



CWF

Canadian World Fund  
Limited



# GLOBAL OPPORTUNITIES

2003 ANNUAL REPORT

# 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.

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 at Market

*(Excludes cash)*  
*December 31, 2003*

<i>(Portfolio details on pages 10 to 11)</i>	<i>%</i>
Corin Group PLC – United Kingdom	3.5
Mercator Poslovni Sistem – Slovenia	2.9
Southwestern Resources Corp. – Canada	2.6
PLIVA d.d. – Croatia	2.5
Niko Resources Ltd. – Canada	2.4
Winnebago Industries, Inc. – United States	2.3
Mundoro Mining Inc. – Canada	2.3
Standard Chartered PLC – United Kingdom	2.2
Far West Mining Ltd. – Canada	2.2
Reliance Industries Limited – India	2.1
<b>Total</b>	<b>25.0</b>

# Capturing Wide Recovery



Jonathan A. Morgan, Vanessa L. Morgan and Michael A. Smedley

- **Net assets up 25.3%**
- **Share price up 36.9%**
- **Investment in 24 countries**
- **Developed and emerging blend**

The developed and emerging markets blend arising from the emphasis by Canadian World Fund Limited (CWF) on bottom-up stock selection worked well in 2003 with net assets finishing the year 25.3% higher than the prior year.

This compares with the 24.0% gain of the Morgan Stanley Emerging Market Free Index and by far outclasses the 7.7% rise in the Morgan Stanley All-Country World Free Index, CWF's benchmark, expressed in Canadian dollar terms.

After hard times for most of the previous three years, recovery has been widely recognizable since the end of the first quarter of 2003. Canadian World Fund's common shares responded, moving up 36.9% to \$3.60 through the year, reflecting the increased interest of investors in its shares in generally more favourable market conditions across the globe.

In many markets, particularly Asia, the long purge had left many stocks undervalued. This was against the backdrop of a convincing downtrend in the U.S. dollar, escalating metals and energy prices, and revival in many technology sectors, both in emerging and developed countries. Market appreciation has been strong, although this is often linked more with recovery from depressed prices or restructuring than with high earnings expectations.

Through the year, India proved to be CWF's best performing destination. Contributing factors included: a diversified and well researched stock market; monsoon conditions which aided the big agricultural base; major road modernization; success of

pharmaceutical and software technology sectors at home and in export markets; developing telecommunications, oil and gas discoveries; and, vibrant banking conditions supporting rapid advance in home and vehicle ownership. India is a democracy with large and upwardly mobile consumer classes and is rapidly gaining more attention among international investors.

While almost everything went right in India last year including the stock market soaring 71.7% in rupees and 80.4% in U.S. dollars, China's stocks rose only 10.5% in local and U.S. currency terms (as published in *The Economist*, January 3, 2004). This might appear surprising as China's highly charged economy captures much more attention and larger investment. Lower market performance touches on the complexity of China's stock market systems and, also relative to India, a young and less sophisticated enterprise sector of the economy. This limits many investors to the "safety" of utilities, telephones, toll roads, railways and the big oil and gas companies.

## Portfolio

In India, the year-end portfolio had an unrealized gain of 53.1% on investments. Among best performers were: Reliance Industries Limited, an industrial, resources and communications conglomerate and the largest private enterprise in the country; Mahindra & Mahindra Limited, a road and farm vehicles and components manufacturer enjoying strong domestic demand; State Bank of India; and, Matrix Laboratories Limited, one of India's pharmaceutical ingredients firms.

In China, a net unrealized loss has been in existence for some time although the portfolio has enjoyed strong individual gains in COFCO International Limited, a well run oils, wine and soft commodities firm and Xinao Gas Holdings Limited, which is pioneering gas supply to industrial and domestic consumers with rapidly improving buying power.

CWF holds investments in the dramatically growing area of Internet portal service to individuals in both India and China.

Russia, another key investment destination, remains limited in availability for international stock investment. However, a recent purchase, Uralsvyazinform, a multi-form regional telephone company, is performing well in the portfolio and growth is expected to continue into 2004.

World markets during 2003 showed many double-digit returns, as well as many surprises in addition to China's moderate showing. According to The Economist, Latin America, though lower profile than Asia through the year, was the top region with Venezuela (175.8%) and Argentina (105.3%) heading the list. Elsewhere, only Egypt and Thailand achieved greater than 100% stock market gains in local currency terms. The global leaders in U.S. dollar terms were Brazil, Venezuela, Thailand and Turkey.

CWF's bottom-up investment style does not require particular market capitalization weightings in any country. At the close of 2003, the portfolio held stocks representative of 24 countries, not taking into account the international business interests of the companies invested in.

## Outlook

The investment manager for CWF avoids strong predictions about future events. It appears however, that the 2004 experience might be quite similar to 2003 with selling pressure on the U.S. dollar and the U.S. still favoured with a gradual trade deficit reduction. Clearer advancement in the recovery of Iraq might improve world politics and create opportunities in global markets. On specific themes, the stand out opportunity at the present time could be a healthy revival of many surviving technology companies. This seems to be in process as we move into 2004.

