Chou Associates Fund
Chou RRSP Fund

ANNUAL REPORT

2002

Chou Associates Fund

Illustration of an Assumed Investment of $10,000

Period Ended	Value of Initial $10,000 Investment	Value of Cumulative Reinvested Capital Distribution	Value of Cumulative Reinvested Dividends	Total Value of Shares
Dec.31,1987	$10,000	$0	$0	$10,000
Dec.31,1988	10,547	567	313	11,427
Dec.31,1989	11,731	959	874	13,563
Dec.31,1990	9,692	792	1,631	12,114
Dec.31,1991	11,031	1,629	2,271	14,931
Dec.31,1992	12,994	2,081	2,844	17,918
Dec.31,1993	14,411	3,254	3,154	20,819
Dec.31,1994	13,892	3,137	3,253	20,282
Dec.31,1995	16,504	5,832	4,235	26,571
Dec.31,1996	19,841	7,011	5,747	32,599
Dec.31,1997	22,755	13,074	9,911	45,739
Dec.31,1998	25,894	17,693	12,771	56,358
Dec.31,1999	22,914	16,483	11,536	50,933
Dec.31,2000	23,054	16,877	15,266	55,197
Dec.31,2001	25,894	21,964	19,175	67,033
Dec.31,2002	32,159	30,498	24,474	**87,131**

Note: The indicated returns are the historical annual compounded total returns assuming reinvestment of distributions and do not take into account sales, redemption, distribution or income taxes payable by the investor. Mutual funds are not guaranteed.

CHOU ASSOCIATES FUND

May 6, 2003

Dear Unitholders of Chou Associates Fund,

After the dividend distribution of $3.01, the net asset value (NAV) of Chou Associates Fund at December 31, 2002 was $64.67, up 30% for the year. The table below shows our 1 year, 3 year, 5 year, 10 year and 15 year annual compound rate of return.

	1 Year	3 Year	5 Year	10 Year	15 Year
Chou Associates Fund	30.0%	19.6%	13.8%	17.1%	15.5%
S&P 500 Total Return	-22.1%	-14.5%	-6.0%	9.3%	11.4%
S&P/TSX Total Return	-12.4%	-6.3%	1.3%	9.1%	7.7%

* The indicated returns are the historical annual compounded total returns assuming reinvestment of distributions and do not take into account sales, redemption, distribution or income taxes payable by the investor. Mutual funds are not guaranteed. Their values fluctuate and past performance may not be repeated.

By all accounts we had an excellent year. Our returns were largely attributable to 1) BMTC Group, Akita Drilling and Tri-White, and 2) capitalizing on a few 'distress' opportunities that came our way.

NET-NET WORKING CAPITAL STOCKS

Over the years we have done quite well with stocks that were trading below net-net working capital. Stocks that meet this criterion today are often troubled companies that need to restructure their operations. When assessing these stocks it is necessary to take the following into consideration:

1) The cost of restructuring has mushroomed and if factors such as closing cost, severances, termination of leases and underfunded pension liabilities are not properly factored in, one risks coming to the wrong financial conclusion.

2) Management and investors often differ on their perspective of what action needs to be taken, and when. It is important, therefore, to understand what motivates management and specifically what steers their decision making as well as the timing of those decisions - two factors which can ultimately affect the recovery or fall of a company. As investors we see the steps that need to be taken immediately to salvage whatever value is left. There is a sense of urgency: time is of the essence in preserving liquid assets, capping cash drain, closing unprofitable branches, and selling assets including the sale of the whole company. However, some management may not see it that way: the steps that they must take may be painful to their own self-interest and careers unless they have a meaningful portion of their net worth tied up in the company. When faced with making unpleasant decisions management may choose to dawdle, hoping against hope that their industry will turn around and bail them out. Only when faced with the inevitable does such management experience a true awakening. Unfortunately, by then, most of the cash and/or

working capital has been depleted. Cases in point: Cable & Wireless and Touch America; in the end the values we saw at the time of investment proved to be a mirage.

Years ago we might have anticipated, with bated breath, that 'there must be a pony somewhere in that basket of net-net working capital stocks', but current experience has taught us that unless we factor in the cost of restructuring, and the mindset of management, we may find a pony, yes - but it will be a dead one!

DISTRESSED SECURITIES

Although our past successes in 'distressed securities' could be described as anything from average to awful, it has not deterred us from continuing to look in this area. Our broad based definition of distressed securities encompasses companies that 1) emerged from Chapter 11 (Criimi Mae common and preferred shares) 2) are in Chapter 11 (Worldcom senior notes), and 3) have debt securities trading at prices that indicate that they are candidates for Chapter 11 (Elan debentures, RCN senior notes, Time Warner Telecom senior notes, Level 3 senior notes, and Tyco common shares).

The down side to distressed securities is that even if we perform all the due diligence we want we could still end up financially distressed. The reason being that there are too many imponderables to consider - factors which cannot be measured, evaluated or foreseen - and these unknowns leave us vulnerable. Distressed securities involve companies that have one or more serious deficiencies including weak economics, stretched balance sheets, liquidity problems, incompetent management, accounting frauds, potentially mutant cockroaches - you name it. One or more of these negatives may be serious enough to drive some companies into severe financial crises that could potentially bankrupt them. Therefore, one must proceed with eyes wide open and accept that there is a good chance that at some point, most likely sooner than later, one of the companies will tank.

