



CWF

Canadian World Fund  
Limited

A photograph of three business professionals walking on a city street. On the left, a man in a dark suit and tie carries a briefcase. In the center, a woman in a dark blazer and skirt carries a briefcase. On the right, another man in a dark suit and tie carries a briefcase. They are all smiling and appear to be in conversation. The background shows a cityscape with buildings and a body of water.

Investing  
*in* global  
opportunities

ANNUAL REPORT 2001

CANADIAN GENERAL INVESTMENTS, LIMITED (ESTABLISHED IN 1930)  
THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED (ESTABLISHED IN 1928)  
CANADIAN WORLD FUND LIMITED (ESTABLISHED IN 1994)



*It is with great sadness that we recognize the loss of our Chairman and fellow director  
E. Louise Morgan nee Dalzell of New Annan, P.E.I.*

E. LOUISE MORGAN passed away – too early – on December 21, 2001 after nearly half a century of service. She joined our closed-end fund family in 1955 when the late Colonel Maxwell C.G. Meighen appointed her as secretary to himself, his father the Hon. Arthur Meighen, former Prime Minister of Canada, and also as Corporate Secretary of the closed-end trusts. She was Chairman of the Board of Canadian World Fund Limited since its establishment in 1994.

Louise guided the corporate and administrative activity of the trusts and the investment management group throughout the past five decades. Chief decision-maker until the very end, she was notable for her skills, dedication, quickness of mind, her strength and high personality. Her dedication to and conviction about the benefits of the closed-end structure were evident in all her business dealings and continue to be a guiding principle of the Company.

In private life, and as President of the Catherine and Maxwell Meighen Foundation, she was a generous benefactor of cultural and community services. She was committed to helping people with autism and was a keen fund-raiser for Kerry's Place Autism Services. As an active member of the Canadian Opera Company, she served on a number of Committees. Always proud of her roots, she was Honorary Chieftain of the College of Piping and Celtic Performing Arts in P.E.I., as depicted in the above portrait.

Never one to stand on ceremony, her genuine concern and understanding in dealing with people will be missed by us all.

## CORPORATE PROFILE

CANADIAN WORLD FUND LIMITED (CWF), established in 1994, endeavours to provide superior long-term returns by investing globally in securities of publicly traded, primarily growth companies. CWF seeks companies with special prospects for appreciation and/or income generation. The company has a strategy calling for emphasis on opportunities in the U.S. and the U.K., the premier developed and liquid markets, where relative long-term performance has the edge over the rest of the world.

A bottom-up style selection process is employed by the Manager, Morgan Meighen & Associates Limited (website: [mmainvestments.com](http://mmainvestments.com)), investment managers since 1956.

CWF's common shares are listed on the Toronto Stock Exchange under the symbol CWF. Market prices are published daily in Canada. Net asset value per share (NAV) is calculated daily and published in various media in Canada and the United States.

CWF is a founding member of the Closed-End Fund Association (CEFA) in North America (website: [www.cefa.com](http://www.cefa.com)).

### TOP TEN INVESTMENTS

(Excluding cash)

(Portfolio details on page 11)

	%
Cheung Kong (Holdings) Limited – <i>Hong Kong</i>	4.2
Interbrew S.A./N.V. – <i>Belgium</i>	4.1
Companhia de Bebidas das Americas (Ambev) – <i>Brazil</i>	3.8
British Energy PLC – <i>United Kingdom</i>	3.7
Pilkington PLC – <i>United Kingdom</i>	3.6
Tesco PLC – <i>United Kingdom</i>	3.5
Bunge Limited – <i>Argentina</i>	3.5
Grupo Aeroportuario del Sureste S.A. de C.V. – <i>Mexico</i>	3.4
AOL Time Warner Inc. – <i>United States</i>	3.2
Xiniao Gas Holdings Limited – <i>China</i>	3.1
<b>Total</b>	<b>36.1</b>



Vanessa L. Morgan, *Chairman* and  
Michael A. Smedley, *President*

# Seeking stability of return

**C**ANADIAN WORLD FUND LIMITED (CWF), ONE OF VERY FEW LISTED OPPORTUNITIES IN GLOBAL STOCKS, EXPERIENCED A STRONG FOURTH QUARTER RECOVERY IN 2001, AS ITS NET ASSETS REBOUNDED 14.2% WHILE ITS MARKET PRICE ROSE 12.5%.

COMPARISON OF  
MARKET PRICE TO NAV  
Years 1997 to 2001



## YEAR TO FORGET

It was, for most global equities investors, a year to forget. Even on the final rebound, nine thousand U.S. mutual funds tracked by Lipper Analytical finished down an average of 13.3% for the year. It was the first two-year decline for the U.S. market since 1974. The international category was far worse: -22% for the year, paralleling CWF which closed the year down 22% in net assets, on recovery from its trough point of approximately -36% after the September tragedy. The Morgan Stanley All-Country World Free Index in Canadian dollar terms was down 12%, and Canadian international equity mutual funds were down 19% on average.

