

MEXICO FUND INC  
Form N-30B-2  
October 01, 2001

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The Mexico Fund, Inc.  
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Directors:

Juan Gallardo T. -- Chairman  
Philip Caldwell  
Jose Luis Gomez Pimienta  
Claudio X. Gonzalez  
Robert L. Knauss  
Agustin Santamarina V.  
Jaime Serra Puche

Officers:

Jose Luis Gomez Pimienta -- President  
Samuel Garcia-Cuellar -- Secretary  
Allan S. Mostoff -- Assistant Secretary  
Sander M. Bieber -- Assistant Secretary  
Carlos H. Woodworth -- Treasurer  
Hector Trigos -- Research Vice President  
Alberto Osorio -- Finance Vice President  
Eduardo Solano -- Investor Relations Vice President

Investment Adviser --

Impulsora del Fondo Mexico, S.A. de C.V.

Custodian --

BBVA Bancomer, S.A.  
Comerica Bank

Transfer Agent and Registrar --

American Stock Transfer & Trust Company

Counsel --

Dechert  
Creel, Garcia-Cuellar y Muggenburg, S.C.

This report, including the financial statements herein, is transmitted to shareholders of The Mexico Fund, Inc. for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in the report.

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The Mexico  
Fund, Inc.

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20th Anniversary 1981-2001

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Third Quarter Report  
July 31, 2001  
(Unaudited)  
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[www.themexicofund.com](http://www.themexicofund.com)  
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The Mexico Fund, Inc.  
Third Quarter Report  
July 31, 2001  
Highlights

The Board of Directors extends its heartfelt condolences to all Fund shareholders and friends who suffered the loss of loved ones as a result of the tragic events in the United States on September 11, 2001.

- . The Fund's third quarter of fiscal 2001 ended July 31, 2001.
- . During the first nine months of fiscal 2001, the Fund's market price and net asset value (NAV) per share increased 20.41% and 7.61%, respectively.
- . During this nine-month period, the Fund's NAV outperformed its benchmark, the IFCG Mexico Index, which increased 6.00%.
- . The discount between market price and NAV narrowed to 15.2% at July 31, 2001 from 31.1% one year earlier.
- . On March 2, 2001, the Fund filed applications with the US Securities and Exchange Commission (SEC) and the Internal Revenue Service (IRS) seeking necessary approvals for conducting periodic in-kind repurchases of Fund shares from shareholders at no less than 98% of NAV.
- . The Board of Directors has approved an amendment to the Fund's Investment Advisory and Management Agreement to adopt a performance fee component to the Fund's investment advisory fee which will require shareholder approval to implement.
- . The Fund intends to seek shareholder approval for the performance fee and the periodic repurchase policy once it has received the regulatory relief from the SEC and IRS necessary to conduct the periodic repurchase policy.
- . As markets worldwide continue to react to the aftermath of the terrorist attacks in the United States on September 11, 2001, global markets, including the U.S. and Mexican markets, may continue to demonstrate uncertainty and

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volatility.

The Mexico Fund, Inc. is a non-diversified closed-end management investment company with the investment objective of long-term capital appreciation through investments in securities, primarily equity, listed on the Mexican Stock Exchange. The Fund provides a vehicle to investors who wish to invest in Mexican companies through a managed non-diversified portfolio as part of their overall investment program.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase, from time to time, shares of its common stock in the open market.

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THE MEXICO FUND, INC.  
TO OUR SHAREHOLDERS:

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### Economic Environment

The terrorist attacks perpetrated in the United States on September 11, 2001, have produced uncertainty in the global economy and financial markets. As a result, the flow of foreign investment may be slower in the near future than originally anticipated, and the deceleration of the US economy may expand to affect other markets. Mexico is today the second largest trade partner of the United States, one of the most open, globally-engaged economies of the world and one of the most important emerging countries receiving direct foreign investment. Because of its relationship with the United States and its participation in the global economy, these events may exacerbate the slowdown of the Mexican economy which had already begun, as demonstrated in certain economic indicators.

Prior to the end of the Fund's third quarter, the Mexican economy had shown signs of deceleration. Gross domestic product (GDP) growth in Mexico was 6.9% during 2000, but slowed to 1.9% and 0% during the first two quarters of 2001, respectively, resulting in a 0.9% growth rate during the first half of the year. During the first half of 2001, the most affected sector of the economy was construction, which declined 5.4%, and was followed by the manufacturing and mining industries, which declined 2.3% and 1.5%, respectively. In contrast, also during this first semester of 2001, the transportation sector of the economy continued growing and was the most dynamic sector with an increase of 4.8%, followed by the financial services sector, which increased 3.6% and by the commerce, restaurants and hotels sector that increased 2.5%. The primary sector of the economy, which is composed of the agriculture, livestock and fishing industries, decreased 0.6%.

The Mexican peso continued gaining strength against the US dollar as significant amounts of foreign investment have flowed into the country. The peso-dollar exchange rate ended July 2001 at Ps. 9.156 per dollar, 4.7% lower than at the end of 2000. The acquisition by Citigroup Inc. of 100% of the equity of Grupo Financiero Banamex Accival (Banacci) for \$12.5 billion generated a significant flow of hard currency to the country and positive expectations concerning the Mexican economy. As a result, the peso further strengthened against the dollar. The recent events in the United States mentioned above generated volatility and some pressure in the Mexican currency market as the rate of exchange of the peso against the dollar reached Ps. 9.572 to return to levels of around Ps. 9.470 after US and Mexican financial markets reopened on Monday, September 17, 2001.

The performance of the Mexican currency continued to be followed by a declin-

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ing trend in inflation and interest rates, nominal and real, which recently fell to historically low levels. Mexico's annual inflation rate at the end of August 2001 was 5.93%, significantly lower than 12.32% and 8.96% achieved at the end of 1999 and 2000, respectively. At the same time, interest rates for the 28-day Cete (treasury bills) ended July 2001 at 9.40% and further declined to 7.61% by the end of August. Strict adherence to a restrictive monetary policy and the strong valuation of the peso in relation to the US dollar continued to contribute to the downward trend of inflation rates.

Although the rate of growth of Mexican exports has softened in recent months, Mexico continues to be the second largest trade partner of the United States, only after Canada. Total trade between Mexico and the United States amounted to \$118.49 billion during the

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first six months of 2001 and was exceeded only by total trade between the United States and Canada (\$203.08 billion). President Fox has announced his intention to further enhance trade relations with Central and South America, the European Union and Asia in an effort to diversify Mexican external trade. Ten international free trade agreements with 30 nations around the globe have thus far been executed. Also, among the universe of developing nations, Mexico is one of the three most important recipients of direct foreign investment. Last year, direct foreign investment increased 14% to \$13.3 billion and amounted to \$6.77 billion during the first half of 2001.

