CHOU ASSOCIATES FUND
CHOU ASIA FUND
CHOU EUROPE FUND
CHOU RRSP FUND

ANNUAL REPORT

2003

CHOU ASSOCIATES FUND

Illustration of an Assumed Investment of $10,000

Period Ended	Value of Initial $10,000 Investment	Value of Cumulative Reinvested Capital Distributions	Value of Cumulative Reinvested Dividends	Total Value of Shares
Dec.31, 1986	$10,000	0	0	10,000
Dec.31, 1987	9,259	506	737	10,502
Dec.31, 1988	9,765	1,129	1,106	12,001
Dec.31, 1989	10,861	1,601	1,783	14,244
Dec.31, 1990	8,973	1,322	2,427	12,722
Dec.31, 1991	10,213	2,269	3,198	15,681
Dec.31, 1992	12,030	2,843	3,944	18,817
Dec.31, 1993	13,343	4,147	4,374	21,863
Dec.31, 1994	12,863	3,998	4,440	21,300
Dec.31, 1995	15,281	6,960	5,663	27,904
Dec.31, 1996	18,370	8,367	7,498	34,235
Dec.31, 1997	21,068	14,882	12,085	48,035
Dec.31, 1998	23,975	19,892	15,320	59,187
Dec.31, 1999	21,216	18,470	13,803	53,489
Dec.31, 2000	21,345	18,891	17,731	57,967
Dec.31, 2001	23,975	24,377	22,045	70,397
Dec.31, 2002	29,775	33,657	28,072	91,504
Dec.31, 2003	30,194	36,111	28,467	**94,773**

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. Their values fluctuate and past performance may not be repeated.

CHOU ASSOCIATES FUND

April 22, 2004

Dear Unitholders of Chou Associates Fund,

After the distribution of $1.40, the net asset value ("NAVPU" or "NAV") of Chou Associates Fund at December 31, 2003 was $65.58 compared to $64.67 at December 31, 2002, an increase of 3.6%. The table below shows our 1 year, 3 year, 5 year, 10 year and 15 year annual compound rates of return.

December 31, 2003	1 year	3 year	5 year	10 year	15 year
Chou Associates Fund	3.6%	17.8%	9.9%	15.8%	14.8%
S&P/TSX Total Return	26.0%	-1.0%	6.5%	8.5%	8.4%
S&P 500 Total Return	28.2%	-4.1%	-0.6%	11.0%	12.2%
S&P 500 Total Return($Cdn)	5.6%	-8.7%	-3.9%	10.7%	12.7%

- 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.

Factors influencing the 2003 results

Cash Position: Our average month end cash position of 52% has had a restraining effect on returns. We chose to maintain cash because, as is explained later, we were not able to find investments meeting our Margin of Safety criteria and we were not as flexible as we might have been on the prices we were willing to pay on some bargains.

Foreign exchange: The strength of the Canadian dollar had a negative impact on the 2003 results. If we had calculated the NAVPU in $US, the Fund would be up 25.7%; this valuation method highlights the return for 2003 in the most favourable manner and therefore one should take it with a grain of salt. The fairest method is to use one currency in a consistent manner and live with the consequences of not hedging the currency for that given year. We believe that the fluctuation in foreign exchange rates should not have a material impact on long-term results.

Concentration: We normally like to concentrate our holdings. When we first buy, we tend to put as much as 3%-5% of the Fund's assets into a stock but in 2003 we failed to do that as we were not as flexible as we might have been on the prices we were willing to pay. When we examine our past mistakes, we find that we have lost a lot more by missing or buying an insignificant amount of a stock, because we would not pay a dime more for an obvious bargain, than by buying a stock that has gone down substantially from our purchase price.

Distressed Securities: One distressed security that did not work out was the subordinate debt of Fleming. In retrospect, we clearly overestimated management's ability to restructure its debt obligations. That move cost the Fund roughly 3.5%. Our forays into distressed securities over the last two years have been reasonably successful even if we include the Fleming mistake. We do not see the area of distressed securities as attractively priced now.

Investing in non-financial companies with significant deferred revenue

We have looked at a number of companies in construction related industries, funeral services and trading stamps. Those businesses all involve fixed contracts where cash is paid upfront for services or goods to be delivered later. The obligation to make this delivery is labeled 'Deferred

Obligation' or DO. When valuing these kinds of companies, we should consider the following factors seriously in addition to the normal valuation methods we use as investors for valuing companies:

1) Regardless of the value we put on the company, that value should be reduced by the amount of the deferred revenue shown on the balance sheet. For example, when a company receives $100 million in cash on a fixed contract type of business to render services which will cost it $95 million (assuming a typical net margin of 5%), the company will eventually have to spend $95 million to discharge its obligation. Often, for a financially strapped company, management uses the $100 million in cash to pay down debt – and, in doing so, paints a picture that the company's financial position has improved significantly. Worse still, the company may acquire similar companies which may appear as good deals but are fraught with huge future obligations that the seller could easily choose to understate.
2) In many cases, the deferred revenue amount is not even close to the amount required to discharge its obligation. The actual amount of the DO, which management uses internally to monitor the work still to be done, is frequently much higher than the deferred revenue shown on the balance sheet even when the company states that its revenue recognition policy is based on the percentage of completion method.
3) Based on the above, some companies in the construction and other DO-type industries may look to be doing well as long as the growth in revenue continues. But when revenue slows down, or just flattens out, there is a disproportionate hit to earnings. And to add insult to injury, the company runs out of cash in a very short time. This is when the chickens come home to roost and a dire financial picture emerges.
4) One can make a case that companies receiving cash upfront have better economics but, in reality, when the company's financial position is poor, there is stronger temptation for management to knowingly bid for contracts whether they are profitable, or not, as long as they get the cash upfront.

However, for every 10 DO-type companies that stumble, there will be one that truly exploits the favourable economics and comes out ahead. It requires exceptional management with outstanding capital allocation skills. In addition, and equally important, management in these instances must be willing to look at the cost of DO for what it truly is and therefore not minimize the costs and/or underplay the seriousness of any deficiencies. One company that comes to mind is Blue Chip Stamps ("Blue"), a company I remember fondly because it was one of my first picks as a neophyte investor in the 1979/1980 period.

When Warren Buffett and Charlie Munger took over control of Blue in 1969, the only business it had was trading stamps. The company would sell trading stamps to the supermarkets in return for a fee. The shoppers would get a certain number of stamps for each dollar spent in a store. The concept is somewhat similar to what Canadian Tire does in Canada with its Canadian Tire money. Years ago, shoppers would accumulate these stamps in a book until they had enough stamps to redeem them for small consumer items like toasters, bowls, toys, lawn chairs, etc. However, the redemption of stamps would sometimes take several years and, in some cases, the redemption would not take place at all. Meanwhile, the company would have had the use of the money which in investment parlance is commonly referred to as the 'float'.