Elements of the year-end recovery were similar worldwide. Some of the best gains were in insurance and travel-related stock groups – those that were hardest hit in September. Many “staple” and “comfort” stocks generally did well – unlike other

major stock groups already subject to pervasive erosion in consumer and business confidence prior to September 11.

## LOOKING FORWARD

What now? For the present, the consensus points to modest economic recovery in 2002. The most obvious development regions are Russia and China, but this does not imply that these countries will necessarily do best in market terms.

CWF’s best net asset value (NAV) performances in the past, 12% in 1996, 11% in 1997 and 33% in 1999 – arose mainly from early investment in world telecommunications stocks and a variety of special situations. In 2002, we expect to continue our focus on opportunities in the U.S. and the U.K., the premier developed and liquid markets, where relative long-term performance has the edge over the rest of the world. However, special situations will continue to be sought globally.

*Emphasis on leading developed markets.  
Alert to special growth situations in developing markets.*

**STRATEGIC CHANGE**

We are adjusting toward a more balanced portfolio approach to aim for favourable returns, potentially using more income generating securities and possibly Canadian investments for both appreciation and income.

The number of stock positions has risen in the past few months to the 45 level from about 30 at the end of 2000. The expansion in the number of holdings should help to reduce the impact of extreme volatility of markets. Healthy gains have been recorded recently throughout the expanded portfolio.

**PORTFOLIO EVENTS**

There were many additions in the fourth quarter. The Charles Schwab Corporation should reflect market trading improvement. Handspring, Inc., a leader in handheld communications devices, has encouraged high expectations with its new Treo model. Navigant International, Inc., has a small market capitalization, but is a major listed travel agency in the U.S. Pfizer Inc. is our present selection among major pharmaceutical stocks. Prudential Financial, Inc., recently taken public, is one of the top asset managers in the world and should follow the success trail of peers, such as MetLife Inc. The stock price of The Robert Mondavi Corporation, the major publicly quoted wine producer in California, is depressed by the fall off in on-site demand post September 11, as well as a wine production glut in the state. Weight Watchers International, Inc., a household name in 27 countries, is one of the few high quality investments that made it to the market as an initial public offering last year.

Our investment in Converium Holding AG positions CWF in the post IPO phase of this interesting reinsurance industry spin-off from Zurich Financial Services, with the advantage of capped losses arising from the September 11 tragedy.

Kobenhavns Lufthavne A/S represents our return to a successful holding of earlier years. Copenhagen airport became an undervalued opportunity after the September terrorism.

Bloomsbury Publishing PLC holds publishing rights to the Harry Potter books in North America and has other publishing strengths. Standard Chartered PLC is strong in Asian banking, and is also a takeout prospect.

Our special successes last year included positioning in P&O Princess Cruises PLC, which rebounded post September 11 and moved upwards again, responding to take over overtures by Carnival CP. Both Enterprise Oil PLC and Alliance & Leicester PLC are linked to take over talk and were up strongly.

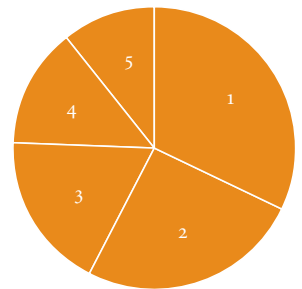
The new year started positively and we hope for further improvement in the months ahead. We believe our new portfolio strategy will result in stability of return that our shareholders are seeking.

**BOARD OF DIRECTORS**

Jonathan A. Morgan was appointed to the Board in December 2001, succeeding E. Louise Morgan. Concurrently, Vanessa L. Morgan was elected Chairman of the Board.

<i>“Signed”</i>	<i>“Signed”</i>
Vanessa L. Morgan <i>Chairman</i>	Michael A. Smedley <i>President</i>
February 6, 2002	February 6, 2002

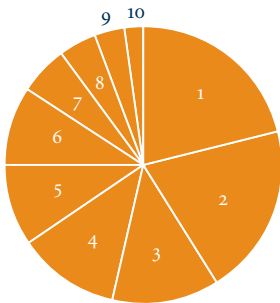
**GEOGRAPHIC WEIGHTING OF PORTFOLIO INVESTMENTS AT MARKET**  
December 31, 2001



1 United Kingdom	32.1%
2 North America	25.5%
3 Europe (excluding U.K.)	18.0%
4 Asia	13.7%
5 Latin America	10.7%

ECONOMIC SECTOR  
WEIGHTING OF PORTFOLIO  
INVESTMENTS AT MARKET\*

December 31, 2001



1	Consumer Staples	21.1%
2	Financials	20.0%
3	Consumer Discretionary	12.5%
4	Utilities	11.9%
5	Health Care	9.5%
6	Industrials	9.2%
7	Materials	5.7%
8	Telecommunication Services	4.4%
9	Information Technology	3.5%
10	Energy	2.2%

\* Using the Global Industry Classification Standard developed by Morgan Stanley Capital International and Standard & Poor's.