During the first half of 2001, Mexico had a public sector surplus of approximately \$1.4 billion. This figure is 43.3% lower than that achieved one year earlier, as public sector revenues were negatively impacted by the slowdown of the economy and by lower international oil prices. President Fox has introduced important fiscal reform proposals to Congress, which are intended to increase Mexico's public sector revenues. Although Congress has not yet officially announced when it would comment or approve the proposals, analysts estimate that they will be approved during 2001.

### Fund's Performance & Portfolio Strategy

During the first nine months of fiscal 2001 and the first eight months of calendar 2001, the Fund has outperformed its benchmark (the IFCG Mexico index). The following table presents the Fund's market price and NAV per share performance, compared with that of the Fund's benchmark.

|                        | First Nine<br>Months<br>Fiscal 2001 | First Eight<br>Months 2001 |
|------------------------|-------------------------------------|----------------------------|
|                        | -----                               | -----                      |
| MXF NAV.....           | 7.61%                               | 17.05%                     |
| IFCG Mexico Index..... | 6.00%                               | 15.05%                     |
| MXF Market Price.....  | 20.41%                              | 25.86%                     |

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Sources: Lipper Inc. and S&P.

The Fund's performance has resulted in a reduction of the difference between the Fund's market price and NAV. At the end of July 2001, the discount stood at 15.24%, compared with 31.09% one year earlier and further decreased to 14.18% at the end of August 2001. During the first nine months of fiscal 2001, the total traded volume of Fund shares on all US consolidated markets amounted

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to 28.59 million shares, equivalent to 63% of total outstanding shares.

Valuation indicators of the Bolsa suggest that stock market prices continue to be relatively low, even though listed companies continue to post positive results, with sales and net earnings of listed companies increasing 6.9% and 10.0%, respectively, during the first half of 2001.

During the third quarter of fiscal 2001, the Fund sold its investment in Banacci since Citigroup Inc.'s acquisition of Banacci resulted in the delisting of Banacci shares from the Mexican Bolsa. The Fund realized significant capital gains from this transaction, as the price of Banacci shares increased 30% after the announcement and prior to the Fund's sale of the company's shares. Based on the recovery expectations of the Mexican financial sector, the Fund has invested additional resources in Grupo Financiero BBVA Bancomer and Grupo Financiero Banorte, two

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solid and attractive financial institutions in Mexico. The Fund also continued investing in America Movil, a high-growth technological company dedicated to wireless and internet services, and in its sister company Telmex, the largest telephone company in Mexico. The Fund also invested additional assets in Cemex, the world's third largest cement producer, as the company presents solid financial fundamentals and business opportunities, as well as a wide and healthy geographical diversification.

The Fund reduced its investments in Grupo Mexico (mining) due of the adverse impact of the strong Mexican currency, the deceleration of the US and Mexican economies and low international prices of metals. Also, the Fund disposed entirely of its Alfa (conglomerate) and Tamsa (steel) holdings, for similar reasons. Additionally, the Fund also continued to reduce its investments in issuers with limited market liquidity such as Apasco (cement), Comercial Mexicana and Soriana (retail stores) and also in Grupo Carso (conglomerate). The Fund disposed of its entire position in Grupo Sanborns (retail) because of specific issues affecting its financial and market fundamentals.

This Report includes for your reference a summary description of the Fund's ten largest holdings, which at the end of July 31 represented 68% of its total net assets. The Fund's investments are categorized according to the sector classification provided by the Mexican Stock Exchange.

The Fund has adopted a concentration policy which permits the Fund to concentrate its investments in any industry or group of industries in the IPC Index (or any successor or comparable index as determined by the Board of Directors to be an appropriate measure of the Mexican market) if, at the time of investment, such industry represents 20% or more of the IPC Index, provided, however, that the Fund will not exceed the IPC Index concentration by more than 5%.

Currently, the only industry group which represents 20% or more of the value of the securities included in the IPC Index is the communications industry group. This industry category includes local, long-distance, and cellular telephone companies, as well as broadcast and media companies. Approximately four-fifths of this industry group are telecommunications companies. As of July 31, 2001, the Fund had 32% of its total assets invested in this industry category, compared with this sector's 39% representation in the IPC Index. The relatively high valuation of the companies in this industry versus other Mexican issuers, and the current weak fundamentals of some of these companies have caused the Fund's adviser to maintain an underweighted position relative to the Fund's benchmark in this industry. The Fund's investment adviser will continue to evaluate the concentration in this industry and may choose not to concentrate in this industry group in the future or to concentrate in other

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industries subject to the concentration policy described above.

The Fund publishes on its web site, located at [www.themexicofund.com](http://www.themexicofund.com), its investment portfolio as of the end of each fiscal quarter, updated within the first five business days after the closing of the quarter. Accordingly, the

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Fund's portfolio, as reported on the web site, is updated during the first five business days of February, May, August and November. The Fund's investment portfolio as of July 31, 2001 has been posted on the web site since early August 2001.

### Further Restructuring Efforts Taken by the Board of Directors

As previously announced, management of the Fund has proposed several initiatives with the goal of maximizing shareholder value. On March 5, 2001, the Board announced its intention to implement a periodic repurchase policy for the Fund which would allow shareholders to submit shares for repurchase by the Fund with proceeds being paid in actual portfolio securities of the Fund. The Fund made filings with the SEC and the IRS to permit the Fund to conduct periodic, in-kind repurchases from shareholders at no less than 98% of net asset value. The Fund is seeking approval to conduct repurchases for between one and 25 percent of the Fund's outstanding shares, at least annually and as frequently as quarterly. The Fund hopes to inform shareholders via press release of the status of these initiatives with regulatory authorities in the near future.

Additionally, in order to further align the interests of the Fund's investment adviser with the interests of shareholders, the Board has approved implementation of a performance fee component to the Fund's investment advisory fee that would provide the adviser with an additional incentive to outperform the Fund's benchmark index. The Board intends to solicit shareholder approval for the periodic repurchase policy and performance fee once it has obtained the necessary regulatory relief to implement the periodic repurchase policy.

### Investor Relations

The Fund's web site presents the Fund's market price and NAV per share on a same-day basis and provides a downloadable database containing the most important historical figures for the Fund. Also available is the complete history of dividend distributions made by the Fund and additional links to useful sites of Mexican government agencies, capital markets and listed companies. Web site visitors may now request online to receive via regular mail a copy of this Annual Report and the most recent Quarterly and Monthly Summary Reports. We hope that the Fund's web site is a useful resource for information and we will continue working to improve it.