To gain perspective on how this money can be used, consider that in 1969, Blue's revenue was $108 million, float was $79 million and book value was just over $28 million. To cut a long story short, this is what Buffett/Munger did with the float:

1) They bought See's Candies (See's) for $25 million in 1972. In 1999, it had operating profit before taxes of $74 million. On page 61 of the 1999 Berkshire Hathaway annual report, it mentions that, in 1997, See's earned about $59 million on $5 million of net operating assets (these assets are approximately equal to shareholders' equity when the company has no debt). This is indicative of how profitable See's has been over the years. It hardly requires any capital to generate that type of earnings. It is a shame that due to the huge size of Berkshire, See's results since the year 2000 have been consolidated with other subsidiaries and, as such, its extraordinary profitability can no longer be analyzed.
2) They bought Buffalo Evening News (Buffalo) for $32.5 million in 1977. The prior year its operating profit before taxes was about $1.7 million. In 1999, it generated $55 million of operating profit before taxes on $30 million of total assets. I suspect that net operating assets deployed amounts to no more than $10 million. Again, it is regrettable that from the year 2000, its results have been consolidated with other subsidiaries.
3) Blue accounted for the purchase of 80% of Wesco Financial for $49 million in 1977. As of today, the market capitalization is $2.9 billion. That 80% would now be worth $2.3 billion.
4) They purchased marketable securities which today are likely worth about $2 billion. In Blue's 1982 annual report, cash and marketable securities were worth $178 million. This $2 billion may sound far fetched but the compound annual rate of return is only 11.6%.
5) They likely reinvested all the cash generated by See's, Buffalo and other subsidiaries since 1982; if so, today this would amount to close to $2 billion.
6) Based on their extraordinary profitability, See's and Buffalo would be worth well over $1 billion.

Most probably, if Blue had not merged with Berkshire Hathaway in 1982 (another regrettable transaction in the sense a great instructive business story was not fully played out), its intrinsic value would now top $7 billion (give or take a billion) compared to its book value of $28 million in 1969. This occurred in spite of the trading stamp annual revenue dropping to a mere $100 thousand.

If there is a secret to the Buffett/Munger success story, it is their willingness to be brutally honest and realistic in their analyses and assessments. They are highly introspective, always checking and rechecking their assumptions and premises against reality. Executives who sugarcoat business realities and embellish results, downplay issues and disguise potential problems to investors may well fool even themselves. They start believing in their own world of make-believe. Buffett/Munger's formidable powers of analysis would be worth nothing if they looked at problems with rose colored glasses.

Our historical returns and what we can learn from them

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 most, is what distinguishes investment from speculation.

The Fund's annual returns over 15 years (and since inception) have demonstrated that this concept is so profound and powerful that in spite of making a number of investment decisions that I wished later I had made differently, being blindsided by unpredictable events and getting snookered by unscrupulous management, the Fund still managed to achieve a very satisfactory long term return.

Looking ahead then, it continues to be our opinion that as long as we don't breach our cardinal principle, the Fund should do reasonably well long term.

Expectation of future returns

Based on most common valuation methods such as dividend yield, P/E ratio and premium to book value, the market is not cheap. Four years ago there were sectors that were undervalued that we could exploit. In today's climate, almost all sectors are overvalued. This is an ominous sign. One can still make money in the market but one is doing so without having a large margin of safety. We would caution all investors that from these levels the chances of large permanent loss of capital are extremely high. We feel that it would also be irresponsible to extrapolate the Fund's 3, 5 or 10 year return into the future. Those returns will be virtually impossible to duplicate over the next 10 years.

We are diligently looking for undervalued stocks and will buy them only when they meet our price criteria. However, we will not chase stocks to keep up with the market averages. If given a choice, we would prefer to lose half of our unitholders rather than half of our unitholders' money.

China

We received more calls from investors asking whether we are investing in China than we received about any other country. On the plus side, it is a country that is growing rapidly, its economy is opening up to the western world and it was recently admitted to the World Trade Organization. However, when investing, our first duty is to check where and how we can get tripped up. Some of the negatives are:

1) China is an emerging country. Many of the laws, including investor protection laws that we are accustomed to, are non-existent or not enforced.
2) There are no concrete rules established in Chinese GAAP; much is subject to interpretation and therefore open to extensive abuse. We know of two accounting firms (both belong to the Big Four) that were looking at the same company and they came up with substantially different numbers. There are enough examples of subterfuge in the books that makes one uncomfortable. When you examine the numbers, you are left wondering whether you are looking at the books prepared for a) tax authorities b) management or c) shareholders (patsies?). For example, the profit margins often seem too good to be true. Some Chinese companies gross an obscene 40% plus, versus just 5% in North America for a similar type of business.
3) Although we might have worried more earlier, we now feel somewhat comfortable that there is no turning back to Communism in spite of the rhetoric we still hear from the Politburo. When we asked one Government official about the chances of China reverting back to the old ways, he intoned, "When we talk, we talk left, left, left but we are going right, right, right".

We are looking in China and hopefully can buy some companies with honest management and honest numbers at a cheap price.

Derivatives

Derivatives related issues deserve several pages to do them justice. In brief, we are alarmed by the exponential rise in the use of derivatives. We have chosen to reduce our exposure to financial institutions that rely heavily on derivatives to manage and/or earn profits. We sold the last batch of Freddie Mac (initially bought at about $3) for $52 and Citigroup for $47. These stocks are still undervalued and may continue to do well in the future but they were sold because we did not have the confidence to properly assess the financial liabilities of these companies. Some 25 years ago, there were fewer entries in the financial statements but at least you were clear on what those liabilities meant. In today's world it is precisely the opposite. In annual reports, there are reams of pages of footnotes which are supposed to enlighten you but which, instead, create more serious doubt about the true nature of liabilities. The deeper one delves into the issue, the greater the concerns become. The three major concerns that we have with companies that rely on derivatives are: 1) They are difficult or impossible to value because the assumptions underlying the valuations are suspect; 2) Even in a mild financial crisis, they will be difficult or impossible to get out of. In practice, this means that they have to be marked down significantly from the market price when you want to sell them; and 3) You have to trust and hope that the counter party with which you have entered into a derivative contract will honour its obligations.

Other matters

We launched both the Chou Asia Fund and Chou Europe Fund on August 26, 2003. We have not charged the full management fee of 1.5%. We have charged a fee only to cover the trailer fees paid to dealers and financial planners (0.5%). We are extending this policy for the year 2004.

The Fund pays a 1.5% management fee plus other expenses such as custodial, recordkeeping, legal, audit and filing fees. The MER for 2003 was 1.86%.

We have a redemption fee of 2% if unitholders redeem their units in less than 2 years. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders. We hope this fee is enough to dissuade short-term investors from jumping in and out of the Fund to chase short-term performance.

The minimum amount to invest in the Fund is $10,000 and subsequent investment is $1,000.