Despite the rebound in the fourth quarter, most global markets and the Canadian World Fund Limited (CWF) portfolio fell in 2001. CWF significantly reduced technology and telecommunications stocks in the portfolio and allocated funds to other sectors including consumer staples and consumer discretionary.

Europe, including the U.K., remained the dominant geographic segment in both 2001 and 2000, with 50.1% and 57.5% weightings at December 31, respectively. The weighting of North America, the second largest geographic segment, was 25.5%, down from 30.0% in 2000.

NET ASSETS

Net assets at December 31, 2001, were \$19,003,000, up 14.2% from September 30, 2001 but down 22.0% from year-end 2000. On a per share basis, corresponding net asset values per share (NAV) were \$4.63, \$4.06 and \$5.94 respectively. By comparison, the Corporation's benchmark, the Morgan Stanley All-Country World Free Index, expressed in Canadian dollar terms, was up 10.1% for the fourth quarter and down 12.2% for the year of 2001. The returns for the year also reflect the 6.2% depreciation of the Canadian dollar vis-à-vis the U.S. dollar. The Corporation does not employ currency hedging, but is well diversified by country and region.

Bank borrowings employed for leverage purposes increased by \$400,000 in the final quarter to \$4.1 million at December 31, 2001.

Net realized loss on investments during the year was \$892,000, compared to \$88,000 in 2000. Declining market values in the year led to a \$4,097,000 decrease in unrealized value of investments, compared to a decline of \$7,541,000 last year. At December 31, 2001, total unrealized loss on investments stood at \$497,000, a significant improvement from the September 30 loss of \$2,966,000.

The portfolio turnover rate increased to 82.3% in 2001 from 76.7% in 2000, largely as a result of extraordinary market volatility.

OPERATIONS

Total investment income for the year almost doubled to \$437,000 from \$220,000 last year. The improvement resulted primarily from dividend distributions received from income generating stocks which were purchased commencing in the latter part of 2000. These include Alliance & Leicester PLC, Pilkington PLC and P & O Princess Cruises PLC.

Total expenses for the year declined by 29.0% to \$682,000 from the \$961,000 recorded in 2000, a result of significant decreases in both management fees and interest. Management fees were down 40.0% to \$337,000 from \$562,000 due to the fall in portfolio value. The management fee is calculated quarterly in arrears at 1.5% per annum of net asset value without deduction for tax liabilities. Although the level of borrowings was increased near the end of the 2001, interest expense for the year was 24.1% lower than last year due to declining interest rates as well as lower

average borrowing levels compared to the previous year. The weighted average borrowing rate for the year was 4.9%, significantly lower than the 6.1% rate in 2000. The management expense ratio (MER) for both 2001 and 2000 was 2.4%. Brokerage commissions, interest and income taxes are excluded from the calculation of MER.

The \$135,000 income tax provision at December 31, 2001 primarily represents the reversal of a recovery recorded in 2000. Since CWF is in a taxable loss situation and does not have unrealized gains at December 31, for accounting purposes the corporation does not meet the defined criteria required to continue to recognize a recovery.

Net investment loss for the years 2001 and 2000 was \$380,000 and \$416,000, respectively.

### DISCOUNT AND STOCK PRICE

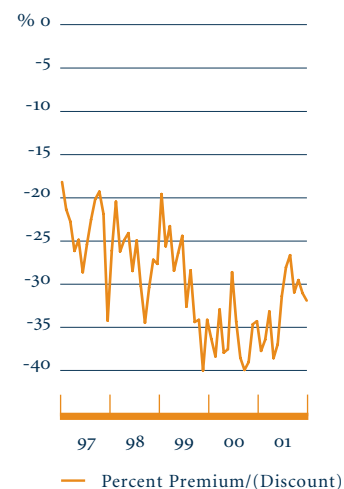
CWF's market price per share closed the year at \$3.15, down 19.2% from the prior year level of \$3.90. The discount to NAV closed at 32.0%, as compared to 34.3% at December 31, 2000.

### OUTLOOK

The primary objective of the investment manager will continue to be bottom-up stock selection with a more balanced portfolio approach to aim for favourable returns, potentially using more income generating securities and possibly Canadian investments for both appreciation and income.

### PREMIUM/(DISCOUNT) TO NAV

Years 1997 to 2001



### CLOSED-END FUNDS SIMPLY UNDERSTOOD

- Fixed number of shares
- Usually listed and traded on a stock exchange
- Bought and sold through investment dealers and brokers
- Commission charges only
- Trade usually below real value
- May pay cash and/or stock dividends
- Often have dividends and dividend reinvestment plans
- May employ leverage

## MANAGEMENT'S REPORT

The accompanying financial statements have been prepared by management and approved by the Board of Directors of the Corporation. Management is responsible for the information and representations contained in these financial statements and other sections of the Annual Report.