The Fund also has a toll-free telephone number that will provide you with the Fund's current NAV, quarterly reports and other Fund materials:

(800) 224-4134

The Fund also offers shareholders and the general public the ability to contact the Fund via e-mail with questions or requests for additional information about the Fund. Please direct your e-mail inquiries to:

Investor Relations Office  
[investor-relations@themexicofund.com](mailto:investor-relations@themexicofund.com)

In addition to the quarterly reports published by the Fund, the Investment Ad-

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viser distributes a Monthly Summary Report with information about the Fund, the Mexican economy and the Bolsa. Interested persons may either access this report on the Fund's web site or receive it via regular mail. Please request this

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report through the Fund's web site or write to the Investment Adviser at:

Impulsora del Fondo Mexico, sa de cv.  
77 Aristoteles St. 3rd Floor  
Polanco  
11560 Mexico, D.F.  
Mexico

Information on the Fund's NAV and market price per share is also published weekly in The Wall Street Journal, The New York Times and other newspapers in a table called "Closed-End Funds". The Fund's NYSE trading symbol is MXF.

The Fund's shares are also listed and traded on the Third Section ("Freiverkehr") of the Stuttgart Stock Exchange. The Fund's German Domestic Tax Representative is:

ARTHUR ANDERSEN  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft mbH  
Mergenthalerallee 10-12  
65760 Eschborn/Frankfurt/M.  
Postfach 53 23  
65728 Eschborn/Frankfurt/M.  
Germany  
Telefon: 06196-99-6264  
Telefax: 06196-99-6419

The Fund's dividend reinvestment plan and transfer agent is:

American Stock Transfer & Trust Company  
40 Wall Street  
New York, NY 10005  
(212) 936-5100

### Dividend Reinvestment Plan

The Fund's Dividend Reinvestment Plan (the "Plan") provides a convenient way to increase your holdings in the Common Stock of the Fund through the reinvestment of net investment income and capital gain distributions. Under the terms of the Plan, Fund shareholders are automatically enrolled as participants in the Plan. If you do not wish to participate in the Plan, please contact the Plan Agent. Upon any termination of participation under the Plan, the Plan Agent will cause a share certificate for the appropriate number of full shares to be delivered to the participant, and a cash adjustment for any fractional shares. At a shareholder's request, the Plan Agent will sell the participant's shares and remit any proceeds to the participant, net of brokerage commissions. Shareholders who do not participate in the Plan will receive all distributions in cash. The Plan provides a convenient way to increase your holdings in the Common Stock through the reinvestment of distributions.

Under the terms of the Plan, whenever the Fund declares a distribution, Plan participants will receive their distribution entirely in shares of Common Stock purchased either in the open market or from the Fund. If, on the date a distribution becomes payable or such other date as may be specified by the

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Fund's Board of Directors (the valuation date), the market price of the Common Stock plus estimated brokerage commissions is equal to or exceeds the NAV per share of Common Stock, the Plan Agent will invest the distribution in newly issued shares of Common Stock, which will be priced at NAV. If on the valuation date, the market price of the Common Stock plus estimated brokerage

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commissions is lower than the NAV per share, the Plan Agent will buy Common Stock in the open market. As a participant in the Plan, you will be charged a pro-rata portion of brokerage commissions on all open market purchases.

If your shares are registered or will be registered in the name of a broker-dealer or any other nominee, you must contact the broker-dealer or other nominee regarding his or her status under the Plan, including whether such broker-dealer or nominee will participate in the Plan on your behalf. Generally, shareholders receiving Common Stock under the Plan will be treated as having received a distribution equal to the amount payable to them in cash as a distribution had the shareholder not participated in the Plan.

If you have any questions concerning the Plan or would like a copy of the Plan brochure, please contact the Plan Agent:

American Stock Transfer & Trust Company  
Attention: Dividend Reinvestment Department  
40 Wall Street  
New York, NY 10005  
(212) 936-5100

Sincerely yours,

/s/ Jose Luis Gomez  
Pimienta  
Jose Luis Gomez  
Pimienta  
President

/s/ Juan Gallardo T.  
Juan Gallardo T.  
Chairman of the Board

September 26, 2001

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Description of the Fund's Ten Largest Holdings as of July 31, 2001.

1. America Movil ("AMX") (11.78%)

On February 7, 2001, America Movil, a new Mexican corporation resulting from the spin-off of Telmex's wireless business and from most of its international operations, started trading on the Mexican Stock Exchange and on the NYSE (NYSE: AMX). America Movil is now Mexico's leading provider of wireless telecommunications services with 10.1 million customers and a 70.6% share of the Mexican market. America Movil has business operations in Argentina, Brazil, Ecuador, Guatemala, Puerto Rico and the United States.

2. Telefonos de Mexico ("Telmex") (11.42%)

Telmex is the major telecommunications company in Mexico and provides local, domestic and international long-distance telephone service, internet access, wireless, data, audio and video transmission services. Since its privatization in 1990, Telmex has aggressively modernized and has emerged as a leader in telecommunication services in Latin America. Since 1999, Telmex has also pro-



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vided telecommunication services in the United States.

### 3.Wal-Mart de Mexico ("Walmex") (10.56%)

Walmex is the largest chain of retail stores in Mexico and has the dominant market position in the commercial sector of the country. The company is a subsidiary of the US firm Wal-Mart Stores, Inc (NYSE: WMT). Walmex has a total of 499 units in 46 cities in Mexico, which includes supermarkets, retail stores and restaurants.

### 4.Cemex ("Cemex") (8.81%)

Cemex is the world's third largest cement producer. The company and its subsidiaries are dedicated to the production, distribution, commercialization and sale of cement, concrete mix, clinker and value added products. Cemex produces and operates in 30 countries around the world and has commercial relations with 60 countries. Cemex is the leader in the cement markets of Mexico, Spain, Venezuela, Panama, Costa Rica, the Dominican Republic, Egypt and Colombia, and has important market presence in the Caribbean, Indonesia, the Philippines and the southwest region of the United States.

### 5.Grupo Financiero BBVA--Bancomer ("GFBB") (7.23%)

GFBB is one of Mexico's two largest financial groups. In terms of deposits and number of clients, GFBB is the largest private financial institution in Latin America. Grupo Banco Bilbao Vizcaya Argentaria, the largest financial group in Spain in terms of market capitalization, is GFBB's main stockholder. GFBB's principal subsidiary is Bancomer, one of Mexico's leading commercial banks, offers products and services to individuals and corporations. Through its network of 2,276 branches and 4,057 automated teller machines in Mexico, as of the end of 2000, Bancomer engages in a wide variety of commercial and retail banking activities. The bank has overseas branches in London and Grand Cayman Island, agencies in New York and Los Angeles and a representative office in Sao Paulo, Brazil. Additionally, Bancomer has a subsidiary bank in the Cayman Islands, Mercury Bank & Trust Limited.