The up side is that because of the uncertainties and the stigma associated with distressed securities, the stocks and bonds of these companies are often selling at deep discounts to their potential 'recovery' values. Remember, we are always searching for bargains and starting in the latter half of 2001 we found many opportunities in this category - a greater number than in other 'more comfortable' sectors. Some of the major purchases for the Fund were:

1) Criimi Mae (common shares) at about $3.75, year-end price $10.19
2) Criimi Mae (preferred class B shares) at about $14, year-end price $21
3) RCN (10.125% senior notes) at about $28, year-end price $22
4) Time Warner Telecom (9.75% senior notes) at about $34, year-end price $55.75
5) Worldcom (6.5% & 8% senior notes) at about $15, year-end price $23
6) Elan (0% debentures, 2018) at about $27.50, sold at $48
7) Tyco (common shares) at about $8.25, sold at about $12.60
8) Level 3 (9.125% senior notes) at about $43, tendered to the company at $45 (bought/tendered in 2001)

As the listing shows, we did quite well in 2002 in distressed securities. There is a caveat, however: The gains were notable due mainly to our strategy of concentration. At the time of investing, we put 9.4% of the Fund assets in Criimi Mae (common and preferred shares combined), 9.2% in Worldcom senior notes, 8.9% in Elan debentures, 3.4% in Time Warner Telecom senior notes, and 3% in Tyco common shares. If we had not concentrated, the gains would have been positive but far less positive than the gains actually achieved in 2002.

With regard to 'concentrating', we acted based on a maxim that is still not widely appreciated: What good does it benefit an investor if he does not take advantage of his good ideas in a meaningful way? Good ideas are rare and may only pop up every few years.

We believe the windows of opportunity for distress situations will decline significantly in the future.

ACCOUNTING ISSUES

When analyzing companies we are always aware that their adherence to Generally Accepted Accounting Principles (GAAP) does not necessarily ensure an accurate portrayal of a company's financial position. It is no secret that there is enough leeway for management, within the GAAP rules, to showcase the financials in the best possible light. Of particular concern to us are the areas where management can, and do, play with numbers.

As investors we tend to use different metrics for different industries when calculating a company's worth. These metrics are a standard of measurement specific to the industry being considered. Using these metrics we are able to develop 'rule of thumb' or 'back of the envelope' calculations - that is, a rough estimate of the company's net worth if the accounting is transparent (plus or minus a few adjustments).

Problems occur in that management, aware of the metric that is being used to evaluate their own company, may be tempted to use this knowledge to stretch the GAAP rules in order to make their financials look better. As an investor be sure to identify and examine closely the metric used to measure the company's net worth and then check every item that goes into that calculation.

Here are examples of what some companies have done:

'Percentage growth in annual revenues' was an important metric in the 1997-2001 period for builders of telecom network companies. We found that one builder was swapping revenues that in our opinion have no economic value - close to a billion dollars - with other network builders.

'Earnings before interest, taxes, depreciation and amortization' (EBITDA) is an important metric for cable and telecom companies. We found that some normal operating expenses that should have been expensed were being capitalized. In some cases operational expenses, such as employee costs, were being capitalized for the first 2 years from the day the licenses were granted.

'Growth in net income' is an important metric for evaluating companies. In 2002 some multinational companies lost billions of dollars in their pension funds, but boosted their pre-tax returns in the hundreds of millions by using an unrealistic 9% or more as their expected pension fund investment rate of return! If more appropriate rates of return were used by some companies we would discover that many a pension fund is significantly underfunded. Choosing to use unrealistic rates will have serious repercussions down the road for some companies.

'Free cash flow' is an important metric for some service industries. Keep an eye out for items that do not belong in the calculation including non-recurring items such as sale/leaseback, deferred revenue, and sale of receivables.

Today's financial statements are so closely scrutinized by investors that it is downright comical that some management still believe that the adoption of soft accounting will go unnoticed. Knowledgeable investors will simply make the adjustments needed to reflect what is reality. In the end, what management fail to recognize is that any gains achieved by playing with numbers to make financials look good, will ultimately lead to a much greater loss - their reputation. Soft accounting also affects management's relationship with investors and sets a wrong example to their employees. It erodes credibility and forces the question - can management be trusted?

Philosophers long ago suggested that 'All is lost save honour' is the honourable way to conduct human affairs, but nonetheless some management still continue to believe in their metric, or should I say mantra, of 'All is lost save EBITDA' regardless of how soft that EBITDA may be.

MARGIN OF SAFETY - OUR CREDO

As we have stated in our past letters, the cardinal principle underlying the investments in the Fund is to pay far less than what the company is worth, measured by sustainable earning power and/or hard assets that are not depreciating in value. In other words, we want an adequate "Margin of Safety" and this concept, while unappreciated and ignored by many, is what distinguishes investment from speculation.

RELATIONSHIP WITH FAIRFAX FINANCIAL HOLDINGS (FAIRFAX)

I run the Chou Funds. I am also a Vice President of Fairfax. In late 2002, Fairfax invested $50 million in Chou Associates Fund and will invest a further $50 million in the Fund in the first half of 2003. In order to avoid conflicts of interest, perceived or real, we have agreed to the following arrangement:

1) If at any time Fairfax and the Chou Funds desire to purchase or sell the same security within the same price range, any such purchase or sale will be made proportionately to the amount of such security which each of them desires to purchase or sell.

2) Fairfax will not exercise any voting rights attaching to units of Chou Associates Fund or otherwise in any manner attempt to influence the affairs of the Chou Funds.

3) The Chou Funds will not invest in Fairfax and will not knowingly sell securities to Fairfax nor purchase securities from it.

Fairfax and I will review the arrangement regularly to ensure that we have successfully avoided any conflicts of interest.

In situations similar to mine, most executives would generally continue to receive compensation consistent with their positions as an executive. However, I have chosen to forego all remuneration and benefits whatsoever - including salary, bonus, incentive compensation, employee benefits and other perks associated with my position as an executive of Fairfax (if for convenience I remain a member of any medical or other group benefit plan with Fairfax, I will pay the full cost of participation).