## Board of Directors

The Board of Directors has voted in favour of increasing the size of the Board from five to six, to allow for a larger representation of outside, unrelated directors. To fill the position, the Board has put forward Mr. Richard O'C. Whittall of Vancouver as a nominee for election to the Board of Directors at the April 2, 2004 Annual Meeting of Shareholders. Mr. Whittall has 17 years of experience in the investment industry and is a Director of Watershed Capital Partners, an investment banking firm located in Vancouver, British Columbia.

We look forward to the year ahead with further optimism for Canadian World Fund.



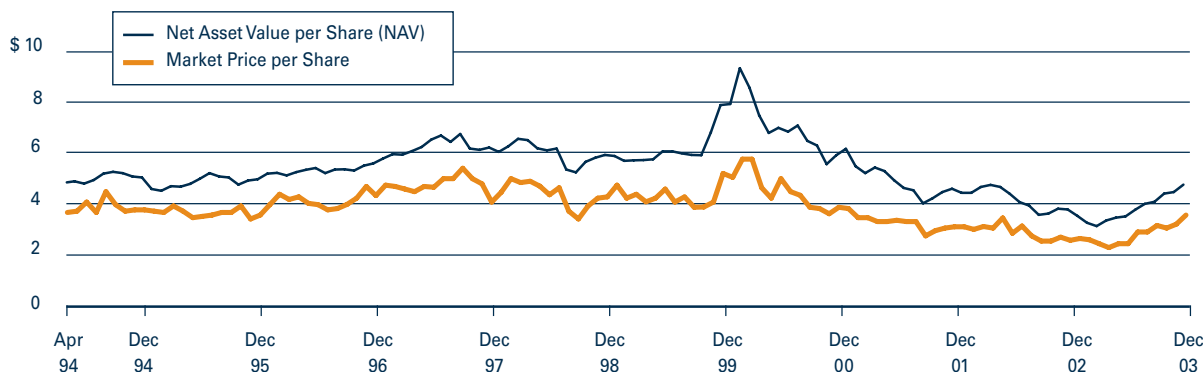
Vanessa L. Morgan  
*Chairman*



Michael A. Smedley  
*President*

February 4, 2004

Comparison of Market Price to NAV – April 30, 1994 to December 31, 2003



# Management's Discussion and Analysis

Canadian World Fund Limited (CWF) finished 2003 strongly with a net asset value return of 16.3% for the fourth quarter and 25.4% for the year. This well exceeded the benchmark, Morgan Stanley All-Country World Free Index, which increased 9.2% and 7.7% respectively in the same periods in Canadian dollar terms. The outcome reflected a significant increase in net assets to \$19,639,000 at December 31, 2003 compared to the 2002 year-end value of \$15,673,000. Results were negatively impacted by currency moves as the Canadian dollar appreciated 18.2% and 9.3% in relation to the U.S. dollar and the British pound, respectively, on a year-over-year basis. The Corporation does not employ currency hedging, but the global portfolio is well diversified and influenced by many currencies.

## Operations

CWF had a net investment loss of \$141,000 for the 2003 year compared to an \$82,000 loss for the year ended 2002. This can be attributed mainly to a 22.1% decrease in investment income for the 2003 year, resulting primarily from the receipt of an extraordinary dividend of \$70,000 from Grupo Aeroportuario del Sureste S.A. de C.V. during 2002 for which no corresponding dividend amount was received in 2003.

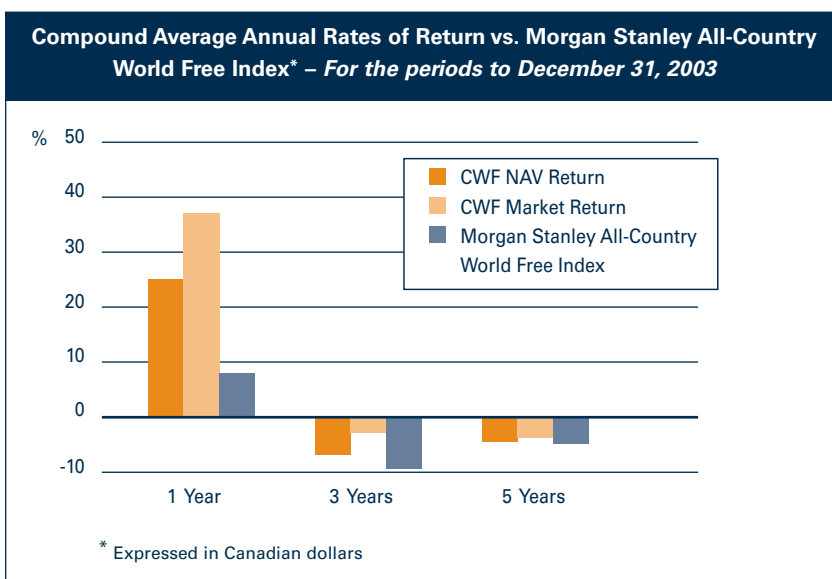
Total expenses declined by \$34,000, or 5.9% from 2002. The main contributor was a 15.7% decrease in management fees to \$241,000 for 2003. The decrease noted is a direct result of lower portfolio values in the first half of 2003 compared to the

same period in 2002. Management fees are calculated quarterly in arrears at 1.5% per annum of net asset value without deduction for tax liabilities.

