



CWF

Canadian World Fund
Limited

Investing
in the *global*
economy

2

SECOND QUARTER REPORT

June 30, 2001

Letter to the Shareholders

The Canadian World Fund Limited portfolio has benefited by the recent inclusion of pioneering companies in China, longer held financial sector stocks in the U.K. and Ireland, and the performance of other individual holdings.

Growth in global markets through the first half of 2001 has been virtually limited to China, Mexico and Russia. CWF is a holder in two of those countries. In China, we own **China Rare Earth Holdings Limited**, the leading processor of rare minerals. Eighty percent of the world's known resources of such minerals are in China. We acquired **Convenience Retail Asia Limited** which is the Hong Kong based expert retail interest of Li and Fung, now in a big expansion drive to capture positioning in China. **Greencool Technology Holdings Limited** has a major role in the switch from CFC refrigerants across China. **Xinao Gas Holdings Limited** is an example of pioneering the distribution of gas supplies from China's new transnational pipelines to the consumers. All of these stocks are listed on exchanges in Hong Kong.

In India, we recently bought **Dr. Reddy's Laboratories Limited**, one of the top generic drug producers in India, which has strong product pipelines and operates all the way from molecular development to the export markets.

In Mexico, we recently purchased **Grupo Aeroportuario del Sureste S.A. de C.V.** The group is a market newcomer and is developing infrastructure and retail services at nine airports throughout Mexico, the principal location being Cancun. Mexico is one of the world's most significant tourist destinations and the group, known as Asur, is an expertly managed recently privatized company in a partnership arrangement with



Copenhagen Airport.

Among other portfolio events, the shares in **Interbrew SA/NV** gained on improvement in their ownership situation of BASS.

An interesting recent purchase in Norway was **Oslo Bors Holdings ASA**. European stock exchanges are in privatization mode and Oslo is a high growth exchange

operating in a rapidly expanding small market. The stock could also benefit from consolidations and other corporate activities in the European trading scene.

The outlook for world markets and the timing of recovery in telecommunications related companies is unclear, and only China, Russia and Mexico still appear to offer prospective growth in the near to medium term. The usual emerging market risks apply, while Mexico as a converging economy is also affected by the state of the United States economy.

Performance has produced a year-to-date net asset value change of -16.5%, better than most global closed-end funds but more negative than -9.7% for the Morgan Stanley All Country World Free Index (MSCI), expressed in Canadian dollar terms. The MSCI has a significantly greater weighting in U.S. stocks than CWF. Negative performance of CWF has increased on the recent depreciation of the Euro and Pound Sterling as well as on the fast correction in all energy related stocks.

The Manager, Morgan Meighen & Associates Limited, employs a bottom-up investment strategy, focusing primarily on individual companies.

A handwritten signature in black ink, appearing to read "M. Smedley". The signature is fluid and cursive, written over a white background.

Michael A. Smedley, President

Management's Discussion and Analysis

The second quarter of 2001 exhibited many of the same characteristics of the first quarter, a reflection of the cautious attitudes of global investors as well as a continuing global economic slowdown. The technology and telecommunication sectors continued in retreat. These sectors represented approximately 18% of the Canadian World Fund Limited (CWF) portfolio at June 30, 2001 compared to a weighting of 25% at the end of the first quarter of the year. The portfolio continued with similar geographic weightings at June 30, 2001 as at the end of the first quarter. Europe remained the dominant segment with a weighting of 50.3% compared to 58.3% at the end of the first quarter, and heavily focussed on the U.K. The United States remained the second largest segment at 26.8%, down from 28.6% at March 31, 2001. The Asia weighting was increased significantly from 5.5% at the end of the first quarter to 14.0% at June 30, 2001.

The Fund's mandate is to seek to achieve superior long-term returns from capital appreciation through opportunistic investment selection among global, publicly listed companies.

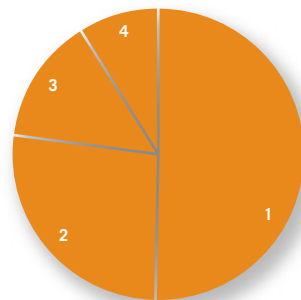
Net Assets

At June 30, 2001, net assets were \$20,342,000, down 5.4% from March 31, 2001 and down 16.5% from year-end 2000. On a per share basis, corresponding net asset values per share were \$4.96, \$5.24 and \$5.94 respectively, the highest number corresponding with a high point in technology stocks. The Corporation's benchmark, the Morgan Stanley All Country World Free Index, expressed in Canadian dollar terms, was down 1.6% from March 31, 2001 and down 9.7% for the half year. The returns for the first six months of 2001 reflect the 1.2% 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.