EXPECTATION OF FUTURE RETURNS

Although we had an excellent year in 2002, we are more pleased with our 10 and 15 year results. The market, in general, is still not cheap and we are less than enthusiastic about its future prospects. With that understanding it would be irresponsible of me to extrapolate the Fund's returns of 2002, or the 3 year return, to the future. To be on the safe side, the returns for 2002 should be considered an aberration. Realistically, we would consider it excellent performance if we achieve single digit annual returns for the next few years. Most investors are painfully aware that the market has lost over 40% of its value from its high of 3 years ago. Any positive return is a great return under these circumstances.

A word of caution: Markets are inherently volatile in the short term and therefore can affect the Fund adversely, short term; while the Fund has never suffered large annual losses, they are certainly possible. Having said that, securities that the Fund holds are cheap relative to what they are worth and performance numbers should therefore work out reasonably well in the long run. That has been our experience. Nonetheless, the amount of money that investors choose to invest in the Fund should only be to the degree that they can afford to lose 40% or more of their investment. This may sound drastic, but sleeping well is also an important consideration.

COMPENSATION

The Fund pays a 1.5% management fee plus other expenses such as custodial, record keeping, legal, audit and filing fees. The MER for 2002 was 1.87%. The drop in MER was due primarily to the increase in assets. In general, I would like to see the MER kept below 2%.

Although the management fee is a fixed fee I have always approached it as if it had to be earned. I believe that management fees, in general, should correlate to positive long-term results.

GROWTH IN ASSETS

Some investors have expressed concern regarding the influx of cash to the Fund and whether this factor will have a negative impact on its performance. These points are worth noting:

1) We are considering closing the Fund to new investors once its assets reach a certain value. The number being discussed is $1 billion, a figure that far exceeds our current net assets. This amount is subject to further review.

2) The billion dollar figure must be put in perspective; in today's global economy a billion dollars in assets is considered a relatively small amount for a fund that is open to invest almost anywhere in the world.

3) The major portion of our returns in the past 15 years has been generated by investing in mid to big capitalization stocks such as Freddie Mac, Citigroup and Progressive, to name a few.

4) Finally, and it is worth repeating, our success to date is due to our adherence to the concept of 'Margin of Safety'. As the Fund's assets grow, we will continue to make decisions based on this concept and the same investment criteria that we have used in the past.

OTHER MATTERS

I am pleased to announce that Jingyun Huang joined Chou Associates Management Inc. in December 2002 as a full time administrator. She is responsible for all non-investment related matters.

We are planning to open two new funds, Chou Europe Fund and Chou Asia Fund, in the summer of 2003, subject to the approval of the various securities commissions in Canada. We expect a prospectus for these funds will be available at that time.

We have a redemption fee of 2% if unitholders redeem their units in less than 2 years. Instead of the fee going to the Fund Manager, it will be put back into the Fund to benefit remaining long-term unitholders. We hope that this fee is enough to dissuade short-term investors from jumping in and out of the Fund to chase short-term performance.

Effective May 14, 2003, the minimum amount required to invest in Chou Associates Fund will be $10,000.

As at May 2, 2003, the NAV of the Fund was $60.44 and the cash equivalents were 51.6% of assets. The Fund is down 6.5% from the beginning of the year. Some of the decline can be attributed to the strong Canadian dollar.

Yours truly,

Francis Chou

Francis Chou
Fund Manager

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AUDITORS' REPORT

To the Trustee and the Unitholders of
Chou Associates Fund

We have audited the statement of net assets of Chou Associates Fund ("the Fund") as at December 31, 2002 and 2001, the statements of income and changes in net assets for the years then ended and the statement of investments at December 31, 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 Fund as at December 31, 2002 and 2001, its results of operations and changes in its net assets for the years then ended and its investment portfolio as at December 31, 2002, in accordance with Canadian generally accepted accounting principles.

Burns Hubley LLP

Chartered Accountants

Markham, Ontario
February 20, 2003

CHOU ASSOCIATES FUND

STATEMENT OF NET ASSETS

AS AT DECEMBER 31, 2002

	2002	2001
ASSETS		
Cash and treasury bills	$ 51,659,631	$ 3,311,682
Accounts receivable	520,700	33,396
Investments at market value (average cost 2002 - $20,555,845; 2001 - $7,131,121)	29,584,002	12,131,523
	81,764,333	15,476,601
LIABILITIES		
Accounts payable and accrued charges	171,135	43,444
Dividends payable	44,132	-
Covered call options at market value (average cost 2002 - $ Nil; 2001 - $ Nil)	-	30,267
	215,267	73,711
NET ASSETS AT MARKET VALUE	$ 81,549,066	$ 15,402,890
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Capital	$ 72,520,908	$ 10,432,756
Unrealized appreciation in the value of investments	9,028,158	5,000,401
Unrealized loss in covered call options	-	(30,267)
	$ 81,549,066	$ 15,402,890
NUMBER OF UNITS OUTSTANDING (Note 2)	1,260,979	295,800
NET ASSET VALUE PER UNIT	$ 64.67	$ 52.07

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS
OF THE MANAGEMENT COMPANY

Francis Chou
Tracy Chou

CHOU ASSOCIATES FUND

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2002

	2002	2001
INCOME		
Dividends	$ 586,032	$ 625,278
Interest	546,639	124,439
	1,132,671	749,717
EXPENSES		
Management fees (Note 3)	437,218	218,280
Custodian fees	34,987	24,213
Filing fees	20,024	8,726
Audit	8,157	8,098
Legal	8,000	15,332
Foreign withholding taxes	5,214	8,975
	513,600	283,624
NET INVESTMENT INCOME	619,071	466,093
REALIZED GAIN FROM INVESTMENTS SOLD	3,015,688	691,136
NET INCOME FROM OPERATIONS	$ 3,634,759	$ 1,157,229
NET INVESTMENT INCOME PER UNIT (based upon the number of units outstanding at the year end prior to reinvested distributions of income)	$ 0.51	$ 1.70
REALIZED GAIN PER UNIT	$ 2.50	$ 2.53
NET INCOME PER UNIT	$ 3.01	$ 4.23

