CHOU ASSOCIATES FUND

ANNUAL REPORT

2001

CHOU ASSOCIATES FUND

April 29, 2002

Dear Unitholders of the Fund:

After the dividend distribution of $4.23, the net asset value of Chou Associates Fund at December 31, 2001 was $52.07. It has been a difficult market, and yet I am happy to report that in the year 2001 the Fund gained 21.4%. The 3 year and 5 year annual compound return was 6.0% and 15.5% respectively.

One of the stocks that had a favourable impact on last year's results was BMTC Group, a furniture retailer in Quebec. The company accounted for approximately 35% of the return for the year.

Over time I have sifted through thousands of bargains which have come in different shapes and flavours such as discount to net-net working capital, discount to book value and low P/E ratio. When all is said and done, those which continue to give me the greatest satisfaction are the ones which display the following characteristics:

1) Above-average to excellent companies as measured by high ROE in excess of 15% sustained over 10 years or more.
2) Companies run by skillful managers as measured by good controls maintained on receivables, inventory and fixed assets.
3) Prudent deployment of capital as measured by a company's capital expenditures, judicious acquisitions, and timely buybacks of its depressed shares.
4) A stock price which is far lower than what a knowledgeable and rational buyer would pay.

BMTC Group met the above criteria in spades. And when companies such as this one are found, the only rational thing to do is buy as much of the stock as the legal limit allows. In these instances it's not always necessary to be extra careful about the buy price as long as this price falls within a single digit P/E ratio. Even on the sell side, there isn't a pressing need to time the sale as the stock price nears its intrinsic value - the reason being that the company's intrinsic value is growing in excess of 15%.

Another characteristic of well-managed companies with good economics is the deferment of capital gains tax in instances where the stock is held for several years. I consider this to be a very important aspect, yet it is one which has yet to be given its due consideration by the investment community. It can add several points to the after-tax return on an annual basis. With all these attributes in mind, an ideal portfolio would be one where we can purchase 10 securities with similar investment characteristics in 3 or 4 different industries. But as it happens in investment we cannot be too choosy - we can only take advantage of whatever types of bargains are present.

The problem that occurs when buying discount to book value, or discount to net-net working capital is that most of these companies earn low (or negative) returns on equity (ROE). In order to do well with this approach it is important to buy when the company's stock price is thoroughly depressed, and then sell when a fortuitous price presents itself during the next few years; otherwise, the long term investment returns would mirror the ROE of the company: historically these figures have averaged out to less than 3 to 4% over 10 years. During those years, and not infrequently, the company may lose money. Its main attraction as an investment, however, is the stock price itself which is selling at a severe discount to liquidation value. As an investment merit, this aspect should not be pooh-poohed. If done in a disciplined way, both on the buy and sell sides, this type of investment provides a fairly attractive return with the added benefit of low volatility. Notwithstanding, one should still recognize these companies for what they are - that is, pieces of CRAP (Cannot Realize A Profit) - and capitalize on them accordingly.

With regard to the current valuation of the market, I maintain the same view that I have held for 5 years - and that is, that the markets are unattractively priced. Even so, the Fund achieved a rate of return of 15.5% compounded annually over 5 years ($1 invested on January 1, 1997 was worth approximately $2.05 on December 31, 2001); however, we should be circumspect about the result and not extrapolate it to the future. I doubt that the overall returns from equities in general over the next 5 to 10 years will be compelling; on the contrary, I believe that the returns may be far more modest than those hoped for by investors. Not only are the P/E ratios and price-to-book values still high (and dividend yields low) relative to historic valuations - the number of companies that are underpriced is at an all time low. In light of this scenario, and with its obvious lack of bargains, we are faced with the question: Should we be 100% in cash? That would make perfect sense, I suppose, if we could accurately predict a business contraction equivalent to the Great Depression. But as we are well aware, and know from experience, it is tough enough to predict the timing of a recession, let alone the degree of severity! My take on this is as follows: What we have done in the past, and what continues to work for us, is to purchase equities only to the extent that bargains are available - and with what was available to us in the last ten years we were able to achieve a rate of return of 16.2% compounded annually ($1 invested on January 1, 1992 was worth approximately $4.49 on December 31, 2001). Now, however, as the bargains are dwindling we should lower our expectations to single digit returns.