Net realized gain on investments for the second quarter was \$447,000 compared to a gain of \$596,000 in the second quarter of 2000. Declining market values in the second quarter of 2001 led to a \$1,465,000 decrease in unrealized appreciation of investments and an unrealized loss on investments of \$182,000. By comparison, there was a decline of \$6,915,000 in the unrealized appreciation of investments for the same period last year.

WEIGHTING OF PORTFOLIO INVESTMENTS AT MARKET

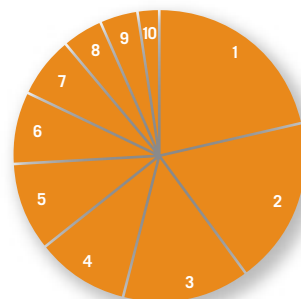
June 30, 2001



| | | |
|---|---------------|-------|
| 1 | Europe | 50.3% |
| 2 | North America | 26.8% |
| 3 | Asia | 14.0% |
| 4 | Latin America | 8.9% |

ECONOMIC SECTOR WEIGHTING OF PORTFOLIO INVESTMENTS AT MARKET*

June 30, 2001



| | | |
|----|----------------------------|-------|
| 1 | Financials | 21.4% |
| 2 | Utilities | 18.5% |
| 3 | Telecommunication Services | 14.1% |
| 4 | Consumer Staples | 10.3% |
| 5 | Materials | 9.8% |
| 6 | Consumer Discretionary | 8.0% |
| 7 | Industrials | 6.8% |
| 8 | Health Care | 4.5% |
| 9 | Information Technology | 4.2% |
| 10 | Energy | 2.4% |

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

Bank borrowings employed for leverage purposes remained at the \$3.7 million level of the first quarter, a reduction from the \$4.7 million employed at year-end 2000. The cost of this program should continue to fall with the on-going decline in interest rates.

Operations

CWF had a net investment loss for the six month period ended June 30, 2001 of \$213,000 compared with a net investment loss of \$195,000 for the same period in 2000.

Total investment income for the quarter ended June 30, 2001 increased by 126.2% from the second quarter of 2000 as significant dividends were received from U.K. holdings including Alliance & Leicester PLC, P & O Princess Cruises PLC and Pilkington PLC. For the six month periods ended June 30, 2001 and 2000, total investment income increased by 85.6%, to \$271,000 from \$146,000. These increases resulted from distributions from income generating stocks purchased in late 2000 and in the first half of 2001.

Total expenses for the first six months of \$369,000 were 25.9% lower than the \$498,000 reported for the corresponding period last year. Management fees were down 41.1% to \$188,000 from \$319,000 as a result of the decline in portfolio assets. The management fee is calculated quarterly in arrears at 1.5% per annum of net asset value without deduction for tax liabilities.

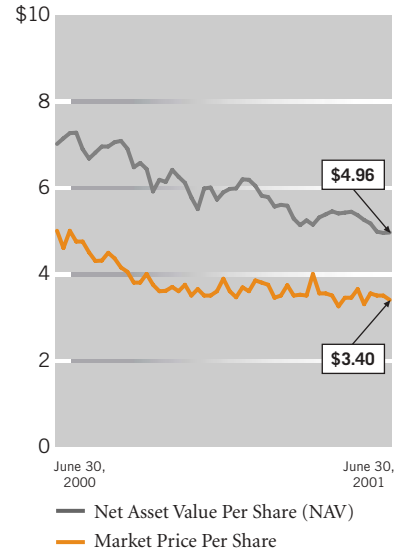
The \$115,000 income tax provision at June 30, 2001 represents the reversal of a recovery recorded in 2000. Since CWF is in a taxable loss situation and does not have unrealized gains at June 30, for accounting purposes the corporation does not have the virtual certainty required to continue to recognize a recovery.

Discount

CWF's market price per share closed the quarter at \$3.40, down 2.9% from the end of the first quarter. The discount to NAV at the end of the second quarter narrowed to 31.5% from the 33.2% level at the end of the first quarter.