CHOU ASSOCIATES FUND

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2002

	2002	2001
NET ASSETS, beginning of the year	$ 15,402,890	$ 12,679,869
INCREASED BY		
Net investment income	619,071	466,093
Net realized capital gains on investments sold	3,015,688	691,136
Unrealized appreciation (depreciation) in value of investments	4,027,757	(70,322)
Decrease in covered call options	30,267	1,614,200
Reinvested distributions	3,590,627	1,157,228
Proceeds from sale of units	58,823,191	746,138
	70,106,601	4,604,473
	85,509,491	17,284,342
DECREASED BY		
Payments on redemption of units	325,666	724,224
Distribution of income to unitholders	3,634,759	1,157,228
	3,960,425	1,881,452
NET ASSETS, end of the year	$ 81,549,066	$ 15,402,890

CHOU ASSOCIATES FUND

STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2002

	Number of Shares	Average Cost	Market Value
SHARES*			
Akita Drilling Ltd., Class A	60,000	$378,967	$1,257,000
BMTC Group Inc., Class A	189,800	842,255	2,723,630
Berkshire Hathaway Inc., Class A	45	4,910,620	5,152,266
Cable & Wireless Publications Ltd., ADR	75,600	639,423	277,224
Caldwell Partners Int'l Inc., Class A	410,000	639,600	594,500
Cavalier Homes Inc.	68,400	189,537	208,839
Citigroup Inc.	7,500	146,809	415,368
Criimi Mae Inc., REIT	243,484	1,421,608	3,904,787
Criimi Mae, Class B Preferred	24,600	497,775	813,031
Freddie Mac	5,000	43,771	464,668
Global Tech Appliances Inc.	30,000	230,418	223,796
Hollinger Inc., Retractable Common	61,002	786,062	333,681
IDT Corp., Class B	20,000	386,309	488,196
Int'l Forest Products Ltd., Class A	200,000	703,469	1,170,000
Orthodontic Centres of America Inc.	39,000	603,646	669,641
Rothmans Canada Inc.	48,600	520,084	1,405,998
Touch America Holdings Inc.	100,000	326,976	61,379
Tri-White Corporation	600,000	1,204,000	1,710,000
Westshore Terminals, Income Trust	16,700	48,465	81,496
World Acceptance Corp.	190,000	2,191,066	2,275,574
		16,710,860	24,231,074
BONDS			
RCN Corp. Senior Notes, 10.125%, 2010	2,250,000	1,012,420	779,037
Time Warner Tele. Senior Notes, 9.75%,2008	1,500,000	804,723	1,316,100
Worldcom Inc. Senior Notes, 6.5%, 2004	5,000,000	1,076,390	1,809,884
Worldcom Inc. Senior Notes, 8.0%, 2006	4,000,000	951,452	1,447,907
		3,844,985	5,352,928
TOTAL		$20,555,845	$29,584,002

* Common Shares Unless Indicated Otherwise.

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Fund conform with Canadian generally accepted accounting principles appropriate to the mutual fund industry. The significant policies are summarized below:

(a) Investments in securities are recorded at market values based on the year end closing sale price or, if the security did not trade, the closing bid price. The calculation of a gain or loss on a partial disposition of an investment position in a certain security is determined using the average cost of the securities purchased within the investment position.

(b) Foreign currency amounts have been expressed in Canadian dollars on the financial statements as follows:
(i) investments held at the year end are converted at the Bank of Canada rate of exchange on that date; and
(ii) purchases and sales of investments as well as income and expenses throughout the year are recorded at the Bank of Canada exchange rate prevailing on the respective dates of such transactions.

(c) The Fund qualifies as a unit trust under the provisions of the Income Tax Act (Canada) and accordingly is subject to tax on income, including net realized capital gains, for the calendar year which is not paid or payable to unit holders as at the end of the calendar year. It is the policy of the Fund to pay out all net income and net realized capital gains so that the Fund will not be subject to income taxes other than foreign withholding taxes, if applicable. The accounting policies of the Fund conform with Canadian generally accepted accounting principles appropriate to the mutual fund industry. The significant policies are summarized below:

2. UNITS OF THE FUND

The units of the Fund are voting, without any par value and an unlimited number may be issued. All units must be fully paid and fractional units may be issued.

	2002	2001
Units outstanding, beginning of the year	295,800	273,496
Add: Units issued during the year	915,390	15,131
Deduct: Units redeemed during the year	(5,732)	(15,051)
Units outstanding before income distribution	1,205,458	273,576
Add: Units issued on reinvested income	55,521	22,224
Units outstanding, end of the year	1,260,979	295,800

3. MANAGEMENT FEES

Chou Associates Management Inc. ("the Manager") manages the Fund under a management agreement dated September 1, 1986. The Manager is entitled to a fee calculated on a percentage of the market value of net assets not to exceed 0.125% per month.

For the current year, the Manager has charged the Fund a fee of $408,615 (2001 - $204,000) which represents 1.50% (2001 - 1.49%) of the average net assets during the year.

The following summarizes the expenses, relating to the management of the Fund, including any GST paid but not reclaimable.