In running a portfolio there are always short-term issues to consider as they form part of the bigger picture: these include tax loss selling, interest rate trends, the future economic environment, high valuations and the threat of war, to name a few. The emphasis given to these factors, however, should be put in perspective. Sometimes the <u>weight</u> attributed to them at a subconscious level can be disproportionately high, and if we fail to recognize this influence we run the risk of being derailed from doing what we should be doing, first and foremost, and that is to always diligently hunt for bargains.

By giving undue emphasis to these forces we can easily warp a good concept and turn a sensible long-term investment approach into speculation. For example: I feel fairly optimistic that the Fund - as it continues to be based on the sound investment framework of 'margin of safety' - will give reasonable returns over the next 10 years; in the same breath I would add that I haven't a clue as to how it will perform next week or next year. Predicting short-term performance comes down to the flip of the coin which is as good (or as bad) as gambling. If the outcome of an investment is predicated on time-related factors, unless it is in the area of arbitrage and special situation, the investment will inadvertently turn into speculation. And the shorter the time frame, the more speculative the investment becomes regardless of how sound its underlying investment principles are.

As at April 26, 2002 the Fund's cash level was 23.2% and its MER for the year 2001 was 2.016%.

Yours truly,

Francis Chou
(Fund Manager)

BurnsHubley LLP
CHARTERED ACCOUNTANTS

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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, 2001 and 2000, the statements of income and changes in net assets for the years then ended and the statement of investments at December 31, 2001. 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, 2001 and 2000, its results of operations and changes in its net assets for the years then ended and its investment portfolio as at December 31, 2001, in accordance with Canadian generally accepted accounting principles.

BurnsHubley LLP

Chartered Accountants

Markham, Ontario
March 25, 2002

CHOU ASSOCIATES FUND

STATEMENT OF NET ASSETS

AS AT DECEMBER 31, 2001

	2001	2000
ASSETS		
Cash and treasury bills	$ 3,311,682	$ 3,006,640
Accounts receivable	33,396	15,932
Investments at market value (average cost 2001 - $7,131,121; 2000 - $6,281,424)	12,131,523	11,352,147
	15,476,601	14,374,719
LIABILITIES		
Accounts payable and accrued charges	43,444	45,400
Dividends payable	-	4,982
Covered call options at market value (average cost 2001 - $ Nil; 2000 - $ Nil)	30,267	1,644,468
	73,711	1,694,850
NET ASSETS AT MARKET VALUE	$ 15,402,890	$ 12,679,869
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Capital	$ 10,432,756	$ 9,253,614
Unrealized appreciation in the value of investments	5,000,401	5,070,723
Unrealized loss in covered call options	(30,267)	(1,644,468)
	$ 15,402,890	$ 12,679,869
NUMBER OF UNITS OUTSTANDING (Note 2)	295,800	273,496
NET ASSET VALUE PER UNIT	$ 52.07	$ 46.36

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, 2001

	2001	2000
INCOME		
Dividends	$ 625,278	$ 1,033,249
Interest	124,439	71,928
	749,717	1,105,177
EXPENSES		
Management fees (Note 3)	218,280	193,536
Custodian fees	24,213	33,029
Legal	15,332	13,000
Foreign withholding taxes	8,975	19,948
Filing fees	8,726	-
Audit	8,098	4,700
	283,624	264,213
NET INVESTMENT INCOME	466,093	840,964
REALIZED GAIN FROM INVESTMENTS SOLD	691,136	67,486
NET INCOME FROM OPERATIONS	$ 1,157,229	$ 908,450
NET INVESTMENT INCOME PER UNIT (based upon the number of units outstanding at the year end prior to reinvested distributions of income)	$ 1.70	$ 3.31
REALIZED GAIN PER UNIT	$ 2.53	$ 0.27
NET INCOME PER UNIT	$ 4.23	$ 3.58