### 6.Carso Global Telecom ("Telecom") (4.84%)

Telecom is dedicated to the telecommunications business and is the holding company of Telmex, America Movil (see above) and Prodigy Inc. (Nasdaq: PRGY) (US), and has a stock participation in McLeod USA, Inc. (Nasdaq: MCLD) (US). The shares of Prodigy Inc., an important Internet service provider in the United States, have traded on the NASDAQ since February 1999.

### 7.Grupo Modelo ("Gmodelo") (4.66%)

Founded in 1925, Gmodelo is the leader in the production, distribution and sale of beer in Mexico with a market share in the domestic and export markets of approximately 59%. The group exports its products to 150 countries and owns 10 brand names, including Victoria, Modelo and Corona, the most popular beer imported from Mexico. The company also imports and distributes in Mexico brand names of beer produced by its partner Anheuser-Busch, including Budweiser and Bud Light.

### 8.Fomento Economico Mexicano ("Femsa") (4.63%)

Femsa is Latin America's largest beverage company with exports to the United States, Canada and selected countries in Latin America, Europe and the Far East. Founded in 1890, Femsa is the largest totally integrated producer of soft drinks and beer in Mexico and is the controlling company of Coca-Cola Femsa (KOF), one of the leading bottlers in Latin America. Femsa also operates the largest chain of convenience stores in Mexico (Oxxo), produces packaging materials and is an important bottler in Argentina. Brand names produced by Femsa include Sol beer and Coca-Cola, among others.

### 9.Grupo Televisa ("Televisa") (4.26%)

Televisa is the largest media company in the Spanish-speaking world and a major participant in the international entertainment industry. Televisa has in-

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terests in television production and broadcasting, international distribution of television programming, direct-to-home satellite services, publishing, music recording, cable television, radio production and broadcasting, professional sports and show business promotion, paging services, feature film production and distribution and special events promotion and dubbing. Televisa also has an unconsolidated equity stake in Univision (NYSE: UVN), the leading Spanish-language television company in the United States, and owns the "esmas.com" internet portal.

10. Kimberly Clark de Mexico ("Kimber") (4.11%)

Kimber is Mexico's premier manufacturer of consumer paper products and is an affiliate of Kimberly Clark Corp. The Company produces tissue, diapers and feminine care products under brands such as Kleenex, Petalo, Huggies, Pull Ups, KleenBebe and Kotex, as well as printing and writing and specialty papers. Kimber is the market leader in all product categories in which it participates and it has excellent brand recognition among Mexican consumers. Kimber exports tissue and printing and writing paper to the United States and Central America.

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 The Mexico Fund, Inc.  
 Schedule of Investments as of July 31, 2001 (Unaudited)  
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| Industries       | Shares Held    | Common Stock (90.63%)                             | Series | Value (Note 1) | Percent of Net Assets |
|------------------|----------------|---|--------|----------------|-----------------------|
| Cement           |                |   |        |                |                       |
| Industry         | 3,690,600      | Apasco, S.A. de C.V. ...                          | *      | \$ 18,541,678  | 1.83%                 |
|                  | 16,314,457     | Cemex, S.A. de C.V. ....                          | CPO    | 89,055,981     | 8.81                  |
|                  |                |   |        | 107,597,659    | 10.64                 |
| Communications   |                | America Movil, S.A. de C.V. ....                  | A      | 18,593,272     | 1.84                  |
|                  | 19,000,000     | America Movil, S.A. de C.V. ....                  | L      | 100,459,539    | 9.94                  |
|                  | (a) 21,319,700 | Carso Global Telecom, S.A. de C.V. ....           | A1     | 48,968,249     | 4.84                  |
|                  | (a) 21,877,500 | Grupo Televisa, S.A. ...                          | CPO    | 43,033,396     | 4.26                  |
|                  | 19,000,000     | Telefonos de Mexico, S.A. de C.V. ....            | A      | 33,202,272     | 3.29                  |
|                  | 47,304,700     | Telefonos de Mexico, S.A. de C.V. ....            | L      | 82,147,742     | 8.13                  |
|                  |                |   |        | 326,404,470    | 32.30                 |
| Financial Groups |                | Grupo Financiero BBVA-Bancomer, S.A. de C.V. .... | O      | 73,112,752     | 7.23                  |
|                  | (a) 81,438,000 | Grupo Financiero Banorte, S.A. de C.V. .          | O      | 7,868,065      | 0.79                  |
|                  | (a) 4,000,000  | Grupo Financiero Inbursa, S.A. de C.V. .          | O      | 19,943,798     | 1.97                  |
|                  | (a) 4,827,000  | Grupo Financiero Scotiabank Inverlat              |        |                |                       |
|                  | (a) (b) --     | Recovery Trust.....                               |        | --             | 0.00                  |

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|                                   |               |   |     |             |             |      |
|-----------------------------------|---------------|---|-----|-------------|-------------|------|
|                                   |               |   |     |             | 100,924,615 | 9.99 |
| Food,<br>Beverages<br>and Tobacco |               | Fomento Economico<br>Mexicano, S.A. de                    |     |             |             |      |
|                                   | 11,896,000    | C.V. ....   | UBD | 46,773,263  | 4.63        |      |
|                                   | 23,110,000    | Grupo Bimbo, S.A. de<br>C.V. ....                         | A   | 41,444,539  | 4.10        |      |
|                                   | 18,575,400    | Grupo Modelo, S.A. de<br>C.V. ....                        | C   | 47,087,706  | 4.66        |      |
|                                   |               |   |     | 135,305,508 | 13.39       |      |
| Holding<br>Companies              |               | Corporacion<br>Interamericana de<br>Entretenimiento, S.A. |     |             |             |      |
|                                   | (a) 6,850,000 | de C.V. ....  | B   | 25,175,022  | 2.49        |      |
|                                   | 19,500,000    | Desc, S.A. de C.V. ....                                   | B   | 9,626,474   | 0.95        |      |
|                                   | (a) 6,500,000 | Grupo Carso, S.A. de<br>C.V. ....                         | A1  | 16,981,215  | 1.68        |      |
|                                   |               |   |     | 51,782,711  | 5.12        |      |
| Housing                           |               | Consortio ARA, S.A. de                                    |     |             |             |      |
|                                   | (a) 5,900,000 | C.V. ....   | *   | 9,846,221   | 0.97        |      |
|                                   | (a) 2,157,800 | Corporacion Geo, S.A. de<br>C.V. ....                     | B   | 1,916,002   | 0.19        |      |
|                                   |               |   |     | 11,762,223  | 1.16        |      |
| Mining<br>Industry                | 4,000,000     | Grupo Mexico, S.A. de<br>C.V. ....                        | B   | 8,287,462   | 0.82        |      |
| Pulp and Paper                    | 14,200,000    | Kimberly-Clark de<br>Mexico, S.A. de C.V. ..              | A   | 41,548,493  | 4.11        |      |