The Corporation maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. The significant accounting policies which management believes are appropriate for the Corporation are described in note 1 to the financial statements. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit Committee comprised of a majority of non-management Directors is appointed by the Board. The Audit Committee reviews the financial statements, adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited financial statements for publication.

PricewaterhouseCoopers LLP, the Corporation's external auditors, who are appointed by the shareholders, audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements. Their report is set out on this page.

*"Signed"*

Vanessa L. Morgan  
*Chairman*

February 6, 2002

*"Signed"*

Michael A. Smedley  
*President*

February 6, 2002

## AUDITORS' REPORT

*To the Shareholders of  
Canadian World Fund Limited*

We have audited the accompanying statements of net assets of **Canadian World Fund Limited** as at December 31, 2001 and 2000, and the statement of investments as at December 31, 2001, the statements of operations, retained earnings (deficit), unrealized gain (loss) on investments and changes in net assets for the years then ended, and the statements of financial highlights for each of the years in the five-year period ended December 31, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000, and the results of its operations and the changes in its net assets for the years then ended and its financial highlights for each of the years in the five-year period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles.

*"PricewaterhouseCoopers LLP"*

Chartered Accountants  
Toronto, Ontario

January 21, 2002

## STATEMENTS OF NET ASSETS

<i>As at December 31, 2001 and 2000</i>	<b>2001</b>	2000
<i>(in thousands of dollars, except per share amounts)</i>	\$	\$
<b>Assets</b>		
Investments ( <i>note 1</i> )	21,414	25,827
Cash	1,496	3,682
Receivable on securities sold	922	–
Accrued dividends	29	10
Income taxes recoverable	365	437
	<b>24,226</b>	29,956
<b>Liabilities</b>		
Bank indebtedness ( <i>note 2</i> )	4,068	4,692
Payable on securities purchased	1,108	–
Accounts payable and accrued liabilities	47	44
	<b>5,223</b>	4,736
Future income taxes on unrealized net capital gains	–	848
	<b>5,223</b>	5,584
<b>Net Assets</b>	<b>19,003</b>	24,372
<b>Shareholders' Equity</b>		
Capital stock ( <i>note 3</i> )	20,507	20,507
Unrealized gain (loss) on investments	(497)	3,600
Retained earnings (deficit)	(1,007)	265
	<b>19,003</b>	24,372
<b>Number of shares outstanding</b>	<b>4,101,350</b>	4,101,350
<b>Net asset value per share</b>	<b>4.63</b>	5.94

Approved by the Board of Directors

*“Jack H.B. Nederpelt”*

*Director*

*“Michael A. Smedley”*

*Director*

## STATEMENTS OF OPERATIONS

<i>For the years ended December 31, 2001 and 2000</i>	<b>2001</b>	2000
<i>(in thousands of dollars)</i>	\$	\$
<b>Investment income</b>		
Dividends	388	189
Interest	49	31
	437	220
<b>Expenses</b>		
Management fees <i>(note 5)</i>	337	562
Interest	189	249
Directors' fees	31	31
Other	125	119
	682	961
<b>Investment loss before income taxes</b>	(245)	(741)
<b>Income tax provision (recovery)</b>	135	(325)
<b>Net investment loss for the year</b>	(380)	(416)
<b>Realized and unrealized loss on investments</b>		
Net realized loss on investments <i>(note 4)</i>	(892)	(88)
Change in unrealized appreciation/depreciation of investments	(4,097)	(7,541)
<b>Net loss on investments</b>	(4,989)	(7,629)
<b>Decrease in net assets resulting from operations</b>	(5,369)	(8,045)

## STATEMENTS OF RETAINED EARNINGS (DEFICIT)

<i>For the years ended December 31, 2001 and 2000</i>	<b>2001</b>	2000
<i>(in thousands of dollars)</i>	\$	\$
Retained earnings – Beginning of year	265	769
Net investment loss for year	(380)	(416)
Net realized loss on investments	(892)	(88)
Retained earnings (deficit) – End of year	<u>(1,007)</u>	265

## STATEMENTS OF UNREALIZED GAIN (LOSS) ON INVESTMENTS

<i>For the years ended December 31, 2001 and 2000</i>	<b>2001</b>	2000
<i>(in thousands of dollars)</i>	\$	\$
Unrealized gain on investments – Beginning of year	3,600	11,141
Decrease during the year	(5,060)	(12,186)
Decrease in provision for future income taxes	963	4,645
Unrealized gain (loss) on investments – End of year	<u>(497)</u>	3,600