Interest expense was also down 8.7% in 2003 from the prior year as a result of having a lower average outstanding loan balance for 2003 as compared to 2002. Bank borrowing for leverage purposes varied from a low of \$2,200,000 to a high of \$3,600,000 (the balance at year end) over the 12 months. The weighted average interest rate for 2003 was 3.6% as compared to 3.2% for 2002.

The management expense ratio (MER) was 2.7% for 2003, in comparison to 2.6% in 2002. This increase results mainly from a lower average portfolio asset value in early 2003. Brokerage commissions, interest and income taxes are excluded expenses in the calculation of MER. The portfolio turnover ratio was 79.5% in 2003 as compared to 66.1% in the prior year. The higher turnover noted in the current year is not considered excessive in the active global market environment and recovery from depressed levels which occurred during 2003.

CWF had an unrealized gain on investments of \$3,631,000 at December 31, 2003 compared to an unrealized loss of \$1,546,000 at the end of 2002. The improvement is a reflection of market recovery and strengthening through the last half of 2003. Also contributing to the better unrealized gain (loss) figure was a net realized loss on investments of \$1,069,000, as losses were realized throughout the year. By comparison, CWF



**Weighting of Portfolio Investments at Market – December 31, 2003**

	%
Asia	30.5
North America	29.1
United Kingdom	19.9
Europe (excluding U.K.)	18.9
Other	1.6

had a net realized loss on investments of \$2,192,000 in 2002. Some of the more significant losses in 2003 were realized on the sale of holdings in Shire Pharmaceuticals Group plc, UAL Corporation and Pilkington plc. However, CWF also realized large gains during the year, most notably from Chicago Mercantile Exchange Holdings Inc., Xinao Gas Holdings Limited and Bunge Limited.

As CWF has losses available for carryforward from prior years and realized losses for the year ended December 31, 2003, it does not meet the criteria defined for recognition of a tax recovery on the losses realized from investments and no future income tax provision was recorded for the unrealized gain at year end.

In the fourth quarter of 2002, CWF, as a conservative measure, wrote down to zero the market value of Euro-Asia Agricultural (Holdings) Company Limited, a Hong Kong based agricultural

operator utilising advanced biological technologies. At that time the Hong Kong Stock Exchange had suspended trading in the company's shares due to certain events. On December 24, 2003 the Hong Kong Stock Exchange accepted a formal resumption proposal for review. However, trading in the shares will remain suspended until further notice and as such CWF continues to record the market value at zero until further action is taken.

## Outlook

Market recovery and reduction of historical bear market losses in the international markets and correspondingly CWF's portfolio are expected to continue into 2004. Growth through bottom-up stock selection in a diversified portfolio will continue to be the primary objective of CWF.

### Economic Sector Weighting of Portfolio Investments at Market – December 31, 2003

	%
Financials	17.5
Consumer Discretionary	17.4
Information Technology	14.7
Materials	12.4
Health Care	11.5
Consumer Staples	9.7
Industrials	8.2
Energy	4.3
Telecommunication Services	3.2
Utilities	1.1

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

# Financial Reports

## 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.



Vanessa L. Morgan  
*Chairman*

Michael A. Smedley  
*President*

February 4, 2004

## 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, 2003 and 2002, and the statement of investments as at December 31, 2003, the statements of operations, 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, 2003. 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, 2003 and 2002, 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, 2003 in accordance with Canadian generally accepted accounting principles.



*Chartered Accountants  
Toronto, Ontario*

January 19, 2004

## Statements of Net Assets

<i>As at December 31, 2003 and 2002</i>	2003	2002
<i>(in thousands of dollars, except per share amounts)</i>	\$	\$
<b>Assets</b>		
Investments <i>(note 1)</i>	22,824	18,196
Cash	421	694
Accrued dividends	8	10
Income taxes recoverable	5	–
	<b>23,258</b>	<b>18,900</b>
<b>Liabilities</b>		
Bank indebtedness <i>(note 2)</i>	3,576	3,190
Accounts payable and accrued liabilities	43	35
Income taxes payable	–	2
	<b>3,619</b>	<b>3,227</b>
<b>Net Assets</b>	<b>19,639</b>	<b>15,673</b>
<b>Shareholders' Equity</b>		
Capital stock <i>(note 3)</i>	20,507	20,507
Unrealized gain (loss) on investments	3,631	(1,546)
Deficit	(4,499)	(3,288)
	<b>19,639</b>	<b>15,673</b>
<b>Number of shares outstanding <i>(note 3)</i></b>	<b>4,101,350</b>	<b>4,101,350</b>
<b>Net asset value per share</b>	<b>4.79</b>	<b>3.82</b>