The Mexico Fund, Inc.  
Schedule of Investments as of July 31, 2001 (Unaudited) -- (Continued)

| Industries    | Shares Held   | Common Stock (Continued)                    | Series | Value<br>(Note 1) | Percent<br>of Net<br>Assets |
|---------------|---------------|---|--------|-------------------|-----------------------------|
| Retail Stores |               | Controladora Comercial<br>Mexicana, S.A. de |        |                   |                             |
|               | 10,564,600    | C.V. ....                                   | UBC    | \$ 9,484,602      | 0.94%                       |
|               | 9,494,300     | Grupo Elektra, S.A. de<br>C.V. ....         | CPO    | 8,347,435         | 0.83                        |
|               | (a) 3,000,000 | Organizacion Soriana,<br>S.A. de C.V. ....  | B      | 7,762,123         | 0.77                        |
|               | 13,090,000    | Wal-Mart de Mexico, S.A.<br>de C.V. ....    | C      | 30,837,844        | 3.05                        |
|               | 29,430,000    | Wal-Mart de Mexico, S.A.<br>de C.V. ....    | V      | 75,953,571        | 7.51                        |

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|                                     |                     | 132,385,575  | 13.10                 |                             |
|-------------------------------------|---------------------|--|-----------------------|-----------------------------|
|                                     |                     | -----  |                       |                             |
|                                     |                     | Total Common Stock   |                       |                             |
|                                     |                     | (Identified Cost--   |                       |                             |
|                                     |                     | \$590,156,542) .....   | \$ 915,998,716 90.63% |                             |
|                                     |                     | -----  |                       |                             |
| Securities                          | Principal<br>Amount | Short-Term Securities<br>(9.08%)   | Value<br>(Note 1)     | Percent<br>of Net<br>Assets |
| -----                               |                     |  |                       |                             |
| Repurchase<br>Agreements            |                     | BBVA Bancomer, S.A.,<br>8.59%, dated 07/31/01,<br>due 08/01/01,<br>repurchase price<br>\$3,117,181,<br>collateralized by<br>Brems..... | \$ 3,116,438          | 0.31%                       |
| -----                               |                     |  |                       |                             |
| Time Deposits                       | \$45,040,000        | Bancomer Cayman Euro CD,<br>0% due 08/07/01.....   | \$ 45,011,993         | 4.45                        |
|                                     |                     | Banco Nacional de<br>Comercio Exterior,<br>S.N.C., 8.25% due<br>08/02/01.....  | \$ 12,560,073         | 1.24                        |
| -----                               |                     |  |                       |                             |
| Mexican<br>Government<br>Securities |                     | Bonos de Desarrollo del<br>Gobierno Federal serie<br>L010802, 8.50% due<br>08/02/01.....   | \$ 31,127,122         | 3.08                        |
| -----                               |                     |  |                       |                             |
|                                     |                     | Total Short-Term<br>Securities (Identified<br>cost--\$91,815,626) .....  | 91,815,626            | 9.08                        |
|                                     |                     | Total Investments<br>(Identified cost--<br>\$681,972,168) .....  | 1,007,814,342         | 99.71                       |
|                                     |                     | Other Assets in Excess<br>of Liabilities.....  | 2,906,135             | 0.29                        |
| -----                               |                     |  |                       |                             |
|                                     |                     | Net Assets Equivalent to<br>\$22.24 per share on<br>45,456,232 shares of<br>capital stock<br>outstanding (Note 7)...                   | \$1,010,720,477       | 100.00%                     |
| =====                               |                     |  |                       |                             |

(a) Shares of these securities are currently non-income producing. Equity investments that have not paid dividends within the last twelve months are considered to be non-income producing.

(b) See Note 10 to Financial Statements.

See Notes to Financial Statements.

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The Mexico Fund, Inc.  
Statement of Assets and Liabilities as of July 31, 2001 (Unaudited)  
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Assets:

Investments:

|   |                 |
|---|-----------------|
| Securities, at value (Note 1):  |                 |
| Common stock (identified cost--\$590,156,542).....  | \$915,998,716   |
| Short term securities (identified cost--<br>\$91,815,626).....  | 91,815,626      |
|   | -----           |
| Total investments (identified cost--<br>\$681,972,168).....   | \$1,007,814,342 |
| Receivables from securities sold.....   | 3,345,187       |
| Prepaid Mexican withholding taxes (Note 1).....   | 335,413         |
| Cash.....   | 15,893          |
| Interest receivable.....  | 14,971          |
|   | -----           |
| Total assets.....   | 1,011,525,806   |
|   | -----           |
| Liabilities:  |                 |
| Payable to Investment Advisor (Notes 2 and 3).....  | 735,054         |
| Accrued expenses and other liabilities.....   | 70,275          |
|   | -----           |
| Total liabilities.....  | 805,329         |
|   | -----           |
| Net Assets--Equivalent to \$22.24 per share on<br>45,456,232 shares of capital stock outstanding<br>(Note 7)..... | \$1,010,720,477 |
|   | =====           |

See Notes to Financial Statements.

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The Mexico Fund, Inc.  
Statement of Operations (Unaudited)                      For the Nine Months Ended July 31, 2001  
-----

Net Investment Income:

|   |               |
|---|---------------|
| Income (Note 1):  |               |
| Dividends.....  | \$ 14,548,872 |
| Interest and discounts earned.....                                | 3,301,484     |
|   | -----         |
| Total income.....   | \$ 17,850,356 |
| Expenses:   |               |
| Investment advisory fee (Note 2).....                             | 4,810,239     |
| Administrative services (Note 3).....                             | 302,826       |
| Value-added taxes (Note 1).....                                   | 790,526       |
| Printing, distribution and mailing of shareholder<br>reports..... | 139,292       |
| Legal fees.....   | 595,767       |
| Directors' fees.....  | 179,168       |
| Directors' and Officers' expenses.....                            | 89,087        |
| Accounting and audit fees.....                                    | 88,665        |
| Custodian fees (Note 5).....                                      | 67,913        |
| Transfer agent and dividend disbursement fees....                 | 15,834        |
| Shareholders' information.....                                    | 177,074       |
| Stock exchange fees.....  | 36,208        |