	2002	2001
Investment counselling fees	$ 437,218	$ 218,280
Other expenses	71,168	56,369
Total	$ 508,386	$ 274,649
Management expense ratio	1.87%	2.02%
Management expense ratio (net of GST)	1.74%	1.88%

4. BROKERS' COMMISSIONS

Total commissions paid to brokers in connection with portfolio transactions for the year ended December 31, 2002 were $83,440 (2001 - $44,076).

5. PERFORMANCE OF FUND

December 31	2002	2001	2000	1999	1998
Net Asset Value per unit, Beginning of year	$52.07	$46.36	$46.08	$52.07	$45.76
Income from investment operations:					
Net investment income	0.51	1.70	3.31	0.22	1.49
Net realized and unrealized gains on investments	15.10	8.24	0.55	-5.23	9.13
Total income from investment	15.61	9.94	3.86	-5.01	10.62
Less distributions:					
Dividends from net investment income	0.51	1.70	3.31	0.22	1.49
Distribution from net realized gains	2.50	2.53	0.27	0.76	2.82
Total distributions	3.01	4.23	3.58	0.98	4.31
Net Asset Value per unit, End of year	$64.67	$52.07	$46.36	$46.08	$52.07
Total return	29.99%	21.44%	8.37%	-9.63%	23.22%
Net Assets, end of year (in thousands)	$81,549	$15,403	$12,680	$12,216	$13,046
Management Expense Ratio (MER)	1.87%	2.02%	2.00%	1.85%	2.11%
Portfolio turnover rate	43.10%	38.90%	23.80%	11.00%	25.90%

CHOU RRSP FUND

May 6, 2003

Dear Unitholders of Chou RRSP Fund,

After the dividend distribution of $2.53, the net asset value (NAV) of Chou RRSP Fund at December 31, 2002 was $23.08, up 31.85% for the year. The table below shows our 1 year, 3 year, 5 year, 10 year and 15 year annual compound rate of return.

	1 Year	3 Year	5 Year	10 Year	15 Year
Chou RRSP Fund	31.9%	21.6%	14.7%	16.2%	12.7%
S&P/TSX Total Return	-12.4%	-6.3%	1.3%	9.1%	7.7%

* The indicated returns are the historical annual compounded total returns assuming reinvestment of distributions and do not take into account sales, redemption, distribution or income taxes payable by the investor. Mutual funds are not guaranteed. Their values fluctuate and past performance may not be repeated.

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and bail them out. Only when faced with the inevitable does such management experience a true awakening. Unfortunately, by then, most of the cash and/or working capital has been depleted. A case in point is Touch America; in the end the values we saw at the time of investment proved to be a mirage.

Years ago we might have anticipated, with bated breath, that 'there must be a pony somewhere in that basket of net-net working capital stocks', but current experience has taught us that unless we factor in the cost of restructuring, and the mindset of management, we may find a pony, yes - but it will be a dead one!

DISTRESSED SECURITIES

Although our past successes in 'distressed securities' could be described as anything from average to awful, it has not deterred us from continuing to look in this area. Our broad based definition of distressed securities encompasses companies that 1) emerged from Chapter 11 (Criimi Mae common and preferred shares) 2) are in Chapter 11 (Worldcom senior notes), and 3) have debt securities trading at prices that indicate that they are candidates for Chapter 11 (Elan debentures and RCN senior notes).

The down side to distressed securities is that even if we perform all the due diligence we want we could still end up financially distressed. The reason being that there are too many imponderables to consider - factors which cannot be measured, evaluated or foreseen - and these unknowns leave us vulnerable. Distressed securities involve companies that have one or more serious deficiencies including weak economics, stretched balance sheets, liquidity problems, incompetent management, accounting frauds, potentially mutant cockroaches - you name it. One or more of these negatives may be serious enough to drive some companies into severe financial crises that could potentially bankrupt them. Therefore, one must proceed with eyes wide open and accept that there is a good chance that at some point, most likely sooner than later, one of the companies will tank.

The up side is that because of the uncertainties and the stigma associated with distressed securities, the stocks and bonds of these companies are often selling at deep discounts to their potential 'recovery' values. Remember, we are always searching for bargains and starting in the latter half of 2001 we found many opportunities in this category - a greater number than in other 'more comfortable' sectors. Some of the major purchases for the Fund were:

1) Criimi Mae (common shares) at about $3.75, year-end price $10.19
2) Criimi Mae (preferred class B shares) at about $14, year-end price $21
3) RCN (senior notes10.125%, 2010) at about $28.50, year-end price $22
4) Worldcom (senior notes 7.55%, 2004) at about $15, year-end price $23
5) Elan (0% debentures, 2018) at about $27, sold at $48

As the listing shows, we did quite well in 2002 in distressed securities. There is a caveat, however: The gains were notable due mainly to our strategy of concentration. At the time of investing, we put about 9.4% of the Fund assets in Criimi Mae (common and preferred shares combined) and about 8.6% in Elan debentures. If we had not concentrated, the gains would have been positive but far less positive than the gains actually achieved in 2002.

With regard to 'concentrating', we acted based on a maxim that is still not widely appreciated: What good does it benefit an investor if he does not take advantage of his good ideas in a meaningful way? Good ideas are rare and may only pop up every few years.

We believe the windows of opportunity for distress situations will decline significantly in the future.

ACCOUNTING ISSUES

When analyzing companies we are always aware that their adherence to Generally Accepted Accounting Principles (GAAP) does not necessarily ensure an accurate portrayal of a company's financial position. It is no secret that there is enough leeway for management, within the GAAP rules, to showcase the financials in the best possible light. Of particular concern to us are the areas where management can, and do, play with numbers.

As investors we tend to use different metrics for different industries when calculating a company's worth. These metrics are a standard of measurement specific to the industry being considered. Using these metrics we are able to develop 'rule of thumb' or 'back of the envelope' calculations - that is, a rough estimate of the company's net worth if the accounting is transparent (plus or minus a few adjustments).