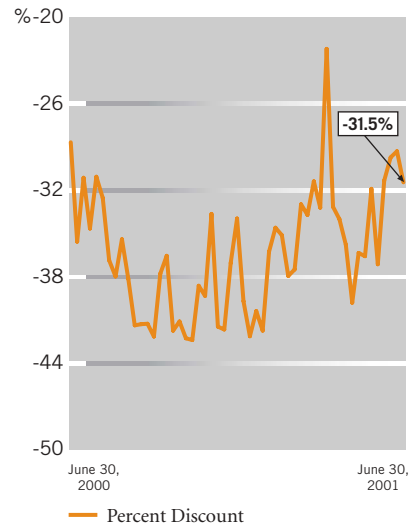
COMPARISON OF MARKET PRICE TO NAV

Twelve months ended June 30, 2001



DISCOUNT TO NAV

Twelve months ended June 30, 2001



Outlook

The primary objective of the investment manager will continue to be individual stock selection for growth while taking advantage of long-term and short-term opportunities.

INVESTMENT PORTFOLIO TEN LARGEST INVESTMENTS

June 30, 2001

| Company | Market Value (000's) | % at Market |
|---|-----------------------------|--------------------|
| Telefonica S.A. | \$1,117 | 4.8 |
| Arch Coal, Inc. | 1,080 | 4.6 |
| Barclays PLC | 1,002 | 4.3 |
| Centrica PLC | 972 | 4.1 |
| Alliance & Leicester PLC | 960 | 4.1 |
| Cheung Kong (Holdings) Limited | 893 | 3.8 |
| British Energy PLC | 885 | 3.8 |
| Companhia de Bebidas das Americas (Ambev) | 878 | 3.7 |
| AOL Time Warner Inc. | 843 | 3.6 |
| Interbrew S.A./N.V. | 813 | 3.5 |
| Totals | \$9,443 | 40.3 |

Statements of Net Assets

| (Unaudited) (in thousands of dollars, except per share amounts) | June 30, 2001 | December 31, 2000 | June 30, 2000 |
|--|------------------|----------------------|------------------|
| Assets | | | |
| Investments | \$ 23,449 | \$ 25,827 | \$ 35,792 |
| Cash | 245 | 3,682 | 284 |
| Accrued interest and dividends | 71 | 10 | 15 |
| Income taxes recoverable | 437 | 437 | — |
| | 24,202 | 29,956 | 36,091 |
| Liabilities | | | |
| Bank indebtedness | 3,694 | 4,692 | 4,291 |
| Payable on securities purchased | 142 | — | — |
| Accounts payable and accrued liabilities | 24 | 44 | 29 |
| Income taxes payable | — | — | 579 |
| | 3,860 | 4,736 | 4,899 |
| Future income taxes on unrealized net capital gains | — | 848 | 2,438 |
| | 3,860 | 5,584 | 7,337 |
| Net Assets | \$ 20,342 | \$ 24,372 | \$ 28,754 |
| Shareholders' Equity | | | |
| Capital stock | \$ 20,507 | \$ 20,507 | \$ 20,507 |
| Unrealized gain (loss) on investments | (182) | 3,600 | 5,755 |
| Retained earnings | 17 | 265 | 2,492 |
| | \$ 20,342 | \$ 24,372 | \$ 28,754 |
| Number of shares outstanding | 4,101,350 | 4,101,350 | 4,101,350 |
| Net asset value per share | \$ 4.96 | \$ 5.94 | \$ 7.01 |

Note to Financial Statements

The accompanying financial statements should be read in conjunction with the notes to the company's audited financial statements for the year ended December 31, 2000. These interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements.

Statements of Operations

(Unaudited)

(in thousands of dollars)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | June 30, 2001 | June 30, 2000 | June 30, 2001 | June 30, 2000 |
| Investment income | | | | |
| Dividends | \$ 169 | \$ 71 | \$ 234 | \$ 125 |
| Interest | 21 | 13 | 37 | 21 |
| | 190 | 84 | 271 | 146 |
| Expenses | | | | |
| Management fees | 86 | 165 | 188 | 319 |
| Interest | 52 | 62 | 108 | 104 |
| Directors' fees | 8 | 9 | 14 | 18 |
| Other | 33 | 29 | 59 | 57 |
| | 179 | 265 | 369 | 498 |
| Investment income (loss) before income taxes | 11 | (181) | (98) | (352) |
| Income tax provision (recovery) | 161 | (80) | 115 | (157) |
| Net investment loss | (150) | (101) | (213) | (195) |
| Realized and unrealized gain (loss) on investments | | | | |
| Net realized gain (loss) on investments | 447 | 596 | (35) | 1,918 |
| Change in unrealized appreciation of investments | (1,465) | (6,915) | (3,782) | (5,386) |
| Net loss on investments | (1,018) | (6,319) | (3,817) | (3,468) |
| Decrease in net assets resulting from operations | \$ (1,168) | \$ (6,420) | \$ (4,030) | \$ (3,663) |