As of April 16, 2004, the NAV of the Fund was $69.42 and the cash equivalents were 24% of assets. The Fund is up 5.9% 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 Associates Fund

We have audited the statement of net assets of Chou Associates Fund ("the Fund") as at December 31, 2003 and 2002, the statements of income and changes in net assets for the years then ended and the statement of investments at December 31, 2003. 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, 2003 and 2002, its results of operations and changes in its net assets for the years then ended and its investment portfolio as at December 31, 2003, in accordance with Canadian generally accepted accounting principles.

BurnsHubley LLP

Chartered Accountants

Markham, Ontario
February 28, 2004

CHOU ASSOCIATES FUND

STATEMENT OF NET ASSETS

AS AT DECEMBER 31, 2003

	2003	2002
ASSETS		
Cash and treasury bills	$ 45,056,549	$ 51,659,631
Accounts receivable	267,665	520,700
Investments at market value (average cost 2003 - $68,824,122; 2002 - $20,555,845)	79,795,400	29,584,002
	125,119,614	81,764,333
LIABILITIES		
Accounts payable and accrued charges	2,344,827	171,135
Dividends payable	-	44,132
Covered call options at market value (average cost 2002 - $ Nil; 2001 - $ Nil)	1,621	-
	2,346,448	215,267
NET ASSETS AT MARKET VALUE	$ 122,773,166	$ 81,549,066
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Capital	$ 111,803,510	$ 72,520,908
Unrealized appreciation in the value of investments	10,971,277	9,028,158
Unrealized loss in covered call options	(1,621)	-
	$ 122,773,166	$ 81,549,066
NUMBER OF UNITS OUTSTANDING (Note 2)	1,872,073	1,260,979
NET ASSET VALUE PER UNIT	$ 65.58	$ 64.67

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, 2003

	2003	2002
INCOME		
Interest	$ 1,339,720	$ 546,639
Dividends	544,766	586,032
	1,884,486	1,132,671
EXPENSES		
Management fees (Note 3)	1,585,514	437,218
Custodian fees	157,117	34,987
Foreign withholding taxes	49,098	5,214
Filing fees	38,102	20,024
Legal	28,258	8,000
Audit	15,000	8,157
Fundserv fees	11,397	-
	1,884,486	513,600
NET INVESTMENT INCOME	-	619,071
REALIZED GAIN FROM INVESTMENTS SOLD	2,567,239	3,015,688
NET INCOME FROM OPERATIONS	$ 2,567,239	$ 3,634,759
NET INVESTMENT INCOME PER UNIT (based upon the number of units outstanding at the year end prior to reinvested distributions of income)	$ -	$ 0.51
REALIZED GAIN PER UNIT	$ 1.40	$ 2.50
NET INCOME PER UNIT	$ 1.40	$ 3.01

CHOU ASSOCIATES FUND

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
NET ASSETS, beginning of the year	$ 81,549,066	$ 15,402,890
INCREASED BY		
Net investment income	-	619,071
Net realized capital gains on investments sold	2,567,239	3,015,688
Unrealized appreciation in value of investments	1,943,119	4,027,757
Decrease in covered call options	-	30,267
Capital gain refund	144,066	-
Proceeds from sale of units	39,279,847	58,823,191
	43,934,271	66,515,974
	125,483,337	81,918,864
DECREASED BY		
Payments on redemption of units	2,698,028	325,666
Increase in covered call options	1,621	-
Distribution of income to unitholders	10,522	44,132
	2,710,171	369,798
NET ASSETS, end of the year	$ 122,773,166	$ 81,549,066

CHOU ASSOCIATES FUND

STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2003

	Number of Shares	Average Cost	Market Value
SHARES*			
Alderwoods Group Inc.	10,000	$ 51,623	$ 122,179
BMTC Group Inc., Class A	195,706	434,232	2,563,749
Berkshire Hathaway Inc., Class A	75	8,122,588	8,195,525
BJ's Wholesale Club Inc.	50,000	1,069,825	1,488,975
Boskalis Westminster	360,367	11,590,142	12,302,488
BT Group PLC, ADR	48,700	1,994,631	2,161,497
BT Group PLC	1,000,000	3,989,064	4,354,876
Cable & Wireless Publications Ltd.,ADR	75,600	639,423	687,362
Cable & Wireless Publications Ltd., PLC	500,000	577,936	1,546,213
Criimi Mae Inc., REITS	371,984	3,094,070	5,032,157
Criimi Mae Inc., Class B Preferred	24,600	497,775	834,358
GB Holdings Inc.	497,500	1,877,974	2,000,324
Global Crossing	21,702	954,291	884,687
IDT Corp., Class B	20,000	386,309	600,000
King Pharmaceuticals Inc.	200,000	3,727,104	3,958,495
Kmart Holding Corp.	83,700	2,617,618	2,600,019
Metro One Telecommunications Inc.	350,000	2,179,678	1,157,588
Natuzzi SPA	22,000	249,273	287,626
North Fork Bancorporation	72,500	3,162,477	3,805,545
Orthodontic Centers of America Inc.	676,600	7,270,300	7,064,371
PriceSmart Inc.	1,200	8,611	9,743
Takefuji Corporation	10,000	595,100	605,219
World Acceptance Corp.	165,000	1,902,767	4,256,615
XO Communications Inc.	872,000	7,012,738	6,503,243
		64,005,549	73,022,854
BONDS			
GB Property Funding, 11.0%, 2004	190,000	196,958	204,540
Worldcom Inc., Global Sr Notes, 6.75%, 2008	6,051,000	2,593,773	2,657,500
Worldcom Inc., Senior Notes, 6.5%, 2004	5,000,000	1,076,390	2,172,503
Worldcom Inc., Senior Notes, 8.0%, 2006	4,000,000	951,452	1,738,003
		4,818,573	6,772,546
TOTAL		$ 68,824,122	$79,795,400

* Common Shares Unless Indicated Otherwise.

CHOU ASSOCIATES FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

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 any par value and an unlimited number may be issued. All units must be fully paid for and fractional units may be issued.

	2003	2002
Units outstanding, beginning of the year	1,260,979	295,800
Add: Units issued during the year	614,896	915,390
Deduct: Units redeemed during the year	(42,788)	(5,732)
Units outstanding before income distribution	1,833,087	1,205,458
Add: Units issued on reinvested income	38,986	55,521
Units outstanding, end of the year	1,872,073	1,260,979

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 $1,481,789 (2002 - $408,615) before GST, which represents 1.50% (2002 - 1.50%) 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.

	2003	2002
Investment counseling fees	$1,585,514	$ 437,218
Other expenses	249,874	71,168
Total	$1,835,388	$ 508,386
Management expense ratio	1.86%	1.87%
Management expense ratio (net of GST)	1.74%	1.74%

4. DUE TO RELATED PARTY

Included in accounts payable is $291,790 (2002 – $131,385) due to Chou Associates Management Inc. for the payment of management fees.