Problems occur in that management, aware of the metric that is being used to evaluate their own company, may be tempted to use this knowledge to stretch the GAAP rules in order to make their financials look better. As an investor be sure to identify and examine closely the metric used to measure the company's net worth and then check every item that goes into that calculation.

Here are examples of what some companies have done:

'Percentage growth in annual revenues' was an important metric in the 1997-2001 period for builders of telecom network companies. We found that one builder was swapping revenues that in our opinion have no economic value - close to a billion dollars - with other network builders.

'Earnings before interest, taxes, depreciation and amortization' (EBITDA) is an important metric for cable and telecom companies. We found that some normal operating expenses that should have been expensed were being capitalized. In some cases operational expenses, such as employee costs, were being capitalized for the first 2 years from the day the licenses were granted.

'Growth in net income' is an important metric for evaluating companies. In 2002 some multinational companies lost billions of dollars in their pension funds, but boosted their pre-tax returns in the hundreds of millions by using an unrealistic 9% or more as their expected pension fund investment rate of return! If more appropriate rates of return were used by some companies we would discover that many a pension fund is significantly underfunded.

Choosing to use unrealistic rates will have serious repercussions down the road for some companies.

'Free cash flow' is an important metric for some service industries. Keep an eye out for items that do not belong in the calculation including non-recurring items such as sale/leaseback, deferred revenue, and sale of receivables.

Today's financial statements are so closely scrutinized by investors that it is downright comical that some management still believe that the adoption of soft accounting will go unnoticed. Knowledgeable investors will simply make the adjustments needed to reflect what is reality. In the end, what management fail to recognize is that any gains achieved by playing with numbers to make financials look good, will ultimately lead to a much greater loss - their reputation. Soft accounting also affects management's relationship with investors and sets a wrong example to their employees. It erodes credibility and forces the question - can management be trusted?

Philosophers long ago suggested that 'All is lost save honour' is the honourable way to conduct human affairs, but nonetheless some management still continue to believe in their metric, or should I say mantra, of 'All is lost save EBITDA' regardless of how soft that EBITDA may be.

MARGIN OF SAFETY - OUR CREDO

As we have stated in our past letters, the cardinal principle underlying the investments in the Fund is to pay far less than what the company is worth, measured by sustainable earning power and/or hard assets that are not depreciating in value. In other words, we want an adequate "Margin of Safety" and this concept, while unappreciated and ignored by many, is what distinguishes investment from speculation.

RELATIONSHIP WITH FAIRFAX FINANCIAL HOLDINGS (FAIRFAX)

I run the Chou Funds. I am also a Vice President of Fairfax. In late 2002, Fairfax invested $50 million in Chou Associates Fund (sister fund of Chou RRSP Fund) and will invest a further $50 million in Chou Associates Fund in the first half of 2003. In order to avoid conflicts of interest, perceived or real, we have agreed to the following arrangement:

1) If at any time Fairfax and the Chou Funds desire to purchase or sell the same security within the same price range, any such purchase or sale will be made proportionately to the amount of such security which each of them desires to purchase or sell.

2) Fairfax will not exercise any voting rights attaching to units of Chou Associates Fund or otherwise in any manner attempt to influence the affairs of the Chou Funds.

3) The Chou Funds will not invest in Fairfax and will not knowingly sell securities to Fairfax nor purchase securities from it.

Fairfax and I will review the arrangement regularly to ensure that we have successfully avoided any conflicts of interest.

In situations similar to mine, most executives would generally continue to receive compensation consistent with their positions as an executive. However, I have chosen to forego all remuneration and benefits whatsoever - including salary, bonus, incentive compensation, employee benefits and other perks associated with my position as an executive of Fairfax (if for convenience I remain a member of any medical or other group benefit plan with Fairfax, I will pay the full cost of participation).

EXPECTATION OF FUTURE RETURNS

Although we had an excellent year in 2002, we are more pleased with our 10 and 15 year results. The market, in general, is still not cheap and we are less than enthusiastic about its future prospects. With that understanding it would be irresponsible of me to extrapolate the Fund's returns of 2002, or the 3 year return, to the future. To be on the safe side, the returns for 2002 should be considered an aberration. Realistically, we would consider it excellent performance if we achieve single digit annual returns for the next few years. Most investors are painfully aware that the market has lost over 40% of its value from its high of 3 years ago. Any positive return is a great return under these circumstances.

A word of caution: Markets are inherently volatile in the short term and therefore can affect the Fund adversely, short term; while the Fund has never suffered large annual losses, they are certainly possible. Having said that, securities that the Fund holds are cheap relative to what they are worth and performance numbers should therefore work out reasonably well in the long run. That has been our experience. Nonetheless, the amount of money that investors choose to invest in the Fund should only be to the degree that they can afford to lose 40% or more of their investment. This may sound drastic, but sleeping well is also an important consideration.

COMPENSATION

The Fund pays a 1.5% management fee plus other expenses such as custodial, record keeping, legal, audit and filing fees. The MER for 2002 was 1.83%. The drop in MER was due primarily to the increase in assets. In general, I would like to see the MER kept below 2%.

Although the management fee is a fixed fee I have always approached it as if it had to be earned. I believe that management fees, in general, should correlate to positive long-term results.

GROWTH IN ASSETS

Some investors have expressed concern regarding the influx of cash to the Fund and whether this factor will have a negative impact on its performance. These points are worth noting:

1) We are considering closing the Fund to new investors once its assets reach a certain value. The number being discussed is $200 million, a figure that far exceeds our current net

assets. This amount is subject to further review.

2) The $200 million figure must be put in perspective; in the Canadian market today, a company with $500 million in market capitalization (cap) is considered small cap.