## STATEMENTS OF CHANGES IN NET ASSETS

<i>For the years ended December 31, 2001 and 2000</i>	<b>2001</b>	2000
<i>(in thousands of dollars)</i>	\$	\$
Decrease in net assets resulting from operations	(5,369)	(8,045)
Net assets – Beginning of year	24,372	32,417
Net assets – End of year	<u>19,003</u>	24,372

## STATEMENTS OF FINANCIAL HIGHLIGHTS

<i>For the five years ended December 31, 2001</i>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
	\$	\$	\$	\$	\$
<b>Data per share (note 7)</b>					
Net asset value – Beginning of year	5.94	7.90	5.95	6.24	5.62
<b>Income (loss) from investment operations</b>					
Net investment loss	(0.09)	(0.10)	(0.03)	(0.01)	–
Net realized and unrealized gain (loss) on investments	(1.22)	(1.86)	1.98	(0.28)	0.62
	(1.31)	(1.96)	1.95	(0.29)	0.62
Net asset value – End of year	4.63	5.94	7.90	5.95	6.24
<b>Ratios/supplemental data</b>					
Total net assets – End of year (in thousands of dollars)	19,003	24,372	32,417	24,420	25,607
Weighted average net assets (in thousands of dollars)	20,289	29,219	24,982	24,654	25,702
Management expense ratio (note 7(b))	2.4%	2.4%	2.4%	2.3%	2.0%
Portfolio turnover rate (note 7(c))	82.3%	76.7%	74.2%	60.1%	25.4%
Annual net asset value growth (note 7(d))	(22.1)%	(24.8)%	32.7%	(4.7)%	11.0%

## STATEMENT OF INVESTMENTS

December 31, 2001

Number of Shares or Par Value	Investment – % of Total Market Value	Market Cost	Market Value
<i>(in thousands of dollars)</i>			
<b>ASIA – 13.7%</b>			
54,000	Cheung Kong (Holdings) Limited (Hong Kong)	\$ 823	\$ 893
940,000	China Rare Earth Holdings Limited (China)	459	422
492,000	Convenience Retail Asia Limited (China)	231	254
8,000	Dr. Reddy's Laboratories Limited ADR <sup>+</sup> (India)	231	242
15,000	ICICI Limited ADR (India)	276	143
17	NTT DoCoMo, Inc. (Japan)	511	318
1,400,000	Xinao Gas Holdings Limited (China)	381	665
<b>TOTAL ASIA</b>		<b>2,912</b>	<b>2,937</b>
<b>EUROPE – 50.1%</b>			
<i>Europe Excluding United Kingdom</i>			
94,000	Anglo Irish Bank Corporation PLC (Ireland)	453	567
6,800	Converium Holding AG, ADR <sup>+</sup> (Switzerland)	257	264
20,000	Interbrew S.A./N.V. (Belgium)	801	873
4,400	Kobenhavns Lufthavn A/S (Copenhagen Airports A/S) <sup>*</sup> (Denmark)	396	454
4,950	Mercator Poslovní Sistem (Slovenia)	471	524
15,000	Oslo Bors Holding ASA (Norway)	318	399
7,700	Renault S.A. (France)	541	433
13,000	Union Fenosa, S.A. <sup>+</sup> (Spain)	312	335
<b>Total Europe (Excluding United Kingdom) – 18.0%</b>		<b>3,549</b>	<b>3,849</b>
<i>United Kingdom</i>			
30,000	Alliance & Leicester PLC	390	557
55,000	BHP Billiton PLC	433	445
11,500	Bloomsbury Publishing PLC <sup>*</sup>	226	211
150,000	British Energy PLC	919	792
80,000	Cable & Wireless PLC	1,318	612
125,000	Centrica PLC	378	643
45,000	Enterprise Oil PLC	636	486
93,500	Legal & General Group PLC	340	344
50,000	P & O Princess Cruises PLC	281	463
300,000	Pilkington PLC	816	778