Statements of Retained Earnings

(Unaudited)

(in thousands of dollars)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | June 30, 2001 | June 30, 2000 | June 30, 2001 | June 30, 2000 |
| Retained earnings (deficit) - Beginning of period | \$ (280) | \$ 1,997 | \$ 265 | \$ 769 |
| Net investment loss for the period | (150) | (101) | (213) | (195) |
| Net realized gain (loss) on investments | 447 | 596 | (35) | 1,918 |
| Retained earnings – End of period | \$ 17 | \$ 2,492 | \$ 17 | \$ 2,492 |

Statements of Changes in Net Assets

(Unaudited)

(in thousands of dollars)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2001 | June 30, 2000 | June 30, 2001 | June 30, 2000 |
| Decrease in net assets resulting from operations | \$ (1,168) | \$ (6,420) | \$ (4,030) | \$ (3,663) |
| Net assets - Beginning of period | 21,510 | 35,174 | 24,372 | 32,417 |
| Net assets - End of period | \$ 20,342 | \$ 28,754 | \$ 20,342 | \$ 28,754 |

Statements of Net Loss on Investments

(Unaudited)

(in thousands of dollars)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2001 | June 30, 2000 | June 30, 2001 | June 30, 2000 |
| Proceeds from disposition of investments | \$ 3,034 | \$ 9,263 | \$ 10,824 | \$ 17,811 |
| Investments at cost, beginning of period | 19,685 | 26,135 | 21,264 | 24,335 |
| Investments purchased during the period | 6,400 | 9,861 | 13,226 | 18,236 |
| Investments at cost, end of period | (23,631) | (27,596) | (23,631) | (27,596) |
| Cost of investments disposed of during the period | 2,454 | 8,400 | 10,859 | 14,975 |
| Realized gain (loss) on disposition of investments | | | | |
| before income taxes | 580 | 863 | (35) | 2,836 |
| Income taxes on realized net taxable capital gains | 133 | 267 | — | 918 |
| Net realized gain (loss) on investments | 447 | 596 | (35) | 1,918 |
| Change in unrealized appreciation of investments | (1,465) | (6,915) | (3,782) | (5,386) |
| Net loss on investments | \$ (1,018) | \$ (6,319) | \$ (3,817) | \$ (3,468) |

Statement of Investments

June 30, 2001

| NUMBER OF SHARES OR PAR VALUE | | COST | MARKET VALUE |
|-------------------------------------|--|--------------|-----------------|
| <i>(in thousands of dollars)</i> | | | |
| ASIA | | | |
| – China | | | |
| 940,000 | China Rare Earth Holdings Limited* | 459 | 503 |
| 492,000 | Convenience Retail Asia Limited* | 231 | 256 |
| 618,000 | Greencool Technology Holdings Limited* | 385 | 373 |
| 1,400,000 | Xinao Gas Holdings Limited* | 381 | 460 |
| | | <u>1,456</u> | <u>1,592</u> |
| – Hong Kong | | | |
| 54,000 | Cheung Kong (Holdings) Limited | 823 | 893 |
| – India | | | |
| 5,000 | Dr. Reddy's Laboratories Limited ADR* | 142 | 141 |
| 15,000 | ICICI Limited ADR | 276 | 209 |
| | | <u>418</u> | <u>350</u> |
| – Japan | | | |
| 17 | NTT DoCoMo, Inc.* | 511 | 449 |
| | TOTAL ASIA | <u>3,208</u> | <u>3,284</u> |
| EUROPE | | | |
| – Belgium | | | |
| 20,000 | Interbrew S.A./N.V. | 801 | 813 |
| – Finland | | | |
| 8,000 | Nokia Corporation ADR | 579 | 268 |
| – Germany | | | |
| 27,500 | Koninklijke (Royal) KPN NV* | 253 | 237 |
| – Ireland | | | |
| 94,000 | Anglo Irish Bank Corporation PLC | 453 | 539 |
| – Norway | | | |
| 15,000 | Oslo Bors Holding ASA* | 318 | 354 |
| – Spain | | | |
| 23,100 | Banco Santander Central Hispano S.A. ADR | 389 | 322 |
| 19,765 | Telefonica S.A. ADR | 442 | 1,117 |
| | | <u>831</u> | <u>1,439</u> |
| – Sweden | | | |
| 20,000 | Telefonaktiebolaget LM Ericsson ADR | 634 | 163 |
| – United Kingdom | | | |
| 55,000 | Alliance & Leicester PLC | 715 | 960 |
| 21,500 | Barclays PLC | 764 | 1,002 |
| 55,000 | Billiton PLC* | 433 | 417 |
| 150,000 | British Energy PLC+ | 919 | 885 |
| 80,000 | Cable & Wireless PLC+ | 1,318 | 715 |