Approved by the Board of Directors



Director



Director

# Statements of Operations

<i>For the years ended December 31, 2003 and 2002</i>	2003	2002
<i>(in thousands of dollars)</i>	\$	\$
<b>Investment income</b>		
Dividends	366	468
Interest	28	38
	394	506
<b>Expenses</b>		
Management fees <i>(note 5)</i>	241	286
Interest <i>(note 2)</i>	116	127
Investor relations	52	52
Directors' fees	32	34
Other	101	77
	542	576
<b>Investment loss before income taxes</b>	(148)	(70)
<b>Income tax recovery (provision) <i>(note 6)</i></b>	7	(12)
<b>Net investment loss for the year</b>	(141)	(82)
<b>Realized and unrealized gain (loss) on investments</b>		
Net realized loss on investments <i>(note 4)</i>	(1,069)	(2,192)
Change in unrealized appreciation (depreciation) of investments	5,177	(1,049)
<b>Net gain (loss) on investments</b>	4,108	(3,241)
<b>Increase (decrease) in net assets resulting from operations</b>	3,967	(3,323)

## Statements of Deficit

<i>For the years ended December 31, 2003 and 2002</i>	2003	2002
<i>(in thousands of dollars)</i>	\$	\$
<b>Deficit – Beginning of year</b>	(3,288)	(1,007)
Net investment loss for the year	(141)	(82)
Net realized loss on investments	(1,069)	(2,192)
Provision for refundable dividend tax on hand	(1)	(7)
<b>Deficit – End of year</b>	<b>(4,499)</b>	<b>(3,288)</b>

## Statements of Unrealized Gain (Loss) on Investments

<i>For the years ended December 31, 2003 and 2002</i>	2003	2002
<i>(in thousands of dollars)</i>	\$	\$
<b>Unrealized loss on investments – Beginning of year</b>	(1,546)	(497)
Increase (decrease) during the year	5,177	(1,049)
<b>Unrealized gain (loss) on investments – End of year</b>	<b>3,631</b>	<b>(1,546)</b>

## Statements of Changes in Net Assets

<i>For the years ended December 31, 2003 and 2002</i>	2003	2002
<i>(in thousands of dollars)</i>	\$	\$
<b>Increase (decrease) in net assets resulting from operations</b>	3,967	(3,323)
<b>Increase in refundable dividend tax on hand</b>	(1)	(7)
<b>Net assets – Beginning of year</b>	15,673	19,003
<b>Net assets – End of year</b>	19,639	15,673

## Statements of Financial Highlights

<i>For the five-year period ended December 31, 2003</i>	2003	2002	2001	2000	1999
	\$	\$	\$	\$	\$
<b>Data per share (note 7)</b>					
<b>Net asset value – Beginning of year</b>	3.82	4.63	5.94	7.90	5.95
<b>Income (loss) from investment operations</b>					
Net investment loss for the year	(0.03)	(0.02)	(0.09)	(0.10)	(0.03)
Net realized and unrealized gain (loss) on investments	1.00	(0.79)	(1.22)	(1.86)	1.98
	0.97	(0.81)	(1.31)	(1.96)	1.95
<b>Net asset value – End of year</b>	4.79	3.82	4.63	5.94	7.90
<b>Ratios/supplemental data</b>					
Total net assets – End of year <i>(in thousands of dollars)</i>	19,639	15,673	19,003	24,372	32,417
Weighted average net assets <i>(in thousands of dollars)</i>	15,791	17,283	20,289	29,219	24,982
Management expense ratio <i>(note 7(b))</i>	2.7%	2.6%	2.4%	2.4%	2.4%
Portfolio turnover rate <i>(note 7(c))</i>	79.5%	66.1%	82.3%	76.7%	74.2%
Annual net asset value growth <i>(note 7(d))</i>	25.4%	-17.5%	-22.1%	-24.8%	32.7%

## Statement of Investments

December 31, 2003

*Number of  
Shares or  
Par Value*      *Investment –  
% of Total Market Value*      *Market  
Cost    Value*

*(in thousands of dollars)*

### ASIA – 30.5%

676,000	Anhui Expressway Company Limited H (China/Hong Kong)	\$ 276	\$ 335
17,500	Bharat Electronics Limited (India)	212	303
34,000	Cheung Kong (Holdings) Limited (China/Hong Kong)	518	349
15,000	Chunghwa Telecom Co., Ltd. ADR (Taiwan)	287	281
496,000	COFCO International Limited (China/Hong Kong)	230	413
1,904,000	Euro-Asia Agricultural (Holdings) Company Limited (China/Hong Kong)	629	0
250,000	G.K. Goh Holdings Limited (Singapore)*	174	169
8,500	Konica Minolta Holdings, Inc. (Japan)*	161	148
4,000	Kookmin Bank ADR (South Korea)	162	196
27,500	Mahindra & Mahindra Limited GDR (India)	139	297
5,450	Matrix Laboratories Limited (India)*	137	242
12,000	Nomura Holdings, Inc., ADR (Japan)*	277	263
34,000	Oki Electric Industry Company, Limited (Japan)*	167	172
30,000	Pacific Internet Limited (Singapore)+	351	314
1,325,000	PT Bank Mandiri (Persero) (Indonesia)*	196	203
10,000	PT Telekomunikasi Indonesia, Tbk. ADR (Indonesia)	140	212
7,200	Ranbaxy Laboratories Limited GDR Reg S (India)	148	237
12,000	Reliance Industries Limited GDR 144A (India)	233	481
130,507	Shaw Wallace & Company Ltd. (India)*	298	271
63,500	The Shipping Corporation of India Ltd. (India)*	267	326
30,500	The Siam Cement Public Company Limited Foreign Reg. (Thailand)	208	275