Number of Shares or Par Value	Investment – % of Total Market Value	Market Cost	Market Value
<i>(in thousands of dollars)</i>			
17,000	Shire Pharmaceuticals Group PLC	\$ 426	\$ 339
24,000	Standard Chartered PLC <sup>*</sup>	467	456
130,000	Tesco PLC	762	750
<b>Total United Kingdom – 32.1%</b>		<b>7,392</b>	<b>6,876</b>
<b>TOTAL EUROPE</b>		<b>10,941</b>	<b>10,725</b>
<b>LATIN AMERICA – 10.7%</b>			
20,000	Bunge Limited <sup>+</sup> (Argentina)	511	741
25,000	Companhia de Bebidas das Americas (Ambev) ADR preference shares (Brazil)	911	808
30,000	Grupo Aeroportuario del Sureste S.A. de C.V. ADR <sup>+</sup> (Mexico)	780	736
<b>TOTAL LATIN AMERICA</b>		<b>2,202</b>	<b>2,285</b>
<b>NORTH AMERICA – 25.5%</b>			
<i>United States</i>			
13,500	AOL Time Warner Inc. <sup>+</sup>	890	690
5,000	Amgen Inc.	462	449
10,000	Arch Coal, Inc.	429	362
4,000	Calpine Corporation	346	107
5,000	The Charles Schwab Corporation <sup>*</sup>	118	123
10,000	deCODE GENETICS, INC.	397	156
50,000	Handspring, Inc. <sup>*</sup>	402	537
10,000	Kraft Foods Inc. <sup>+</sup>	530	542
8,000	Krispy Kreme Doughnuts, Inc. <sup>+</sup>	425	563
2,000	Microsoft Corporation	211	211
5,500	Navigant International, Inc. <sup>*</sup>	101	100
5,000	Pfizer Inc. <sup>*</sup>	334	317
10,000	Prudential Financial, Inc. <sup>*</sup>	464	529
4,000	The Robert Mondavi Corporation, class A <sup>*</sup>	206	242
10,000	Weight Watchers International, Inc. <sup>*</sup>	541	539
<b>TOTAL NORTH AMERICA</b>		<b>5,856</b>	<b>5,467</b>
<b>TOTAL INVESTMENTS – 100.0%</b>			
		<b>\$ 21,911</b>	<b>\$ 21,414</b>
– December 31, 2001		<b>\$ 21,911</b>	<b>\$ 21,414</b>
– December 31, 2000		<b>\$ 21,264</b>	<b>\$ 25,827</b>

Changes from September 30, 2001: <sup>\*</sup> New Holdings; <sup>+</sup> Increased Holdings

## NOTES TO FINANCIAL STATEMENTS

*December 31, 2001 and 2000*

### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Valuation of investments*

Market values of securities are based on closing market quotations.

#### *Investment transactions*

Investment transactions are recorded on the trade date. Realized gains and losses from investment transactions are calculated on an average cost basis.

#### *Dividend and interest income*

Dividend income is recorded on the ex-dividend date and interest income is recognized as earned.

#### *Foreign exchange*

Assets and liabilities denoted in foreign currencies are translated into Canadian dollars at year-end rates. Investment income, expenses and purchases and sales of investments are calculated at the exchange rates prevailing on the dates of the transactions.

#### *Future income taxes*

The company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are measured using rates expected to apply to taxable income in the years in which the temporary differences are expected to be settled on the company's unrealized appreciation of investments.

### 2 BANK INDEBTEDNESS

The company has a demand credit facility of CAN\$5.0 million, subject to specified covenants, with interest based on the prime bankers' acceptance rate. The bank indebtedness has a combined weighted average interest rate of 2.76% as at December 31, 2001 (2000 – 6.41%).

### 3 CAPITAL STOCK

The company is authorized to issue unlimited preferred shares issuable in series and unlimited common shares. As at December 31, 2001 and 2000, there are 4,101,350 common shares issued and outstanding.

### 4 NET REALIZED LOSS ON INVESTMENTS

The net realized loss on investments was as follows:

	2001	2000
	\$	\$
	<i>(in thousands of dollars)</i>	
Proceeds from disposition of investments	19,582	31,301
Investments at cost – Beginning of year	21,264	24,335
Investments purchased during the year	21,121	28,342
Investments at cost – End of year	(21,911)	(21,264)
Cost of investments disposed of during the year	20,474	31,413
Realized loss on disposition of investments		
before recovery of income taxes	(892)	(112)
Income tax recovery on allowable capital losses <i>(note 6)</i>	–	(24)
Net realized loss on investments	(892)	(88)

## 5 RELATED PARTY INFORMATION

Management fees are paid monthly to Morgan Meighen & Associates Limited, a corporation under common control with the company, for services received in connection with the management of the company's financial accounts and investment portfolio. Management fees are calculated on a quarterly basis at the annual rate of 1.50% of net asset value without a deduction for tax liabilities.

## 6 TAXATION

The company, as a public corporation, is subject to income taxes on its income and realized gain on investments at the rates of approximately 42% (2000 – 44%) and 21% (2000 – 22%), respectively. The effective tax rate for future income taxes is approximately 19% (2000 – 21%).

The provision for income taxes of \$135,000 in the statement of operations for the year ended December 31, 2001 results primarily from providing a valuation allowance on a portion of the prior year's operating loss which at December 31, 2000 was recorded as a reduction in the future income tax liability. There is no income tax recovery on the realized loss on disposition of investments in the amount of \$186,000 as a result of a valuation allowance.

The company has non-capital loss carry-forwards of approximately \$500,000 which begin to expire in 2007 and allowable capital losses of approximately \$890,000. No tax benefit has been recorded in the financial statements with respect to these losses as well as the tax benefit resulting from the unrealized loss on investments of \$497,000.