3) Finally, and it is worth repeating, our success to date is due to our adherence to the concept of 'Margin of Safety'. As the Fund's assets grow, we will continue to make decisions based on this concept and the same investment criteria that we have used in the past.

OTHER MATTERS

I am pleased to announce that Jingyun Huang joined Chou Associates Management Inc. in December 2002 as a full time administrator. She is responsible for all non-investment related matters.

We are planning to open two new funds, Chou Europe Fund and Chou Asia Fund, in the summer of 2003, subject to the approval of the various securities commissions in Canada. We expect a prospectus for these funds will be available at that time.

We have a redemption fee of 2% if unitholders redeem their units in less than 2 years. Instead of the fee going to the Fund Manager, it will be put back into the Fund to benefit remaining long-term unitholders. We hope that this fee is enough to dissuade short-term investors from jumping in and out of the Fund to chase short-term performance.

As at May 2, 2003, the NAV was $23.63 and the cash equivalents were 56.8% of assets. The Fund is up 2.4% from the beginning of the year.

Yours truly,

Francis Chou

Francis Chou
Fund Manager

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AUDITORS' REPORT

To the Trustee and the Unitholders of
Chou RRSP Fund

We have audited the statement of net assets of Chou RRSP Fund ("the Fund") as at December 31, 2002 and 2001, the statements of income and changes in net assets for the years then ended and the statement of investments as at December 31, 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 Fund as at December 31, 2002 and 2001, its results of operations and changes in net assets for the years then ended and its investment portfolio as at December 31, 2002, in accordance with Canadian generally accepted accounting principles.

BurnsHubley LLP

Chartered Accountants

Markham, Ontario
February 20, 2003

CHOU RRSP FUND

STATEMENT OF NET ASSETS

AS AT DECEMBER 31, 2002

	2002	2001
ASSETS		
Cash and treasury bills	$ 6,713,546	$ 622,693
Accounts receivable	685,527	27,192
Investments at market value (average cost 2002 - $6,590,642; 2001 - $4,154,021)	8,508,274	5,085,951
	15,907,347	5,735,836
LIABILITIES		
Accounts payable and accrued charges	46,852	20,612
Dividend payable	1,009	-
	47,861	20,612
NET ASSETS AT MARKET VALUE	$ 15,859,486	$ 5,715,224
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Capital	$ 13,941,854	$ 4,783,294
Unrealized appreciation in the value of investments	1,917,632	931,930
	$ 15,859,486	$ 5,715,224
NUMBER OF UNITS OUTSTANDING (Note 2)	687,280	294,264
NET ASSET VALUE PER UNIT	$ 23.08	$ 19.42

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS
OF THE MANAGEMENT COMPANY

Francis Chou

Tracy Chou

CHOU RRSP FUND

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2002

	2002	2001
INCOME		
Interest	$ 241,116	$ 84,158
Dividends	217,543	84,016
	458,659	168,174
EXPENSES		
Management fees (Note 3)	152,042	83,460
Custodian fees	11,253	11,986
Filing fees	5,740	2,517
Legal	2,000	2,266
Audit	1,999	4,825
Foreign withholding tax	11	76
	173,045	105,130
NET INVESTMENT INCOME	285,614	63,044
REALIZED GAIN FROM INVESTMENTS SOLD	1,283,035	132,526
NET INCOME FROM OPERATIONS	$ 1,568,649	$ 195,570
NET INVESTMENT INCOME PER UNIT (based upon the number of units outstanding at the year end prior to invested distributions of income)	$ 0.46	$ 0.22
REALIZED GAIN PER UNIT	$ 2.07	$ 0.47
NET INCOME PER UNIT	$ 2.53	$ 0.69

CHOU RRSP FUND

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2002

	2002	2001
NET ASSETS, beginning of the year	$ 5,715,224	$ 4,807,903
INCREASED BY		
Net investment income	285,614	63,044
Net realized capital gains on investments sold	1,283,035	132,526
Unrealized appreciation in value of investments	985,702	406,778
Decrease in covered call options	-	214,467
Reinvested distributions	1,567,640	195,570
Proceeds from sale of units	8,674,046	400,528
	12,796,037	1,412,913
	18,511,261	6,220,816
DECREASED BY		
Payments on redemption of units	1,084,135	310,022
Distribution of income to unitholders	1,567,640	195,570
	2,651,775	505,592
NET ASSETS, end of the year	$ 15,859,486	$ 5,715,224

CHOU RRSP FUND

STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2002

	Number of Shares	Average Cost	Market Value
SHARES*			
Accord Financial Corp.	8,600	$42,749	$42,226
Akita Drilling Ltd., Class A	20,000	137,003	419,000
BMTC Group Inc., Class A	85,200	419,799	1,222,620
Caldwell Partners Int'l Inc., Class A	162,900	437,235	236,205
Criimi Mae Inc., REIT	24,495	149,591	392,830
Criimi Mae Inc., Class B Preferred	18,600	410,171	614,731
Criimi Mae Inc., Class F Preferred	7,200	81,988	104,249
Discovery Capital Corp.	396,500	71,218	47,580
Glacier Ventures Int'l Corp.	215,228	173,043	290,558
Hollinger Inc., Retractable Common	20,672	267,679	113,076
Int'l Forest Products Ltd., Class A	204,800	838,727	1,198,080
Leons Furniture Ltd.	4,000	79,725	122,000
Liquidation World Inc.	30,200	161,191	161,570
MFP Financial Services Ltd.	8,900	54,102	64,525
Moveitonline Inc.	394,100	141,876	118,230
MRRM Inc.	6,650	334,162	412,300
Net2phone Inc.	22,700	176,342	144,688
Rainmaker Income Fund	264,700	870,863	587,634
Rothmans Canada Inc.	13,200	299,748	381,876
Tri-White Corporation	255,000	504,600	726,750
Westshore Terminals, Income Trust	85,700	245,467	418,216
Zonagen Inc.	100,000	236,083	154,234
		6,133,362	7,973,178
BONDS			
RCN Corp Senior Notes, 10.125%, 2010	500,000	227,644	173,119
Worldcom Inc. Senior Notes, 7.55%, 2004	1,000,000	229,635	361,977
		457,279	535,096
TOTAL		$6,590,641	$8,508,274

* Common Shares Unless Indicated Otherwise.