*Number of  
Shares or  
Par Value*      *Investment –  
% of Total Market Value*      *Market  
Cost    Value*

*(in thousands of dollars)*

10,200	SIFY Limited ADR (India)	\$ 45	\$ 68
3,900	SOFTBANK CORP. (Japan)	157	154
6,000	Sohu.com Inc. (China/Hong Kong)	263	232
6,000	State Bank of India GDR (India)	134	259
30,730	Tata Tea Limited (India)	206	299
350,000	Xinao Gas Holdings Limited (China/Hong Kong)	95	252
12	Yahoo Japan Corporation (Japan)	145	209
<b>TOTAL ASIA</b>		<b>6,255</b>	<b>6,960</b>

### AUSTRALIA – 0.7%

380,000	Tethyan Copper Company Limited*	173	159
<b>TOTAL AUSTRALIA</b>		<b>173</b>	<b>159</b>

### EUROPE – 38.8%

#### *Europe Excluding United Kingdom*

7,880	Autoroutes du Sud de la France SA (France)	298	341
6,000	Bang & Olufsen A/S B (Denmark)	267	324
13,000	Flamel Technologies S.A. ADR (France)	439	450
52,500,000	Haci Omer Sabanci Holding A.S. (Turkey)	194	321
5,400	Luka Koper d.d. (Slovenia)*	263	271
2,950	Mercator Poslovni Sistem (Slovenia)	280	663
13,000	Oslo Bors Holding ASA (Norway)	284	458
27,600	PLIVA d.d. GDR Reg. S (Croatia)	513	581
33,400	Royal KPN N.V. ADR (Netherlands)	332	333
5,555,000	Uralsvyazinform (Russia)*	264	274
13,000	Wimm-Bill-Dann Foods OJSC ADR (Russia)	423	286
<b>Total Europe (Excluding United Kingdom) – 18.9%</b>		<b>3,557</b>	<b>4,302</b>

## Statement of Investments *(continued)*

December 31, 2003

<i>Number of Shares or Par Value</i>	<i>Investment – % of Total Market Value</i>	<i>Market Cost Value</i>	
<i>(in thousands of dollars)</i>			
<b>United Kingdom</b>			
66,000	BG Group plc	\$ 457	\$ 437
40,000	Bloomsbury Publishing Plc	229	240
175,000	Corin Group PLC	557	789
85,000	The Establishment Investment Trust plc	193	230
15,000	Games Workshop Group PLC	234	244
27,000	Lloyds TSB Group plc*	268	279
12,250	Marconi Corporation plc	95	167
20,000	Numis Corporation Plc	213	255
24,000	Standard Chartered PLC	467	511
400,000	The Stanley Gibbons Group Limited	261	369
75,000	Tesco PLC	440	446
350,000	UBC Media Group plc	234	250
55,000	Yule Catto & Co plc*	323	324
<b>Total United Kingdom – 19.9%</b>		3,971	4,541
<b>TOTAL EUROPE</b>		7,528	8,843
<b>LATIN AMERICA – 0.9%</b>			
5,000	Bunge Limited (Argentina)	193	213
<b>TOTAL LATIN AMERICA</b>		193	213
<b>NORTH AMERICA – 29.1%</b>			
<b>Canada</b>			
300,000	AXMIN Inc.*	352	375
150,000	Far West Mining Ltd. (restricted)+	217	498
200,000	Mundoro Mining Inc.*	250	520
20,000	Niko Resources Ltd.	559	542
50,000	Rio Narcea Gold Mines, Ltd.*	164	200
15,000	Southwestern Resources Corp.	186	598
24,300	SunOpta Inc.	174	289
<b>Total Canada – 13.2%</b>		1,902	3,022

<i>Number of Shares or Par Value</i>	<i>Investment – % of Total Market Value</i>	<i>Market Cost Value</i>	
<i>(in thousands of dollars)</i>			
<b>United States</b>			
3,750	eBay Inc.	\$ 223	\$ 313
55,000	eDiets.com, Inc.*	337	438
200	Grey Global Group Inc.	216	177
4,000	Harley-Davidson, Inc.	236	246
18,000	The Nasdaq Stock Market, Inc.	281	220
12,000	Red Hat, Inc.*	203	291
8,000	Rent-A-Center, Inc.+	353	310
8,000	Symantec Corporation*	357	357
7,000	UTStarcom, Inc.	295	335
6,000	Winnebago Industries, Inc.	311	533
7,000	Yahoo! Inc.	330	407
<b>Total United States – 15.9%</b>		3,142	3,627
<b>TOTAL NORTH AMERICA</b>		5,044	6,649
<b>TOTAL INVESTMENTS</b>			
– December 31, 2003		\$19,193	\$22,824
– December 31, 2002		\$19,742	\$18,196

