2004, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2004, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Matthew 25 Fund, Inc. as of December 31, 2004, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Abington, Pennsylvania
February 8, 2005


Certified Public Accountants