## 7 FINANCIAL HIGHLIGHTS

### *Explanatory notes*

- a) All data per share, except opening and closing net asset values, are based on the average number of shares outstanding during the year.
- b) The management expense ratio is calculated based on all expenses of the company (other than brokerage commissions, interest and income taxes) expressed as a percentage of the average monthly net assets of the company.
- c) The portfolio turnover rate is calculated by dividing the lesser of purchases or sales of securities, excluding securities having a maturity date at acquisition of one year or less, by the weighted average value of the portfolio securities held during the year.
- d) Annual net asset value growth is calculated based on the change in net asset value per share.

**Bunge Limited**, the 175 year-old major soft commodities firm based in Argentina, was recently taken public in ADR form on the New York Stock Exchange (NYSE). It has long been a world-scale operation, roughly paralleling Continental Grain Company and Cargill Inc., both private companies. Bunge now forms a peer group on the NYSE with Archer-Daniels Midland Company. Bunge is best known for its role as the major soybean company in Brazil. Brazil's soy industry has tremendous growth potential. Bunge has announced that it is not negatively affected by the Argentinian crisis as that country should be regarded as its cost base rather than a profit centre.

**Grupo Aeroportuario de Sureste S.A. de C.V.** manages nine airports in Mexico, including Cancun, and its major shopping complex development, opened late last year. The stock was sent into decline by the New York tragedy and we regard it as a recovery situation now unfolding. It appears to be an excellent management group which has a relationship with its peer in Denmark, **Kobenhavns Lufthavne A/S**, a stock which we have also reintroduced to the portfolio after an absence of some years.

**Xinao Gas Holdings Limited** is representative of the top tier of private enterprise companies in China and its work is to open up delivery of natural gas from the major

pipelines projected across that vast developing country. Its market consists of a middle-class population already above 50 million and industries such as fertilizer plants that can use natural gas for processing.

Other holdings at year-end included two more China stocks. **China Rare Earth Holdings Limited** is a leading rare metal processor in the country where most of the extraction takes place. **Convenience Retail Asia Limited**, a convenience store chain controlled by Hong Kong's Li & Fung (Retailing) Limited, is building retail operations in China.

**Oslo Bors Holding ASA** is, as suggested by the name, the stock exchange in Oslo. It is benefiting from big increases in both activity and revenues from a small base as well as from consolidation talk among newly public European stock exchanges.

**Union Fenosa S.A.**, based in Spain, is a power generation operator with an ambitious expansion program. In recent years, it has spent approximately EUR 1.9 billion, mainly in the Caribbean and Latin America.

**Mercator Poslovni Sistem** exposes the portfolio to Slovenia, which is arguably the best investment destination in the Balkan countries. Mercator builds merchandise chains and is expanding in the neighbouring countries, creating a strong base in modern shopping facilities.

*Today's global investment process is made easier by modern communication processes in a decidedly more complex investment world. By electronic means, retrieval of research materials, facts and opinions on companies and securities worldwide is almost instantaneous. Modern transportation allows for fast visits to conference and company events in countries worldwide. The fund manager in Toronto is as well equipped for global investing as for domestic investing. The following excerpts from an internal report on a recent research visit to UBS Warburg's Greater China Conference held in Shanghai in late January 2002 by Michael A. Smedley, Chief Portfolio Manager of CWF, demonstrate the type of global experiences enjoyed by Morgan Meighen & Associates Limited, its Manager.*

The conference was held January 28-31 at the Grand Hyatt Hotel, the highest hotel in the world, on the 54<sup>th</sup> to 85<sup>th</sup> floors of the Jinmao Tower, situated close to the Huangpu River and on the reclaimed Pudong side of the river. It provides one of the world's most spectacular city views overlooking the Bund which is packed with 1860-1930 heritage buildings, Shanghai is home to fourteen million people. It is modern. It is abuzz with post World Trade Organization (WTO) entry expectation. A table entitled "China's position in the global economy after WTO" is shown below.

Dr. George Duan of Ping An Insurance, the leading insurer, expressed confidence his industry is undergoing strong growth.

Business measured by premium income has grown by 34% annually since 1980.

Mr. Chen Ge, a Director at the China Petroleum and Chemical Corporation, better known as Sinopec (NYSE listed), gave an overview of the company – "a significant presence along the entire value chain of petroleum and petrochemical products". Sinopec is one of three blue-chip, state-controlled energy companies. The company has 65% of the retail market in its regions. Leading branding is claimed as are barriers to entry. In China, in 1996, there were 350,000 private cars, compared to 3.5 million in 2002. The forecast for 2010 is 15 million.