*Changes from September 30, 2003: \* New Holdings; + Increased Holdings*

# Notes to Financial Statements

December 31, 2003 and 2002

## 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 3.33% p.a. as at December 31, 2003 (2002 – 3.64% p.a.).

## 3 CAPITAL STOCK

The Company is authorized to issue unlimited preferred shares issuable in series and unlimited common shares. As at December 31, 2003 and 2002, 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:

	Years ended December 31,	
	2003	2002
<i>(in thousands of dollars)</i>	\$	\$
Proceeds from disposition of investments	15,038	13,955
Investments at cost – Beginning of year	19,742	21,911
Investments purchased during the year	15,558	13,978
Investments at cost – End of year	(19,193)	(19,742)
Cost of investments disposed of during the year	16,107	16,147
Net realized loss on investments	(1,069)	(2,192)

## 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 37% (2002 – 39%) and 18% (2002 – 19%), respectively. The effective tax rate for future income taxes is approximately 18% (2002 – 18%).

The Company is also subject to a special tax of up to 33 $\frac{1}{3}$ % of taxable dividends received from corporations resident in Canada. This special tax is refundable on payment of taxable dividends to shareholders at a rate of \$1 for each \$3 of such dividends paid. The Company has refundable dividend tax on hand of approximately \$8,000 as at December 31, 2003 (2002 – \$7,000).

The Company has non-capital loss carry-forwards of approximately \$502,000, which begin to expire in 2008, and allowable capital losses of approximately \$3,635,000. No tax benefit has been recorded in the financial statements with respect to these losses.

## 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.

# Portfolio Commentary

The longer-term holding aspect of the Canadian World Fund portfolio is illustrated in the list of top ten stocks (please see inside front cover). Four of the ten present at year-end 2003 were on the year-end 2002 list – namely Corin Group PLC, which again heads the list with a 3.5% weighting, Mercator Poslovni Sistem, PLIVA d.d. and Standard Chartered PLC (see stock charts for 2003 below). Two additional securities in the year-end 2002 list were also still in the portfolio at the end of 2003 – Tesco PLC and BG Group plc.

Many portfolio holdings may not be familiar to shareholders of CWF, essentially because they tend to be special situations with perceived attributes chosen for growth and selected through a bottom-up methodology. These are not always large capitalization companies that would be easily recognized by top weighting in their respective markets.

Longer-term investors might recall from previous annual reports that Corin Group is a U.K.-based leader in artificial body aids such as knees and hips, marketing its products worldwide. Mercator is a retail giant in Slovenia and other Balkan countries, while Pliva is a world class pharmaceutical manufacturer. Standard Chartered operates in banking, mainly in the high growth region of Asia.

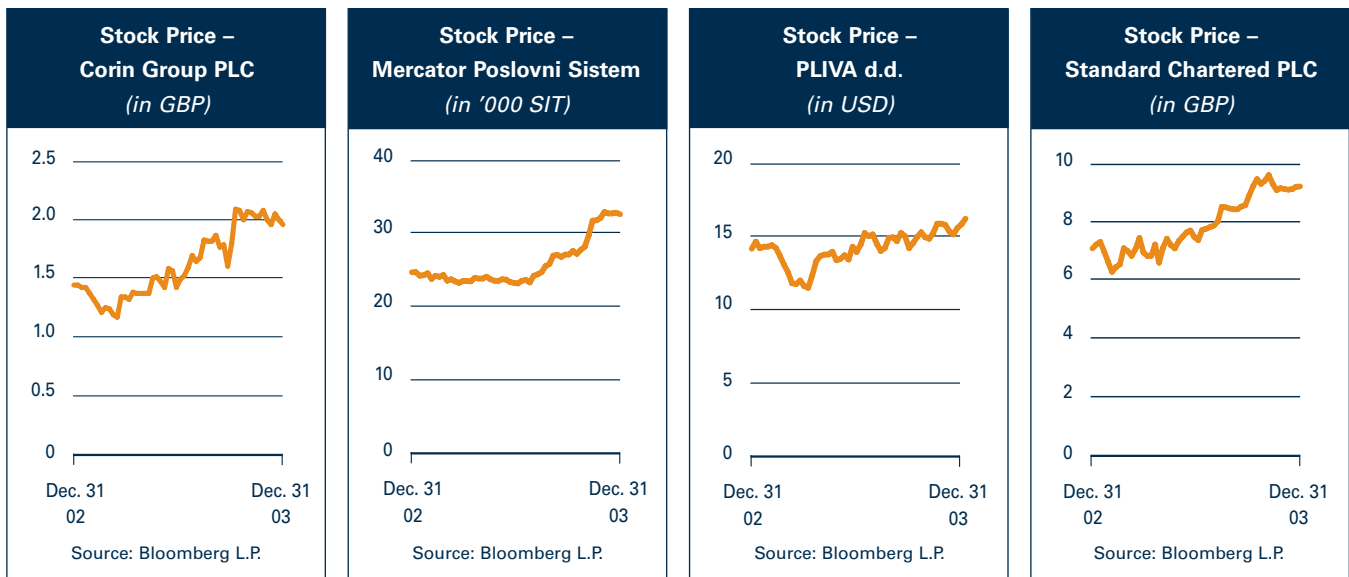
Newcomers to the latest list included no less than four Canadian resource companies which operate across the world:

Southwestern Resources Corp., a mine developer in south west China and Peru; Niko Resources Ltd., involved in an oil and gas development partnership offshore of India; Mundoro Mining Inc., a north east China gold play; and, Far West Mining Ltd., a metals prospector attracting interest for its work in northern Chile.