5. BROKERS' COMMISSIONS

Total commissions paid to brokers in connection with portfolio transactions for the year ended December 31, 2003 were $270,612 (2002 - $83,440).

6. PERFORMANCE OF THE FUND

December 31	2003	2002	2001	2000	1999
Net Asset Value per unit, beginning of the year	$ 64.67	$ 52.07	$ 46.36	$ 46.08	$ 52.07
Income from investment operations:					
Net investment income	0.00	0.51	1.70	3.31	0.22
Net realized and unrealized gains on investments	2.31	15.10	8.24	0.55	-5.23
Total income from investment operations	2.31	15.61	9.94	3.86	-5.01
Less distributions:					
Distribution from net investment income	0.00	0.51	1.70	3.31	0.22
Distribution from net realized gains	1.40	2.50	2.53	0.27	0.76
Total distributions	1.40	3.01	4.23	3.58	0.98
Net Asset Value per unit, end of the year	$ 65.58	$ 64.67	$ 52.07	$ 46.36	$ 46.08
Total Return	3.57%	29.99%	21.44%	8.37%	-9.63%
Net Assets, end of the year (in thousands)	$ 122,773	$ 81,549	$ 15,403	$ 12,680	$ 12,216
Management Expense Ratio (MER)	1.86%	1.87%	2.02%	2.00%	1.85%
Portfolio turnover rate	33.40%	43.10%	38.90%	23.80%	31.50%

CHOU ASIA FUND

April 22, 2004

Dear Unitholders of Chou Asia Fund,

The net asset value ("NAVPU" or "NAV") of Chou Asia Fund at December 31, 2003 was $10.28 compared to $10.00 at August 26, 2003, an increase of 2.8%.

We encourage you to read the letter in Chou Associates Fund. It covers issues that should be of interest to you.

It is too early to comment on Asia. However, we received more calls from investors asking whether we are investing in China than we received about any other country. On the plus side, it is a country that is growing rapidly, its economy is opening up to the western world and it was recently admitted to the World Trade Organization. However, when investing, our first duty is to check where and how we can get tripped up. Some of the negatives are:

1) China is an emerging country. Many of the laws, including investor protection laws that we are accustomed to, are non-existent or not enforced.
2) There are no concrete rules established in Chinese GAAP; much is subject to interpretation and therefore open to extensive abuse. We know of two accounting firms (both belong to the Big Four) that were looking at the same company and they came up with substantially different numbers. There are enough examples of subterfuge in the books that makes one uncomfortable. When you examine the numbers, you are left wondering whether you are looking at the books prepared for a) tax authorities b) management or c) shareholders (patsies?). For example, the profit margins often seem too good to be true. Some Chinese companies gross an obscene 40% plus, versus just 5% in North America for a similar type of business.
3) Although we might have worried more earlier, we now feel somewhat comfortable that there is no turning back to Communism in spite of the rhetoric we still hear from the Politburo. When we asked one Government official about the chances of China reverting back to the old ways, he intoned, "When we talk, we talk left, left, left but we are going right, right, right".

We have not charged the full management fee of 1.5%. We have charged a fee only to cover the trailer fees paid to dealers and financial planners (0.5%). We are extending this policy for the year 2004. For the period from August 26, 2003 to December 31, 2003, MER was 0.49% and management fee paid was 0.093% of average assets.

Please be aware of the risks involved including that of the Manager who has not invested heavily in those areas. However, we feel confident that if we apply the same value principles we have used in the past in investing in North American securities, we will do well in the future.

We have a redemption fee of 2% if unitholders redeem their units in less than 2 years. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders. We hope this fee is enough to dissuade short-term investors from jumping in and out of the Fund to chase short-term performance.

The minimum amount to invest in the Fund is $10,000 and subsequent investment is $1,000.

As of April 16, 2004, the NAV of the Fund was $11.59 and the cash equivalents were 70% of assets. The Fund is up 12.8% from the beginning of the year.

Yours truly,

Francis Chou

Francis Chou (Fund Manager)

BurnsHubley LLP
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Trustee and the Unitholders of
Chou Asia Fund

We have audited the statement of net assets of Chou Asia Fund ("the Fund") as at December 31, 2003, the statements of income and changes in net assets for the period then ended and the statement of investments at December 31, 2003. 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, 2003, its results of operations and changes in its net assets for the period then ended and its investment portfolio as at December 31, 2003, in accordance with Canadian generally accepted accounting principles.

BurnsHubley LLP

Chartered Accountants

Markham, Ontario
February 28, 2004

CHOU ASIA FUND

STATEMENT OF NET ASSETS

AS AT DECEMBER 31, 2003

ASSETS		
Cash and treasury bills	$	3,583,384
Subscriptions receivable		41,901
Accounts receivable		5,514
Investments at market value (average cost $988,105)		966,825
		4,597,624
LIABILITIES		
Accounts payable and accrued charges		13,272
NET ASSETS AT MARKET VALUE	$	4,584,352
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Capital	$	4,605,632
Unrealized depreciation in the value of investments		(21,280)
	$	4,584,352
NUMBER OF UNITS OUTSTANDING (Note 3)		445,880
NET ASSET VALUE PER UNIT	$	10.28

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

Francis Chou

Tracy Chou

CHOU ASIA FUND

STATEMENT OF INCOME

FOR THE PERIOD FROM AUGUST 26, 2003 TO DECEMBER 31, 2003

INCOME		
Interest	$	14,517
EXPENSES		
Custodian fees		4,815
Management fees (Note 4)		2,753
Filing fees		2,497
Legal		2,150
Audit		1,535
Fundserv fees		767
		14,517
NET INVESTMENT INCOME		-
REALIZED GAIN FROM INVESTMENTS SOLD		-
NET INCOME FROM OPERATIONS	$	-
NET INVESTMENT INCOME PER UNIT (based upon the number of units outstanding at the year end prior to reinvested distributions of income)	$	-
REALIZED GAIN PER UNIT	$	-
NET INCOME PER UNIT	$	-

CHOU ASIA FUND

STATEMENT OF CHANGES IN NET ASSETS

FOR THE PERIOD FROM AUGUST 26, 2003 TO DECEMBER 31, 2003

NET ASSETS, beginning of the period	$ -
INCREASED BY	
Proceeds from sale of units	4,716,477
DECREASED BY	
Payments on redemption of units	110,845
Unrealized depreciation in value of investments	21,280
	132,125
NET ASSETS, end of the period	$ 4,584,352

CHOU ASIA FUND

STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2003

	Number of Shares	Average Cost	Market Value
SHARES*			
Hanfeng Evergreen Inc.	163,500	$ 342,295	$ 376,873
Hanfeng Evergreen Inc., purchase warrants	163,500	-	9,810
Kmart Holding Corp.	14,000	447,495	434,890
Takefuji Corporation	2,400	198,315	145,252
		$ 988,105	$ 966,825

* Common Shares Unless Indicated Otherwise.