| NUMBER OF SHARES OR PAR VALUE | | COST | MARKET VALUE |
|-------------------------------------|---|------------------|------------------|
| <i>(in thousands of dollars)</i> | | | |
| – United Kingdom (continued) | | | |
| 200,000 | Centrica PLC | 606 | 972 |
| 45,000 | Enterprise Oil PLC | 636 | 569 |
| 93,500 | Legal & General Group PLC+ | 340 | 322 |
| 100,000 | P & O Princess Cruises PLC | 562 | 791 |
| 300,000 | Pilkington PLC | 816 | 644 |
| 130,000 | Tesco PLC | 762 | 713 |
| | | <u>7,871</u> | <u>7,990</u> |
| | TOTAL EUROPE | <u>11,740</u> | <u>11,803</u> |
| LATIN AMERICA | | | |
| – Brazil | | | |
| 25,000 | Companhia de Bebidas das Americas (Ambev) ADR preference shares | 911 | 878 |
| 9,000 | Telecomunicacoes Brasileiras S.A. HOLDERS (Telebras) | 467 | 639 |
| | | <u>1,378</u> | <u>1,517</u> |
| – Mexico | | | |
| 20,000 | Grupo Aeroportuario del Sureste S.A. de C.V. ADR* | 572 | 568 |
| | TOTAL LATIN AMERICA | <u>1,950</u> | <u>2,085</u> |
| NORTH AMERICA | | | |
| – United States | | | |
| 10,500 | AOL Time Warner Inc. | 714 | 843 |
| 8,000 | Amgen Inc. | 739 | 753 |
| 27,500 | Arch Coal, Inc.+ | 1,181 | 1,080 |
| 8,000 | Calpine Corporation* | 692 | 459 |
| 10,000 | deCODE GENETICS, INC. | 397 | 166 |
| 10,000 | Duke Energy Corporation | 606 | 592 |
| 8,000 | Enron Corporation | 310 | 595 |
| 10,000 | Massey Energy Company | 285 | 300 |
| 4,000 | Microsoft Corporation | 423 | 436 |
| 20,000 | P G & E Corporation | 422 | 368 |
| 10,000 | Solectron Corporation | 555 | 278 |
| 8,000 | Stilwell Financial, Inc.* | 409 | 407 |
| | | <u>6,733</u> | <u>6,277</u> |
| | TOTAL NORTH AMERICA | <u>6,733</u> | <u>6,277</u> |
| TOTAL INVESTMENTS | | | |
| | – June 30, 2001 | <u>\$ 23,631</u> | <u>\$ 23,449</u> |
| | – December 31, 2000 | <u>\$ 21,264</u> | <u>\$ 25,827</u> |
| | – June 30, 2000 | <u>\$ 27,596</u> | <u>\$ 35,792</u> |

Changes from March 31, 2001

* New Holdings

+ Increased Holdings

Corporate Information – Canadian World Fund Limited

Office of the Company

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website: www.mmainvestments.com

Stock Exchange Listings

The Toronto Stock Exchange

Trading Symbol: CWF

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

Registrar and Transfer Agent

Computershare Trust Company of Canada

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1-800-663-9097

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e-mail: mmamail@computershare.com

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

Publication

The Corporation calculates and releases its net asset value per share (NAV) on a daily basis. The NAV is published in various media in Canada and the United States.

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

Stock Data – Common Shares

June 30, 2001

| | |
|-----------------|--------|
| Price | \$3.40 |
| Net Asset Value | \$4.96 |
| Discount | 31.5% |