Two non-Canadian newcomers were Winnebago Industries, Inc., the recreational vehicle manufacturer, and Reliance Industries Limited, the largest non-state enterprise in India. Reliance is a leader in resources, chemicals and telecommunications development, and the partner of Niko Resources, mentioned above.

Among other portfolio names in businesses not likely recognizable are: Shaw Wallace & Company Ltd., a major beverages firm in India; Uralsvyazinform, a dominant telecommunications company in the Urals region of Russia; and, Luka Koper d.d., the key port operator for Slovenia.

And so, the role of the CWF portfolio manager is not to give shareholders simply an investment in international household names. It is to introduce special growth situations to the portfolio by sourcing and filtering information readily available to our team from across the world throughout the 24 hours of each day. We tend to use diversity, moderate weightings and multi-currency exposure to spread the risks.



# Tata and Tetley

Tata Tea Limited, which is in the Canadian World Fund portfolio, operates globally out of India and is a member of the broad universe of Indian stocks that have done well for our shareholders over the past year. We have selected this company as the basis for a mildly educational feature for readers who are not experts in tea. We are pleased to note that the local stock price of Tata, whose executives we met for the second time at the 8<sup>th</sup> India Investor Conference held by Merrill Lynch in Goa in February, 2004, has advanced 51.9% to December 31, 2003 since our purchase on June 30, 2003 (see stock chart below).

There are about 30 tea producing countries. The top 10 countries account for 90% of production (see pie chart below). The largest producer is India with 29% of world production and Tata is the largest integrated producer in the world. That means Tata is in plantations as well as the marketing of bulk and branded teas. However, India is only the fourth largest exporter, due to strong domestic consumption, well behind Sri Lanka, Kenya and China.

For Tata, a giant industrial group with several listed subsidiaries, plantations marked the start in tea decades ago. A long program of expansion and modernization ensued to the point where today the group has over 56,000 employees, but is a plantation operator moving away from the traditional paternal role of health and education provider – now the functions of the state. Tata is making what is described as a selective exit from the plantation business.

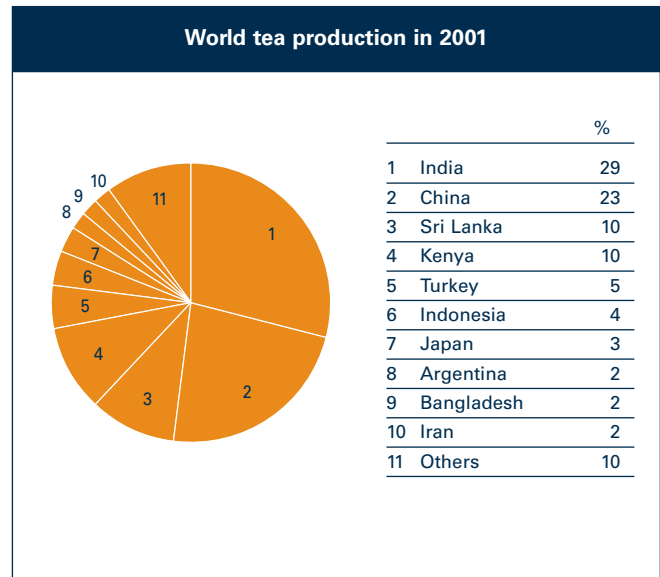
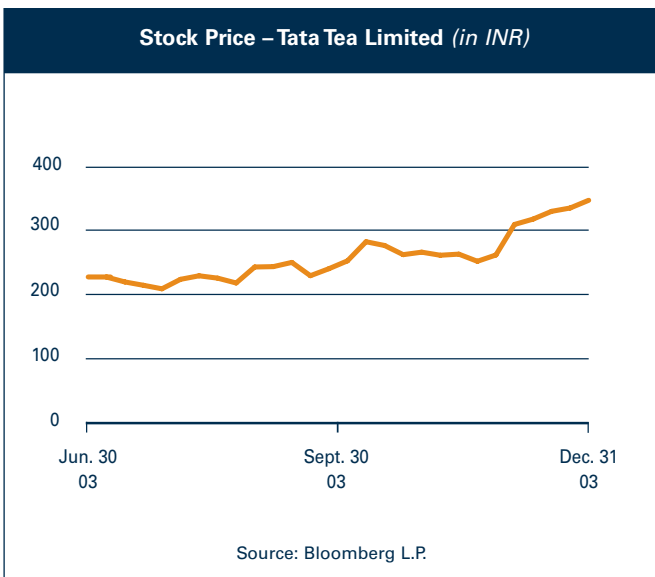
In tea marketing, Tata has grown from 4% of India's market share in 1983 to 19% today. Unilever, the top firm, has dropped in market share from 75% to 32% and others have expanded on the way. Unilever, like many multi-nationals, has a publicly-listed subsidiary in the Indian stock market.