CHOU ASIA FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. FORMATION OF TRUST

The Fund was established under the laws of Ontario by an amended and restated declaration of trust dated August 26, 2003 and has an authorized capital consisting of unlimited number of units.

2. 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 period-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 period 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 period 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.

3. 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.

During the period, 456,477 units were issued, and 10,597 units were redeemed. There were no units issued on reinvested income during the period.

4. MANAGEMENT FEES

Chou Associates Management Inc. ("the Manager") manages the Fund under a management agreement dated August 26, 2003. 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 $2,573 before GST, which represents 0.09% of the average net assets during the period.

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

Investment counseling fees	$ 2,753
Other expenses	11,764
Total	$ 14,517
Management expense ratio	0.49%
Management expense ratio (net of GST)	0.46%

5. BROKERS' COMMISSIONS

Total commissions paid to brokers in connection with portfolio transactions for the period ended December 31, 2003 were $1,838.

CHOU EUROPE FUND

April 22, 2004

Dear Unitholders of Chou Europe Fund,

The net asset value ("NAVPU" or "NAV") of Chou Europe Fund at December 31, 2003 was $10.46 compared to $10.00 at August 26, 2003, an increase of 4.6%.

It is too early to comment on Europe. We encourage you to read the letter in Chou Associates Fund. It covers issues that should be of interest to you.

We launched Chou Europe Fund on August 26, 2003. We have not charged the full management fee of 1.5%. We have charged a fee only to cover the trailer fees paid to dealers and financial planners (0.5%). We are extending this policy for the year 2004.

Please be aware of the risks involved including that of the Manager who has not invested heavily in those areas. However, we feel confident that if we apply the same value principles we have used in the past in investing in North American securities, we will do well in the future.

For the period from August 26, 2003 to December 31, 2003, MER was 0.40% and management fee paid was 0.067% of average assets.

We have a redemption fee of 2% if unitholders redeem their units in less than 2 years. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders. We hope this fee is enough to dissuade short-term investors from jumping in and out of the Fund to chase short-term performance.

The minimum amount to invest in the Fund is $10,000 and subsequent investment is $1,000.

As of April 16, 2004, the NAV of the Fund was $10.93 and the cash equivalents were 69% of assets. The Fund is up 4.5% from the beginning of the year.

Yours truly,

Francis Chou

Francis Chou
Fund Manager

BurnsHubley LLP
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Trustee and the Unitholders of
Chou Europe Fund

We have audited the statement of net assets of Chou Europe Fund ("the Fund") as at December 31, 2003, the statements of income and changes in net assets for the period then ended and the statement of investments at December 31, 2003. 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, 2003, its results of operations and changes in its net assets for the period then ended and its investment portfolio as at December 31, 2003, in accordance with Canadian generally accepted accounting principles.

Burns Hubley LLP

Chartered Accountants

Markham, Ontario
February 28, 2004

CHOU EUROPE FUND

STATEMENT OF NET ASSETS

AS AT DECEMBER 31, 2003

ASSETS		
Cash and treasury bills	$	1,275,564
Subscriptions receivable		30,000
Accounts receivable		2,503
Investments at market value (average cost $419,875)		431,310
		1,739,377
LIABILITIES		
Accounts payable and accrued charges		3,274
NET ASSETS AT MARKET VALUE	$	1,736,103
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Capital	$	1,724,668
Unrealized appreciation in the value of investments		11,435
	$	1,736,103
NUMBER OF UNITS OUTSTANDING (Note 3)		165,995
NET ASSET VALUE PER UNIT	$	10.46

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

Francis Chou

Tracy Chou

CHOU EUROPE FUND

STATEMENT OF INCOME

FOR THE PERIOD FROM AUGUST 26, 2003 TO DECEMBER 31, 2003

INCOME		
Interest	$	3,613
Dividends		906
		4,519
EXPENSES		
Audit		1,562
Custodian fees		1,427
Management fees (Note 4)		760
Fundserv fees		370
Filing fees		250
Legal		150
		4,519
NET INVESTMENT INCOME		-
REALIZED GAIN FROM INVESTMENTS SOLD		-
NET INCOME FROM OPERATIONS	$	-
NET INVESTMENT INCOME PER UNIT (based upon the number of units outstanding at the year end prior to reinvested distributions of income)	$	-
REALIZED GAIN PER UNIT	$	-
NET INCOME PER UNIT	$	-

CHOU EUROPE FUND

STATEMENT OF CHANGES IN NET ASSETS

FOR THE PERIOD FROM AUGUST 26, 2003 TO DECEMBER 31, 2003

NET ASSETS, beginning of the period	$ -
INCREASED BY	
Proceeds from sale of units	1,724,668
Unrealized appreciation in value of investments	11,435
	1,736,103
NET ASSETS, end of the period	$ 1,736,103

CHOU EUROPE FUND

STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2003

	Number of Shares	Average Cost	Market Value
SHARES*			
Boskalis Westminster	2,270	$ 72,992	$ 77,495
BT Group Inc., ADR	1,300	53,830	57,699
Hanfeng Evergreen Inc.	36,500	73,000	84,134
Hanfeng Evergreen Inc., purchase warrants	36,500	-	2,190
Kmart Holding Corp.	5,000	160,240	155,317
Yukos Corp., ADR	1,000	59,813	54,475
		$ 419,875	$ 431,310

* Common Shares Unless Indicated Otherwise

1. FORMATION OF TRUST

The Fund was established under the laws of Ontario by an amended and restated declaration of trust dated August 26, 2003 and has an authorized capital consisting of unlimited number of units.

2. 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 period-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 period 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 period 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.

3. 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.

During the period, 165,995 units were issued. There were no units redeemed and no units issued on reinvested income during the period.

4. MANAGEMENT FEES

Chou Associates Management Inc. ("the Manager") manages the Fund under a management agreement dated August 26, 2003. 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 period, the Manager has charged the Fund a fee of $710 before GST, which represents 0.06% of the average net assets during the period.

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

Investment counseling fees	$ 760
Other expenses	3,759
Total	$ 4,519
Management expense ratio	0.40%
Management expense ratio (net of GST)	0.37%

5. BROKERS' COMMISSIONS

Total commissions paid to brokers in connection with portfolio transactions for the period ended December 31, 2003 were $1,056.

CHOU RRSP FUND

April 22, 2004

Dear Unitholders of Chou RRSP Fund,

After the distribution of $0.52, the net asset value ("NAVPU" or "NAV") of Chou RRSP Fund at December 31, 2003 was $25.24 compared to $23.08 at December 31, 2002, an increase of 11.6%. The table below shows our 1 year, 3 year, 5 year, 10 year and 15 year annual compound rates of return.