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|   |              |               |
|---|--------------|---------------|
| Insurance.....  | 98,603       |               |
| Miscellaneous.....  | 120,243      |               |
|   | -----        |               |
| Operating expenses.....   |              | 7,511,445     |
|   |              | -----         |
| Net investment income (Note 1).....   |              | 10,338,911    |
|   |              | -----         |
| Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Transactions:                         |              |               |
| Net realized gain on investments and foreign currency transactions (Notes 1 and 6):                               |              |               |
| Proceeds from sales.....  | 333,252,212  |               |
| Cost of securities sold.....  | 198,423,176  |               |
|   | -----        |               |
| Net realized gain on investments.....   | 134,829,036  |               |
| Net realized gain from foreign currency transactions.....   | 535,012      |               |
|   | -----        |               |
| Net realized gain on investments and foreign currency transactions.....   |              | 135,364,048   |
| Decrease in net unrealized gain on investments and translation of assets and liabilities in foreign currency:     |              |               |
| Investments:  |              |               |
| End of period (Note 6).....   | 325,842,174  |               |
| Beginning of period.....  | 416,636,993  |               |
|   | -----        |               |
| Decrease in net unrealized gain on investments... Translation of assets and liabilities in foreign currency:      | (90,794,819) |               |
| End of period.....  | (21,303)     |               |
| Beginning of period.....  | 35,585       |               |
|   | -----        |               |
| Decrease in net unrealized gain on translation of assets and liabilities in foreign currency.....                 | (56,888)     |               |
|   | -----        |               |
| Decrease in net unrealized gain on investments and translation of assets and liabilities in foreign currency..... |              | (90,851,707)  |
|   |              | -----         |
| Net Increase in Net Assets Resulting from Operations.....   |              | \$ 54,851,252 |
|   |              | =====         |

See Notes to Financial Statements.

|  | For the<br>Nine Months Ended<br>July 31, 2001<br>(Unaudited) | For the<br>Year Ended<br>October 31, 2000 |
|--|--|---|
| The Mexico Fund, Inc.<br>Statements of Changes in Net Assets |  |   |

|                                    |               |              |
|------------------------------------|---------------|--------------|
| Increase (Decrease) in Net Assets: |               |              |
| From Operations                    |               |              |
| Net investment income.....         | \$ 10,338,911 | \$ 8,893,385 |

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|   |                     |                     |
|---|---------------------|---------------------|
| Net realized gain on investments and foreign currency transactions.....   | 135,364,048         | 59,717,615          |
| Decrease in net unrealized gain on investments and translation of assets and liabilities in foreign currency... | (90,851,707)        | (2,934,353)         |
| Net increase in net assets resulting from operations.....   | 54,851,252          | 65,676,647          |
| Dividends to shareholders from net investment income.....   | (5,901,512)         | (9,429,937)         |
| Dividends to shareholders from net realized gain on investments .....   | (2,363,322)         | --                  |
|   | 46,586,418          | 56,246,710          |
| From Capital Share Transactions (Note 9)  |                     |                     |
| Repurchase of stock, at cost.....   | (58,001,876)        | (22,737,565)        |
| Total (decrease) increase in net assets.....  | (11,415,458)        | 33,509,145          |
| Net Assets:   |                     |                     |
| Beginning of period.....  | 1,022,135,935       | 988,626,790         |
| End of period.....  | \$1,010,720,477 (A) | \$1,022,135,935 (A) |

See Notes to Financial Statements.

(A) Including accumulated net investment loss of \$(5,879,656) as of July 31, 2001 and \$(10,852,067) as of October 31, 2000.

| The Mexico Fund, Inc.<br>Financial Highlights                                    | For the<br>Nine Months<br>Ended<br>July 31, 2001<br>(Unaudited) | For the Year Ended October 31, |          |          |          |          |
|--|---|--------------------------------|----------|----------|----------|----------|
|  |   | 2000                           | 1999     | 1998     | 1997     | 1996     |
| Per Share Operating Performance:   |   |                                |          |          |          |          |
| Net asset value, beginning of period....   | \$ 20.84  | \$ 19.57                       | \$ 15.52 | \$ 23.49 | \$ 17.33 | \$ 13.80 |
| Net investment income (Note 1).....  | 0.22**  | 0.18**                         | 0.40     | 0.39**   | 0.40     | 0.50     |
| Net gain (loss) on investments and translation of foreign currency (Note 1)..... | 0.96**  | 1.10**                         | 4.10     | (7.48)** | 6.16     | 3.46     |
| Total from investment operations.....  | 1.18**  | 1.28**                         | 4.50     | (7.09)** | 6.56     | 3.96     |

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|   |             |             |           |           |             |           |
|---|-------------|-------------|-----------|-----------|-------------|-----------|
| Less Dividends and Distributions:   |             |             |           |           |             |           |
| Dividends to shareholders from net investment income.....                 | (0.13)      | (0.19)      | (0.45)    | (0.23)    | (0.38)      | (0.43)    |
| Distributions to shareholders from net realized gains on investments..... | (0.05)      | --          | --        | (0.60)    | (0.02)      | --        |
| Total dividends and distributions.....                                    | (0.18)      | (0.19)      | (0.45)    | (0.83)    | (0.40)      | (0.43)    |
| Capital Share Transactions:   |             |             |           |           |             |           |
| Effect on NAV of stock repurchased.....                                   | 0.40        | 0.18        | --        | --        | --          | --        |
| Capital charge resulting from issuance of fund shares.....                | --          | --          | --        | (0.05)    | --          | --        |
| Net asset value, end of period.....                                       | \$ 22.24    | \$ 20.84    | \$ 19.57  | \$ 15.52  | \$ 23.49    | \$ 17.33  |
| Market value per share, end of period.....                                | \$ 18.85    | \$ 15.81    | \$ 14.31  | \$ 11.25  | \$ 18.69    | \$ 14.13  |
| Total investment return based on market value per share.....              | 20.37%      | 11.82%      | 31.92%    | (36.70%)  | 35.03%      | 18.77%    |
| Ratios to Average Net Assets:   |             |             |           |           |             |           |
| Expenses.....   | 1.05%*      | 0.96%       | 0.98%     | 0.93%     | 0.91%       | 1.00%     |
| Net investment income..   | 1.45%*      | 0.78%       | 2.14%     | 1.87%     | 1.80%       | 2.93%     |
| Supplemental Data:  |             |             |           |           |             |           |
| Net assets at end of period (in 000's)....                                | \$1,010,720 | \$1,022,136 | \$988,627 | \$783,775 | \$1,167,893 | \$861,750 |
| Portfolio turnover rate.....  | 22.96%      | 22.27%      | 6.40%     | 3.69%     | 7.58%       | 9.57%     |

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\*Annualized

\*\*Amounts were computed based on average shares outstanding during the period.

See Notes to Financial Statements.