Mr. Stanley Wong, Chief Executive, China, of the Standard Chartered Bank sees a competitive landscape for banking. The big four state-owned banks have 70% of the loans market while the 206 foreign banks have a dismal 2%. Deregulation specified in WTO accession terms make capturing a piece of this action a reality for foreign banks. On plastic cards, Mr. Wong says there are only one million real credit cards in the market of which only 50% is internationally controlled. By comparison, in Hong Kong, there are nine million credit cards charging interest rates of roughly 20% per annum. He forecasts that currency convertibility will not occur for at least five years, but only two years before foreign banks will be permitted to transact directly with local companies.

The surprise twist at the conference was on telecommunications. Mr. Xu Fuxin, CEO of China Telecom's Yuhang City operations is an expert on a communications system labeled PAS, a low cost wireless non-mobile phone technology that is growing by leaps and bounds. He and others have pioneered development of over eight million subscribers in 300 cities across China. PAS is outrunning the GSM and CDMA mobile market. In the southern city of Guangdong alone, 16,000 consumers are being signed up daily! He forecasts that the figure will rise to 30 million across China by 2003.

PAS is affordable, Mr. Xu says, for the lower level consumers who don't want roaming and international capabilities.

The Conference also covered China distribution services, food wholesaling and retailing, textiles and motors, power generation, advertising and wholesale provision of technology products and supply chain management services.

While major developed markets are the focus of CWF's portfolio strategy, the Manager recognizes substantial opportunities in markets such as China.

### China's position in the global economy after WTO

% of global total	Output			Exports			Imports		
	1995	2005		1995	2005		1995	2005	
		No WTO	WTO		No WTO	WTO		No WTO	WTO
Textiles	10.8	13.9	14.2	8.4	8.8	10.6	13.4	18.0	25.5
Wearing apparel	7.0	8.8	20.1	19.6	18.5	47.1	1.0	1.1	3.7
Automobiles	1.9	3.8	1.1	0.1	0.7	2.2	2.0	1.8	4.8
Electronics	2.6	4.5	4.8	5.0	7.8	9.8	3.6	5.3	5.7
Total	3.4	5.3	5.1	3.7	4.8	6.8	3.4	5.3	6.6

Source: Trade Liberalization in China's Accession to WTO by Elena Ianchovichina and Will Martin, World Bank June 2001.

- More specialisation of the Chinese economy, its share of global exports and imports will increase because of WTO.
- Industries like textile, garment and electronics will be the major beneficiaries.
- Some industries, like automobiles etc., will face more competition.

## CORPORATE INFORMATION

### CANADIAN WORLD FUND LIMITED

#### BOARD OF DIRECTORS

Carl S. Hutman

*(Private Investor)*

Jonathan A. Morgan

*(Senior Vice-President and Director,  
Morgan Meighen & Associates Limited  
[Investment Management])*

Vanessa L. Morgan

*(Chairman of Canadian General  
Investments, Limited [Closed-end  
Investment Company])*

Jack H.B. Nederpelt

*(Managing Partner, Heidrick & Stuggles  
[Executive Recruiting Firm])*

Michael A. Smedley

*(President of Canadian General  
Investments, Limited [Closed-end  
Investment Company])*

#### AUDIT COMMITTEE

Carl S. Hutman

Jonathan A. Morgan

Jack H.B. Nederpelt

#### CORPORATE GOVERNANCE COMMITTEE

Carl S. Hutman

Jonathan A. Morgan

Jack H.B. Nederpelt

#### OFFICERS

Vanessa L. Morgan

*Chairman*

Michael A. Smedley

*President*

Colin Smith

*Secretary-Treasurer*

Frank Fuernkranz

*Assistant-Treasurer*

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#### AUDITORS

PricewaterhouseCoopers LLP

Toronto

#### BANKERS

Bank of Montreal

Toronto

#### SOLICITORS

Blake, Cassels & Graydon LLP

Toronto

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To change your address, eliminate multiple mailings or for other shareholder account inquiries, please contact Computershare at the above address.

#### STOCK EXCHANGE LISTING

The Toronto Stock Exchange

*Trading Symbol: CWF*

*The Corporation is a founding member of  
the Closed-End Fund Association ('CEFA')  
in North America.*

#### PUBLICATION

Net asset value per share (NAV) and/or market price, market return, and discount information are published daily/weekly in various media in Canada and the United States. These include: Globe and Mail, National Post, New York Times, Wall Street Journal, and Barron's.

The Corporation posts ongoing top 10 portfolio investments (priced at market), together with current discount and market return information on its website. Similar information is available directly from the Corporation upon request.

#### ANNUAL MEETING OF SHAREHOLDERS

The Annual General Meeting of the shareholders of Canadian World Fund Limited will be held at 10:00 a.m. (Toronto time) Tuesday, April 2, 2002 in Room A, 4th Floor, The Toronto Board of Trade, 77 Adelaide Street West, First Canadian Place, Street Level (Adelaide Street entrance), Toronto, Ontario, M5X 1C1.



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