December 31, 2003	1 year	3 year	5 year	10 year	15 year
Chou RRSP Fund	11.6%	19.9%	13.4%	15.8%	12.6%
S&P/TSX Total Return	26.0%	-1.0%	6.5%	8.5%	8.4%

- 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 <u>not</u> be repeated.

Factors influencing the 2003 results

<u>Cash Position:</u> Our average month end cash position of 53% has had a restraining effect on returns. We chose to maintain cash because, as is explained later, we were not able to find investments meeting our Margin of Safety criteria and we were not as flexible as we might have been on the prices we were willing to pay on some bargains.

<u>Concentration:</u> We normally like to concentrate our holdings. When we first buy, we tend to put as much as 3%-5% of the Fund's assets into a stock but in 2003 we failed to do that as we were not as flexible as we might have been on the prices we were willing to pay. When we examine our past mistakes, we find that we have lost a lot more by missing or buying an insignificant amount of a stock, because we would not pay a dime more for an obvious bargain, than by buying a stock that has gone down substantially from our purchase price.

Investing in non-financial companies with significant deferred revenue

We have looked at a number of companies in construction related industries, funeral services and trading stamps. Those businesses all involve fixed contracts where cash is paid upfront for services or goods to be delivered later. The obligation to make this delivery is labeled 'Deferred Obligation' or DO. When valuing these kinds of companies, we should consider the following factors seriously in addition to the normal valuation methods we use as investors for valuing companies:

1) Regardless of the value we put on the company, that value should be reduced by the amount of the deferred revenue shown on the balance sheet. For example, when a company receives $100 million in cash on a fixed contract type of business to render services which will cost it $95 million (assuming a typical net margin of 5%), the company will eventually have to spend $95 million to discharge its obligation. Often, for a financially strapped company, management uses the $100 million in cash to pay down debt – and, in doing so, paints a picture that the company's financial position has improved significantly. Worse still, the company may acquire similar companies which may appear as good deals but are fraught with huge future obligations that the seller could easily choose to understate.
2) In many cases, the deferred revenue amount is not even close to the amount required to discharge its obligation. The actual amount of the DO, which management uses internally

to monitor the work still to be done, is frequently much higher than the deferred revenue shown on the balance sheet even when the company states that its revenue recognition policy is based on the percentage of completion method.

3) Based on the above, some companies in the construction and other DO-type industries may look to be doing well as long as the growth in revenue continues. But when revenue slows down, or just flattens out, there is a disproportionate hit to earnings. And to add insult to injury, the company runs out of cash in a very short time. This is when the chickens come home to roost and a dire financial picture emerges.
4) One can make a case that companies receiving cash upfront have better economics but, in reality, when the company's financial position is poor, there is stronger temptation for management to knowingly bid for contracts whether they are profitable, or not, as long as they get the cash upfront.

However, for every 10 DO-type companies that stumble, there will be one that truly exploits the favourable economics and comes out ahead. It requires exceptional management with outstanding capital allocation skills. In addition, and equally important, management in these instances must be willing to look at the cost of DO for what it truly is and therefore not minimize the costs and/or underplay the seriousness of any deficiencies. One company that comes to mind is Blue Chip Stamps ("Blue"), a company I remember fondly because it was one of my first picks as a neophyte investor in the 1979/1980 period.

When Warren Buffett and Charlie Munger took over control of Blue in 1969, the only business it had was trading stamps. The company would sell trading stamps to the supermarkets in return for a fee. The shoppers would get a certain number of stamps for each dollar spent in a store. The concept is somewhat similar to what Canadian Tire does in Canada with its Canadian Tire money. Years ago, shoppers would accumulate these stamps in a book until they had enough stamps to redeem them for small consumer items like toasters, bowls, toys, lawn chairs, etc. However, the redemption of stamps would sometimes take several years and, in some cases, the redemption would not take place at all. Meanwhile, the company would have had the use of the money which in investment parlance is commonly referred to as the 'float'.

To gain perspective on how this money can be used, consider that in 1969, Blue's revenues were $108 million, float was $79 million and book value was just over $28 million. To cut a long story short, this is what Buffett/Munger did with the float:

1) They bought See's Candies (See's) for $25 million in 1972. In 1999, it had operating profit before taxes of $74 million. On page 61 of the 1999 Berkshire Hathaway annual report, it mentions that, in 1997, See's earned about $59 million on $5 million of net operating assets (these assets are approximately equal to shareholders' equity when the company has no debt). This is indicative of how profitable See's has been over the years. It hardly requires any capital to generate that type of earnings. It is a shame that due to the huge size of Berkshire, See's results since the year 2000 have been consolidated with other subsidiaries and, as such its extraordinary profitability can no longer be analyzed.
2) They bought Buffalo Evening News (Buffalo) for $32.5 million in 1977. The prior year its operating profit before taxes was about $1.7 million. In 1999, it generated $55 million of operating profit before taxes on $30 million of total assets. I suspect that net operating assets deployed amounts to no more than $10 million. Again, it is regrettable that from the year 2000, its results have been consolidated with other subsidiaries.
3) Blue accounted for the purchase of 80% of Wesco Financial for $49 million in 1977. As of today, the market capitalization is $2.9 billion. That 80% would now be worth $2.3 billion.

4) They purchased marketable securities which today are likely worth about $2 billion. In Blue's 1982 annual report, cash and marketable securities were worth $178 million. This $2 billion may sound far fetched but the compound annual rate of return is only 11.6%.
5) They likely reinvested all the cash generated by See's, Buffalo and other subsidiaries since 1982; if so, today this would amount to close to $2 billion.
6) Based on their extraordinary profitability, See's and Buffalo would be worth well over $1 billion.

Most probably, if Blue had not merged with Berkshire Hathaway in 1982 (another regrettable transaction in the sense a great instructive business story was not fully played out), its intrinsic value would now top $7 billion (give or take a billion) compared to its book value of $28 million in 1969. This occurred in spite of the trading stamp annual revenues dropping to a mere $100 thousand.

If there is a secret to the Buffett/Munger success story, it is their willingness to be brutally honest and realistic in their analyses and assessments. They are highly introspective, always checking and rechecking their assumptions and premises against reality. Executives who sugarcoat business realities and embellish results, downplay issues and disguise potential problems to investors may well fool even themselves. They start believing in their own world of make-believe. Buffett/Munger's formidable powers of analysis would be worth nothing if they looked at problems with rose colored glasses.

Our historical returns and what we can learn from them

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 most, is what distinguishes investment from speculation.

The Fund's annual returns over 15 years (and since inception) have demonstrated that this concept is so profound and powerful that in spite of making a number of investment decisions that I wished later I had made differently, being blindsided by unpredictable events and getting snookered by unscrupulous management, the Fund still managed to achieve a very satisfactory long term return.

Looking ahead then, it continues to be our opinion that as long as we don't breach our cardinal principle, the Fund should do reasonably well long term.