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Fund conform with Canadian generally accepted accounting principles appropriate to the mutual fund industry. The significant policies are summarized below:

(a) Investments in securities are recorded at market values based on the year-end closing sale price or, if the security did not trade, the closing bid price. The calculation of a gain or loss on a partial disposition of an investment position in a certain security is determined using the average cost of the securities purchased within the investment position.

(b) Foreign currency amounts have been expressed in Canadian dollars on the financial statements as follows:
   (i) investments held at the year end are converted at the Bank of Canada rate of exchange on that date; and
   (ii) purchases and sales of investments as well as income and expenses throughout the year are recorded at the Bank of Canada exchange rate prevailing on the respective dates of such transactions.

(c) The Fund qualifies as a unit trust under the provisions of the Income Tax Act (Canada) and accordingly is subject to tax on income, including net realized capital gains, for the calendar year which is not paid or payable to unit holders as at the end of the calendar year. It is the policy of the Fund to pay out all net income and net realized capital gains so that the Fund will not be subject to income taxes other than foreign withholding taxes, if applicable.

2. UNITS OF THE FUND

The units of the Fund are voting, without par value and an unlimited number may be issued. All units must be fully paid for and fractional units may be issued.

	2002	2001
Units outstanding, beginning of the year	294,264	279,772
Add: Units issued during the year	373,309	21,197
Deduct: Units redeemed during the year	(48,228)	(16,774)
Units outstanding before income distribution	619,345	284,195
Add: Units issued on reinvested income	67,935	10,069
Units outstanding, end of the year	687,280	294,264

3. MANAGEMENT FEES

Chou Associates Management Inc. ("the Manager") manages the Fund under a management agreement dated September 1, 1986. The Manager is entitled to a fee calculated on a percentage of the market value of net assets not to exceed 0.125% per month.

For the current year, the Manager has charged the Fund a fee of $142,095 (2001 - $78,000) which represents 1.50% (2001 - 1.49%) of the average net assets during the year.

The following summarizes the expenses relating to the management of the Fund, including any GST paid but not reclaimable.

	2002	2001
Management fees	$ 152,042	$ 83,460
Other expenses	20,992	21,594
Total	$ 173,034	$ 105,054
Management expense ratio	1.83%	2.01%
Management expense ratio (net of GST)	1.71%	1.87%

4. BROKERS' COMMISSIONS

Total commissions paid to brokers in connection with portfolio transactions for the year ended December 31, 2002 were $36,863 (2001 - $10,859).

5. PERFORMANCE OF FUND

December 31	2002	2001	2000	1999	1998
Net Asset Value per unit,					
Beginning of year	$19.42	$17.18	$15.69	$17.68	$20.25
Income from investment operations:					
Net investment income	0.46	0.22	0.87	0.33	0.92
Net realized and unrealized gains					
on investments	5.73	2.71	1.72	-1.52	2.83
Total income from investment	6.19	2.93	2.59	-1.19	3.75
Less distributions:					
Dividends from net investment income	0.46	0.22	0.87	0.33	0.92
Distribution from net realized gains	2.07	0.47	0.23	0.47	5.40
Total distributions	2.53	0.69	1.10	0.80	6.32
Net Asset Value per unit,					
End of year	$23.08	$19.42	$17.18	$15.69	$17.68
Total return	31.85%	17.04%	16.52%	-6.71%	18.54%
Net Assets, end of year (in thousands)	$15,859	$5,715	$4,808	$4,045	$2,546
Management Expense Ratio (MER)	1.83%	2.01%	2.12%	1.74%	2.26%
Portfolio turnover rate	33.20%	25.80%	25.60%	5.10%	92.80%

Illustration of an Assumed Investment of $10,000

Period Ended	Value of Initial $10,000 Investment	Value of Cumulative Reinvested Capital Distribution	Value of Cumulative Reinvested Dividends	Total Value of Shares
Dec.31,1987	$10,000	$0	$0	$10,000
Dec.31,1988	10,731	326	296	11,352
Dec.31,1989	11,552	1,009	704	13,265
Dec.31,1990	9,290	1,054	1,416	11,761
Dec.31,1991	9,361	1,062	1,857	12,280
Dec.31,1992	10,089	1,145	2,170	13,404
Dec.31,1993	11,639	1,321	2,504	15,464
Dec.31,1994	10,151	1,152	2,528	13,831
Dec.31,1995	11,787	1,338	3,338	16,463
Dec.31,1996	14,363	1,630	4,100	20,093
Dec.31,1997	19,993	3,396	6,878	30,267
Dec.31,1998	17,456	11,031	7,387	35,874
Dec.31,1999	15,498	10,746	7,237	33,480
Dec.31,2000	16,964	12,261	9,775	39,001
Dec.31,2001	19,173	14,915	11,551	45,640
Dec.31,2002	22,780	22,589	14,808	**60,177**

Note: The indicated returns are the historical annual compounded total returns assuming reinvestment of distrubutions and do not take into account sales, redemption, distribtution or income taxes payable by the investor. Mutual funds are not guaranteed. Their values fluctuate and past performance may not be repeated.

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