A key expansionary move by Tata was made in 1992 when a joint marketing venture was established with Tetley Group of the U.K. Tata later lost out in a bidding contest for Tetley but acquired the firm from the winner in March 2000.

That was a strategic fit and the big turning point, with Tetley being the largest single brand in the world with a presence in over 35 countries.

And so, Tata is now the No. 2 global player behind Unilever. The Tata marketing operation is focussed on packet tea in the developing markets such as India, Russia, central Asia, Pakistan and the Middle East. The Tetley arm is assigned tea bags, herbal, green and other special teas across the developed markets. Russia and its former relatives are the biggest tea importers, taking 18% and the British are next with 12%. Both Tata and Tetley operations are set on challenging the leader in all markets.

The Tata group currently accounts for only 4% of what is regarded as the global value added market share. Growth, for their purpose, is unlimited. By the way, 86% of world tea exports are of black tea. This is simply green leaf blackened by a burning process!



## Annual Performance Summary

	Net Assets	Net Assets Per Share	Net Investment Income/ (Loss)	Net Investment Income/ (Loss) Per Share	Market Value Per Share		
					High	Low	Close
1994*	(000's) \$20,788	\$5.06	(000's) \$(25)	\$(0.01)	\$4.60	\$3.05	\$3.80
1995	20,487	5.00	(53)	(0.01)	4.25	3.00	3.60
1996	23,037	5.62	90	0.02	4.85	3.60	4.35
1997	25,607	6.24	12	0.00	5.70	4.00	4.10
1998	24,420	5.95	(24)	(0.01)	5.25	3.00	4.30
1999	32,417	7.90	(142)	(0.03)	5.20	3.80	5.20
2000	24,372	5.94	(416)	(0.10)	6.30	3.42	3.90
2001	19,003	4.63	(380)	(0.09)	4.00	2.55	3.15
2002	15,673	3.82	(82)	(0.02)	3.55	2.44	2.63
<b>2003</b>	<b>19,639</b>	<b>4.79</b>	<b>(141)</b>	<b>(0.03)</b>	<b>3.69</b>	<b>2.35</b>	<b>3.60</b>

\* established as a closed-end fund in 1994.

## 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 when stock is purchased or sold
- Trade usually below real value
- May pay cash and/or stock dividends
- Often have dividends and dividend reinvestment plans (company may absorb all administrative costs, including commissions)
- May employ leverage

# Corporate Information

## CANADIAN WORLD FUND LIMITED

### BOARD OF DIRECTORS

Thomas W.R. Lunan  
*(Vice-President, B.E.S.T. Investment Counsel Limited [Investment Management])*

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

Vanessa L. Morgan  
*(Chairman, Canadian General Investments, Limited [Closed-end Investment Company])*

Jack H.B. Nederpelt  
*(Managing Partner, Heidrick & Stuggles [Executive Recruiting Firm])*

Michael A. Smedley  
*(President, Canadian General Investments, Limited [Closed-end Investment Company])*

### AUDIT COMMITTEE

Thomas W.R. Lunan  
Jonathan A. Morgan  
Jack H.B. Nederpelt

### CORPORATE GOVERNANCE COMMITTEE

Thomas W.R. Lunan  
Jonathan A. Morgan  
Jack H.B. Nederpelt

### INDEPENDENT DIRECTORS COMMITTEE

Thomas W.R. Lunan  
Jack H.B. Nederpelt

### OFFICERS

Vanessa L. Morgan  
*Chairman*

Michael A. Smedley  
*President*

Jonathan A. Morgan  
*Vice-President*

Colin Smith  
*Secretary-Treasurer*

Frank Fuernkranz, MBA, CA, CFA  
*Assistant-Treasurer*

### OFFICE OF THE COMPANY

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Toronto, Ontario, Canada M5C 1T4  
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Toll Free: 1-866-443-6097  
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e-mail: cwffund@mmainvestments.com  
website: www.mmainvestments.com

### MANAGER

Morgan Meighen & Associates Limited  
Toronto

### AUDITORS

PricewaterhouseCoopers LLP  
Toronto

### BANKERS

Bank of Montreal  
Toronto

### SOLICITORS

Blake, Cassels & Graydon LLP  
Toronto

### CANADIAN REGISTRAR AND TRANSFER AGENT

Computershare Trust  
Company of Canada  
100 University Avenue, 9th Floor  
Toronto, Ontario, Canada M5J 2Y1  
Telephone:  
Canada & U.S.: 1-800-564-6253  
Overseas: 1-514-982-7555  
Fax: (416) 263-9524  
Toll Free: 1-866-249-7775  
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.

### STOCK EXCHANGE LISTING

The Toronto Stock Exchange  
Trading Symbol: CWF

### PUBLICATION

Net asset value per share (NAV) and/or market price and market return 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 NAV and market return information on its website. Similar information is available directly from the Corporation upon request.

### ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of the shareholders of Canadian World Fund Limited will be held at 10:00 a.m. (Toronto time) Friday, April 2, 2004 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 (Telephone: (416) 366-6811).

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

CANADIAN WORLD FUND LIMITED

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CWF is managed by:



*MorganMeighen*

& ASSOCIATES

Investment Managers