Expectation of future returns

Based on most common valuation methods such as dividend yield, P/E ratio and premium to book value, the market is not cheap. Four years ago there were sectors that were undervalued that we could exploit. In today's climate, almost all sectors are overvalued. This is an ominous sign. One can still make money in the market but one is doing so without having a large margin of safety. We would caution all investors that from these levels the chances of large permanent loss of capital are extremely high. We feel that it would also be irresponsible to extrapolate the Fund's 3, 5 or 10 year return into the future. Those returns will be virtually impossible to duplicate over the next 10 years.

We are diligently looking for undervalued stocks and will buy them only when they meet our price criteria. However, we will not chase stocks to keep up with the market averages. If given a choice, we would prefer to lose half of our unitholders rather than half of our unitholders' money.

China

We received more calls from investors asking whether we are investing in China than we received about any other country. On the plus side, it is a country that is growing rapidly, its economy is opening up to the western world and it was recently admitted to the World Trade Organization. However, when investing, our first duty is to check where and how we can get tripped up. Some of the negatives are:

1) China is an emerging country. Many of the laws, including investor protection laws that we are accustomed to, are non-existent or not enforced.
2) There are no concrete rules established in Chinese GAAP; much is subject to interpretation and therefore open to extensive abuse. We know of two accounting firms (both belong to the Big Four) that were looking at the same company and they came up with substantially different numbers. There are enough examples of subterfuge in the books that makes one uncomfortable. When you examine the numbers, you are left wondering whether you are looking at the books prepared for a) tax authorities b) management or c) shareholders (patsies?). For example, the profit margins often seem too good to be true. Some Chinese companies gross an obscene 40% plus, versus just 5% in North America for a similar type of business.
3) Although we might have worried more earlier, we now feel somewhat comfortable that there is no turning back to Communism in spite of the rhetoric we still hear from the Politburo. When we asked one Government official about the chances of China reverting back to the old ways, he intoned, "When we talk, we talk left, left, left but we are going right, right, right".

We are looking in China and hopefully can buy some companies with honest management and honest numbers at a cheap price.

Derivatives

Derivatives related issues deserve several pages to do them justice. In brief, we are alarmed by the exponential rise in the use of derivatives. We have chosen to reduce our exposure to financial institutions that rely heavily on derivatives to manage and/or earn profits. Some 25 years ago, there were fewer entries in the financial statements but at least you were clear on what those liabilities meant. In today's world it is precisely the opposite. In annual reports, there are reams of pages of footnotes which are supposed to enlighten you but which, instead, create more serious doubt about the true nature of liabilities. The deeper one delves into the issue, the greater the concerns become. The three major concerns that we have with companies that rely on derivatives are: 1) They are difficult or impossible to value because the assumptions underlying the valuations are suspect; 2) Even in a mild financial crisis, they will be difficult or impossible to get out of. In practice, this means that they have to be marked down significantly from the market price when you want to sell them; and 3) You have to trust and hope that the counter party with which you have entered into a derivative contract will honour its obligations.

Other matters

We continue to consider closing the Fund to new investors once its assets reach a certain value. The number being discussed is $200 million. This number is subject to further review. We are also looking to see whether we can raise the Fund's foreign content limit from the allowable 30% of its assets through the use of a derivative instrument.

We launched both the Chou Asia Fund and Chou Europe Fund on August 26, 2003. We have not charged the full management fee of 1.5%. We have charged a fee only to cover the trailer fees paid to dealers and financial planners (0.5%). We are extending this policy for the year 2004.

The Fund pays a 1.5% management fees plus other expenses such as custodial, recordkeeping, legal, audit and filing fees. The MER for 2003 was 1.79%.

We have a redemption fee of 2% if unitholders redeem their units in less than 2 years. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders. We hope this fee is enough to dissuade short-term investors from jumping in and out of the Fund to chase short-term performance.

The minimum amount to invest in the Fund is $10,000 and subsequent investment is $1,000.

As of April 16, 2004, the NAV of the Fund was $27.47 and the cash equivalents were 42% of assets. The Fund is up 8.8% from the beginning of the year.

Yours truly,

Francis Chou

Francis Chou
Fund Manager

BurnsHubley LLP
CHARTERED ACCOUNTANTS

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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, 2003 and 2002, the statements of income and changes in net assets for the years then ended and the statement of investments as at December 31, 2003. 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, 2003 and 2002, its results of operations and changes in net assets for the years then ended and its investment portfolio as at December 31, 2003, in accordance with Canadian generally accepted accounting principles.

BurnsHubley LLP

Chartered Accountants

Markham, Ontario
February 28, 2004

CHOU RRSP FUND

STATEMENT OF NET ASSETS

AS AT DECEMBER 31, 2003

	2003	2002
ASSETS		
Cash and treasury bills	$ 32,636,547	$ 6,713,546
Accounts receivable	139,825	685,527
Investments at market value (average cost 2003 - $47,536,656; 2002 - $6,590,642)	53,499,255	8,508,274
	86,275,627	15,907,347
LIABILITIES		
Accounts payable and accrued charges	233,970	46,852
Dividends payable	-	1,009
	233,970	47,861
NET ASSETS AT MARKET VALUE	$ 86,041,657	$ 15,859,486
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Capital	$ 80,079,059	$ 13,941,854
Unrealized appreciation in the value of investments	5,962,598	1,917,632
	$ 86,041,657	$ 15,859,486
NUMBER OF UNITS OUTSTANDING (Note 2)	3,408,311	687,280
NET ASSET VALUE PER UNIT	$ 25.24	$ 23.08

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, 2003

	2003	2002
INCOME		
Interest	$ 897,504	$ 241,116
Dividends	724,197	217,543
	1,621,701	458,659
EXPENSES		
Management fees (Note 3)	772,304	152,042
Foreign withholding taxes	55,810	11
Custodian fees	51,791	11,253
Filing fees	19,000	5,740
Fundserv fees	18,349	-
Legal	8,000	2,000
Audit	4,313	1,999
	929,567	173,045
NET INVESTMENT INCOME	692,134	285,614
REALIZED GAIN FROM INVESTMENTS SOLD	1,019,595	1,283,035
NET INCOME FROM OPERATIONS	$ 1,711,729	$ 1,568,649
NET INVESTMENT INCOME PER UNIT (based upon the number of units outstanding at the year end prior to reinvested distributions of income)	$ 0.21	$ 0.46
REALIZED GAIN PER UNIT	$ 0.31	$ 2.07
NET INCOME PER UNIT	$ 0.52	$ 2.53

CHOU RRSP FUND

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
NET ASSETS, beginning of the year	$ 15,859,486	$ 5,715,224
INCREASED BY		
Net investment income	692,134	285,614
Net realized capital gains on investments sold	1,019,595	1,283,035
Unrealized appreciation in value of investments	4,044,966	985,702
Capital gain refund	145,951	-
Proceeds from sale of units	66,430,680	8,674,046
	72,333,326	11,228,397
	88,192,812	16,943,621
DECREASED BY		
Payments on redemption of units	2,117,720	1,084,135
Distribution of income to unitholders	33,435	-
	2,151,155	1,084,135
NET ASSETS, end of the year	$ 86,041,657	$ 15,859,486