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The Mexico Fund, Inc.  
Selected Quarterly Financial Data (Unaudited)  
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(Amounts in thousands,  
except share amounts)

| Quarter Ended<br>July 31, 2001 |           | Quarter Ended<br>April 30, 2001 |           | Quarter Ended<br>January 31, 2001 |           |
|--------------------------------|-----------|---------------------------------|-----------|-----------------------------------|-----------|
| Total                          | Per Share | Total                           | Per Share | Total                             | Per Share |
| -----                          | -----     | -----                           | -----     | -----                             | -----     |



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|  |    |             |           |             |           |             |           |
|--|----|-------------|-----------|-------------|-----------|-------------|-----------|
| Investment income.....   | \$ | 7,583       | \$ 0.17   | \$ 8,138    | \$ 0.18   | \$ 2,129    | \$ 0.05   |
| Net investment income<br>(loss).....   | \$ | 4,998       | \$ 0.11   | \$ 5,573    | \$ 0.12   | \$ (232)    | \$ (0.00) |
| Net realized gain on<br>investments.....   | \$ | 48,091      | \$ 1.06   | \$ 35,496   | \$ 0.77   | \$ 51,242   | \$ 1.10   |
| Net realized (loss) gain<br>from foreign currency<br>transactions.....   | \$ | (18)        | \$ (0.00) | \$ 701      | \$ 0.02   | \$ (148)    | \$ (0.00) |
| Increase (decrease) in<br>net unrealized gain on<br>investments.....   | \$ | 37,409      | \$ 0.82   | \$ (64,168) | \$ (1.39) | \$ (64,036) | \$ (1.37) |
| (Decrease) increase in<br>net unrealized gain on<br>translation of assets<br>and liabilities in<br>foreign currency..... | \$ | (684)       | \$ (0.02) | \$ 174      | \$ 0.00   | \$ 453      | \$ 0.01   |
| Net assets.....  | \$ | \$1,010,720 | \$22.24   | \$938,280   | \$ 20.36  | \$969,768   | \$20.79   |

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See Notes to Financial Statements.

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The Mexico Fund, Inc.  
Notes to Financial Statements--  
July 31, 2001 (Unaudited)  
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1. Operations and Significant Accounting Policies:

The Fund is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as a closed-end management investment company. On October 16, 2000, the Fund received shareholder approval to convert from a diversified to a non-diversified investment company under the 1940 Act. The investment objective of the Fund is to seek long-term capital appreciation through investment in securities, primarily equity, listed on the Mexican Stock Exchange.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund.

Valuation of investments -- Investments traded on the Mexican Stock Exchange are valued at the closing price reported by the Mexican Stock Exchange. The closing price represents the weighted average for the last ten minutes of operations in any business day. Short-term securities are carried at cost, plus accrued interest, which approximates market value. All other securities are valued in accordance with methods determined by the Board of Directors. If the Board of Directors believes that the price of a security obtained under the Fund's valuation procedures does not represent the amount that the Fund reasonably expects to receive on a current sale of the security, the Fund will value the security based on a method that the Board believes accurately reflects fair value.

Security transactions and investment income -- Security transactions are recorded on the date which the transactions are entered into (the trade date).

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

Foreign Currency -- The market value of Mexican securities, currency holdings and other assets and liabilities denominated in Pesos ("Ps.") was recorded in the financial statements after translation into U.S. dollars based on the open market exchange rate prevailing in Mexico City at the end of the period. The open market exchange rate at July 31, 2001 was Ps. 9.156 to \$1.00.

The identified cost of portfolio holdings is translated at approximate rates prevailing when acquired. Income and expense amounts are translated at approximate rates prevailing when earned or incurred.

Since the net assets of the Fund are determined based on the currency exchange rate and market values at the close of each business day, it is not practicable to isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities during the year. Accordingly, the net realized and unrealized gain on investments presented in the accompanying financial statements include the effects of both such changes.

Reported net realized foreign exchange gains or losses arise from sales of short-term securities in exchange of property, payment of services or functional currency denominated assets, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest, and foreign withholding taxes recorded by the Fund, and the U.S. dollar equivalent of the amount actually received or paid.

Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in common stocks, resulting from changes in the exchange rate.

Repurchase Agreements -- The Fund enters into repurchase agreements with approved institutions. The Fund's repurchase agreements are fully collateralized by Mexican or U.S. Government securities. The Fund takes possession of the collateral and the Fund's investment advisor monitors the credit standing of repurchase agreement counterparties. The fair value of the

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collateral is at least equal to the principal amount of the repurchase transaction, including accrued interest, at all times. If the counterparty defaults, and the fair value of the collateral declines, realization of the collateral by the Fund may be delayed or limited. As of July 31, 2001, the Company has received collateral of \$3,116,438 related to these repurchase agreements.

Realized gains and losses on investments -- Realized gains and losses on investments are determined on the identified cost basis.

Taxes -- No provision has been made for U.S. income taxes for the nine months ended July 31, 2001, on net investment company taxable income or net long-term capital gains as defined by the Internal Revenue Code (the "Code"), since the Fund intends to comply with the requirements of the Code applicable to regulated investment companies and to distribute substantially all of such income to its shareholders.

The Fund is subject to Mexican withholding taxes in accordance with the Mexican Income Tax Law and with the provisions included in the treaty to avoid double taxation signed between Mexico and the United States, on specific

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sources of income. Such taxes will be applied to the shareholders upon payment of dividends by the Fund.

The provision for value-added taxes represents Mexican value-added tax on certain services rendered by Mexican corporations to the Fund.

Dividends to shareholders -- Cash dividends are recorded by the Fund on the ex-dividend date. Dividends paid to shareholders are subject to Mexican withholding taxes.

Lending of portfolio securities -- During fiscal year 1998, the Board of Directors approved a securities lending program for the Fund. Merrill Lynch Portfolio Services, Inc. served as the lending agent for the Fund from August 1998 through August 1999.

In March 2000, the Board appointed Cantor Fitzgerald & Co. ("Cantor"), as the lending agent for the Fund. Since March 7, 2000, the Fund has been lending part of its portfolio securities to approved financial institutions, provided that the market value of securities loaned will not at any time exceed one-third of the Fund's total assets. The Fund continues to receive dividends on the securities loaned. Any gain or loss in the value of the securities loaned that may occur during the term of the loan will be accounted for by the Fund. The Fund earns interest on the investment of the collateral received for the securities loaned. The Fund may rebate a portion of the interest earned on the investment of collateral to the borrower, and may pay a commission to the lending agent. Under the agreement, Cantor may also reimburse to the Fund the custodian fees. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, each loan is collateralized by U.S. dollars (cash), securities issued or guaranteed by the U.S. government or its agencies or instrumentalities, or irrevocable stand-by letters of credit issued by U.S. banks. Portfolio securities loaned are initially collateralized at 105 percent of its market value. If the collateral value falls below 105 percent, at the close of any business day, Comerica Bank, the Fund's custodian of the collateral received, will obtain additional collateral from the borrower, on the following business day, in an amount sufficient to restore the collateral to 105 percent.