CHOU ASSOCIATES FUND

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2001

	2001	2000
NET ASSETS, beginning of the year	$ 12,679,869	$ 12,216,102
INCREASED BY		
Net investment income	466,093	840,963
Net realized capital gains on investments sold	691,136	67,487
Unrealized appreciation (depreciation) in value of investments	(70,322)	1,009,240
Decrease/(increase) in covered call options	1,614,200	(955,663)
Reinvested distributions	1,157,228	903,468
Proceeds from sale of units	746,138	221,214
	4,604,473	2,086,709
	17,284,342	14,302,811
DECREASED BY		
Payments on redemption of units	724,224	714,492
Distribution of income to unitholders	1,157,228	908,450
	1,881,452	1,622,942
NET ASSETS, end of the year	$ 15,402,890	$ 12,679,869

CHOU ASSOCIATES FUND

STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2001

	Number of Shares	Average Cost	Market Value
SHARES			
Akita Drilling, Class A	60,000	$ 378,967	$ 735,000
BMTC Group, Class A	129,900	1,152,886	2,240,775
Caldwell Partners Int'l, Class A	410,000	639,600	492,000
Cavalier Homes	68,400	189,537	314,333
Citigroup Inc.	10,000	195,745	799,937
Freddie Mac	14,000	122,559	1,450,915
Hollinger Inc., Retractable Common	60,200	780,047	692,300
Homefed Corp.	50,000	70,715	75,271
IDT Corp.	20,000	596,410	618,335
IDT Corp., Class B	20,000	386,309	526,424
Int'l Forest Products, Class A	20,000	703,469	852,000
Rothmans Canada	48,600	520,084	1,450,710
Tri-White	600,000	1,204,000	1,290,000
Wesco Financial	1,000	142,323	499,168
Westshore Terminals, Income Trust	16,700	48,470	94,355
		$ 7,131,121	$ 12,131,523

CHOU ASSOCIATES FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

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 and fractional units may be issued.

	2001	**2000**
Units outstanding, beginning of the year	273,496	265,105
Add: Units issued during the year	15,131	4,685
Deduct: Units redeemed during the year	(15,051)	(15,781)
Units outstanding before income distribution	273,576	254,009
Add: Units issued on reinvested income	22,224	19,487
Units oustanding, end of the year	295,800	273,496

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 $204,000 (2000 - $180,875) which represents 1.49% (2000 - 1.48%) 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.

	2001	2000
Investment counselling fees	$ 218,280	$ 193,536
Other expenses	56,369	50,729
Total	$ 274,649	$ 244,265
Management expense ratio	2.02%	2.00%
Management expense ratio (net of GST)	1.88%	1.87%

4. BROKERS' COMMISSIONS

Total commissions paid to brokers in connection with portfolio transactions for the year ended December 31, 2001 were $44,076 (2000 - $31,423).

5. REDEMPTION OF UNITS

Units are redeemed at the net asset value per unit calculated each Friday. The redemption request, to be complete, must be in writing and bear a signature guarantee from a chartered bank, registered trust company or dealer. A completed redemption request received by the Trustee prior to the close of business on a Friday will be processed at the net asset value per unit calculated at the close of business on that day. A request which is received after the close of business on a Friday or on any other day will be processed at the net asset value per unit calculated at the close of business on the next Friday. With respect to redemptions in excess of $100,000, the manager may require the investor to give 30 days' prior notice.

6. PERFORMANCE OF FUND

The performance of the Fund is measured by the percentage change in the net asset value per unit (including total income per unit for the year) from the net asset value per unit of the prior year. The performance of the Fund for the past five years as measured in this manner is as follows:

2001	2000	1999	3 Year Annual Return	1998	1997	5 Year Annual Return
+21.44%	+8.37%	-9.63%	+5.95%	+23.20%	+40.30%	+15.46%

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