CHOU RRSP FUND

STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2003

	Number of Shares	Average Cost	Market Value
SHARES*			
Accord Financial Corp.	13,100	$ 66,594	$ 92,355
Akita Drilling Ltd., Class A	80,000	1,535,003	1,932,800
Amisco Industries Ltd.	97,700	543,440	625,280
Anthem Works Ltd.	9,700	108,813	109,125
Berkshire Hathaway Inc., Class A	15	1,606,722	1,639,105
BMTC Group Inc., Class A	87,850	216,428	1,150,835
Boskalis Westminster	200,000	6,431,173	6,827,755
BT Group PLC	1,000,000	3,994,130	4,354,876
Caldwell Partners Int'l Inc., Class A	572,900	1,097,335	973,930
Criimi Mae Inc., REITS	24,495	149,591	331,366
Criimi Mae Inc., Class B Preferred	44,700	1,303,583	1,516,090
Denninghouse Inc.	125,000	631,364	502,500
Glacier Ventures Int'l Corp.	215,228	173,043	335,756
Heroux Devtek Inc.	122,800	597,451	663,120
Hollinger Inc., Retractable Common	78,048	399,977	257,558
Hollinger Inc., Preferred II	9,500	57,449	56,525
Hollinger Inc., Preferred III	112,500	865,808	888,750
Int'l Forest Products Ltd., Class A	504,800	2,361,807	3,028,800
Liquidation World Inc.	1,155,000	5,100,958	6,006,000
MRRM Inc.	63,800	320,595	529,540
Norwall Group Inc.	61,300	229,923	260,525
Orthodontic Centers of America Inc.	360,500	3,307,970	3,763,975
Persona Inc.	587,200	2,428,887	2,524,960
Rainmaker Income Fund	269,400	883,030	1,050,660
Rogers Sugar Income Fund	274,500	996,515	988,200
Rothmans Canada Inc.	61,800	1,709,148	1,801,470
Smithfield Canada Ltd.	39,900	1,062,887	1,077,300
Samuel Manu-Tech Inc.	19,000	121,994	129,390
Tri-White Corporation	427,500	2,379,600	2,607,750
Velan Inc.	23,200	268,273	278,400
Westcast Industries Inc., Class A	64,400	2,235,985	2,447,200
XO Communications Inc.	283,854	1,978,285	2,116,940
		45,163,761	50,868,836
BONDS			
Worldcom Inc., Global Senior Notes, 6.75%, 2008	5,000,000	2,143,260	2,195,918
Worldcom Inc., Senior Notes, 7.55%, 2004	1,000,000	229,635	434,501
		2,372,895	2,630,419
TOTAL		$ 47,536,656	$ 53,499,255

* Common Shares Unless Indicated Otherwise.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

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 any par value and an unlimited number may be issued. All units must be fully paid for and fractional units may be issued.

	2003	**2002**
Units outstanding, beginning of the year	687,280	294,264
Add: Units issued during the year	2,740,892	373,309
Deduct: Units redeemed during the year	(86,323)	(48,228)
Units outstanding before income distribution	3,341,849	619,345
Add: Units issued on reinvested income	66,462	67,935
Units outstanding, end of the year	3,408,311	687,280

3. MANAGEMENT FEES

Chou Associates Management Inc. ("the Manager") manages the Fund under a management agreement dated August 26, 2003. 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 $721,779 (2002 - $142,095) before GST, which represents 1.48% (2002 - 1.50%) 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.

	2003	2002
Management fees	$ 772,304	$ 152,042
Other expenses	101,453	20,992
Total	$ 873,757	$ 173,034
Management expense ratio	1.79%	1.83%
Management expense ratio (net of GST)	1.68%	1.71%

4. DUE TO RELATED PARTY

Included in accounts payable is $196,979 (2002 – $28,885) due to Chou Associates Management Inc. for the payment of management fees.

5. BROKERS' COMMISSIONS

Total commissions paid to brokers in connection with portfolio transactions for the year ended December 31, 2003 were $167,200 (2002 - $36,863).

6. PERFORMANCE OF THE FUND

December 31	2003	2002	2001	2000	1999
Net Asset Value per unit, beginning of the year	$ 23.08	$ 19.42	$ 17.18	$ 15.69	$ 17.68
Income from investment operations:					
Net investment income	0.21	0.46	0.22	0.87	0.33
Net realized and unrealized gains on investments	2.47	5.73	2.71	1.72	-1.52
Total income from investment operations	2.68	6.19	2.93	2.59	-1.19
Less distributions:					
Distribution from net investment income	0.21	0.46	0.22	0.87	0.33
Distribution from net realized gains	0.31	2.07	0.47	0.23	0.47
Total distributions	0.52	2.53	0.69	1.10	0.80
Net Asset Value per unit, end of the year	$ 25.24	$ 23.08	$ 19.42	$ 17.18	$ 15.69
Total Return	11.62%	31.85%	17.04%	16.52%	-6.71%
Net Assets, end of the year (in thousands)	$ 86,042	$ 15,859	$ 5,715	$ 4,808	$ 4,045
Management Expense Ratio (MER)	1.79%	1.83%	2.01%	2.12%	1.74%
Portfolio turnover rate	15.40%	33.20%	25.80%	25.60%	46.10%

CHOU RRSP FUND

Illustration of an Assumed Investment of $10,000

Period Ended	Value of Initial $10,000 Investment	Value of Cumulative Reinvested Capital Distributions	Value of Cumulative Reinvested Dividends	Total Value of Shares
Dec.31, 1986	$10,000	0	0	10,000
Dec.31, 1987	9,980	187	650	10,818
Dec.31, 1988	10,709	553	1,018	12,281
Dec.31, 1989	11,530	1,308	1,512	14,350
Dec.31, 1990	9,272	1,314	2,136	12,722
Dec.31, 1991	9,342	1,324	2,618	13,284
Dec.31, 1992	10,069	1,427	3,004	14,500
Dec.31, 1993	11,616	1,646	3,465	16,727
Dec.31, 1994	10,131	1,436	3,394	14,961
Dec.31, 1995	11,764	1,667	4,377	17,808
Dec.31, 1996	14,335	2,032	5,368	21,735
Dec.31, 1997	19,953	4,048	8,740	32,741
Dec.31, 1998	17,421	12,259	9,126	38,806
Dec.31, 1999	15,467	11,914	8,836	36,217
Dec.31, 2000	16,931	13,580	11,677	42,188
Dec.31, 2001	19,135	16,493	13,742	49,370
Dec.31, 2002	22,735	24,861	17,499	65,095
Dec.31, 2003	24,871	28,059	19,728	**72,658**

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. Their values fluctuate and past performance may not be repeated.

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