Since September 29, 2000, the Fund has not been actively lending portfolio securities under this Program.

### 2. Investment Advisory Agreement:

The Fund has a management contract with Impulsora del Fondo Mexico, S.A. de C.V. (the "Adviser"), a Mexican corporation registered under the U.S. Investment Advisers Act of 1940. The Adviser furnishes investment research and portfolio management services consistent with the Fund's stated investment policies. The Fund pays to the Adviser a monthly fee at the annual rate of 0.85% on the first \$200 million of average daily net assets, 0.70% on the excess over \$200 million up to \$400 million and 0.60% on the excess over \$400 million.

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### 3. Administrative Services Agreement:

Effective April 1, 1994, the Fund entered into an Administrative Services Agreement with the Adviser, which provides for certain services to be performed by the Adviser, including among other administrative activities, the determination and publication of the net asset value of the Fund, the maintenance of the

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Fund's books and records in accordance with applicable U.S. and Mexican Laws and assistance in the preparation and filing of annual reports and tax returns. The term of this agreement was renewed by the Board of Directors through August 31, 2002. The annual fee payable to the Adviser by the Fund under this agreement was \$350,000. Effective July 1, 2001, the Fund will pay to the Adviser a monthly fee at the annual rate of 0.07% of average daily net assets, with a minimum amount of \$350,000.

#### 4. Trust Agreement and Trustee:

BBVA Bancomer, S.A. ("Bancomer") was the trustee for the Mexican Trust through which the Fund invested. During 1997 and 1998, the Mexican governmental authorities gave approval to the Trustee for the transfer of the total assets and liabilities of the Trust to the Fund. On February 27, 1998, the Fund's shareholders approved matters in connection with the termination of the Trust Agreement with Bancomer. The termination was effective on March 31, 1998.

#### 5. Mandate Agreement and Mandatory Party:

In connection with the termination of the Trust Agreement discussed in the preceding note, on March 31, 1998, the Fund signed a Mandate Agreement with Bancomer. Under this Agreement, Bancomer acts as the Mandatory Party, performing certain activities related to the custody of the Fund's securities, that were previously performed under the trust agreement.

The annual fee payable to Bancomer under this Agreement is denominated in Mexican pesos, which currently translates to approximately \$50,934. Due to the nature of this Agreement, the fees paid to Bancomer are consolidated with the Fund's custodian fees.

#### 6. Purchases and Sales of Investments:

Purchases and sales of investments, excluding short-term securities, for the nine months ended July 31, 2001 were as follows:

##### Purchases

|                      |               |
|----------------------|---------------|
| Common Stock.....    | \$210,565,419 |
| Total Purchases..... | \$210,565,419 |

##### Proceeds from Investments Sold

|                   |               |
|-------------------|---------------|
| Common Stock..... | \$333,252,212 |
| Total Sales.....  | \$333,252,212 |

As of July 31, 2001, net unrealized gains on investments in common stocks for Federal income tax purposes aggregated to approximately \$326 million, of which approximately \$379 million related to appreciated securities and approximately \$53 million related to depreciated securities. The aggregate cost of investments in common stocks at July 31, 2001 for Federal income tax purposes was approximately \$590 million.

#### 7. Capital Stock:

At July 31, 2001, there were 150,000,000 shares of \$1.00 par value common stock authorized, of which 45,456,232 shares were outstanding.

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The Fund offers a Dividend Reinvestment Plan ("Plan") to its shareholders. Fund shareholders are automatically enrolled as participants in the Plan unless they notify the Fund's transfer agent otherwise.

On December 10, 1997, the Board of Directors declared a stock dividend of \$29,625,602. This dividend was paid in shares of common stock of the Fund, and in cash by specific election. Some shareholders selected the stock dividend, therefore, on January 31, 1998 the Company issued 791,018 shares, which amounted to \$15,078,787.

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As of July 31, 2001, net assets were comprised of the following:

|  |    |                 |
|--|----|-----------------|
| Common stock.....  | \$ | 45,456,232      |
| Additional paid-in capital.....  |    | 500,777,553     |
| Accumulated net investment loss.....   |    | (5,879,656)     |
| Undistributed net realized gain on<br>investments.....   |    | 144,545,477 (A) |
| Unrealized appreciation of investments and translation of<br>assets and liabilities in foreign currency..... |    | 325,820,871     |
|  |    | -----           |
|  |    | \$1,010,720,477 |
|  |    | =====           |

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(A) \$134,837,315 for Federal Income Taxes

Dividends to shareholders from net investment income are determined based on Federal income tax regulations, whereas the corresponding net investment income as reflected in the accompanying financial statements, is presented in accordance with accounting principles generally accepted in the United States.

Accumulated net realized losses from foreign currency transactions have been netted against undistributed net investment income to be consistent with the tax treatment for distributions from net investment income per the tax code.

### 8. Capital Gains:

Net realized gains from security transactions, are distributed annually to shareholders. Capital loss carryforwards, if any, will be used to offset future capital gains available for distribution.

### 9. Stock Repurchase Program:

On July 31, 2000, the Board of Directors announced a Stock Repurchase Program pursuant to which the Fund may purchase in the open market up to 5,050,693 shares of its stock at prevailing market prices. The Program started on August 7, 2000. As of July 31, 2001, the Fund has repurchased the authorized 5,050,693 shares at a cost of \$80,739,445.

### 10. Investments:

As a result of significant losses incurred by Grupo Financiero Scotiabank Inverlat, S.A. de C.V. ("Inverlat"), certain significant shareholders, to-

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gether with the financial authorities, developed a recapitalization program. On July 23, 1996, after the absorption of accumulated losses through the total reduction of capital stock, shareholders of Inverlat approved a cash contribution by FOBAPROA (Banking Fund for Savings Protection) to cover such losses. As a consequence, all shares outstanding prior to July 23, 1996, were cancelled. The Fund has received an interest in a Recovery Trust set up to manage the recovery assets of Inverlat. Through the trust agreement, the Company may receive shares equal to 9% and up to 36% of their ownership interest. Management has assigned the market value of the Fund's holdings in the Recovery Trust at \$0 as of July 31, 2001, due to the uncertainty regarding its ultimate realization.

According to the Bank Savings Protection Law, which was enacted on January 20, 1999, all assets of FOBAPROA have been transferred to a new entity called IPAB (Bank Savings Protection Institute). This transfer will not modify the market value assigned to the Recovery Trust.