CHOU ASSOCIATES FUND

ANNUAL REPORT

2000

April 27, 2001

Dear Unitholders of the Fund:

After the dividend distribution of $3.58, the net asset value of Chou Associates Fund at December 31, 2000 was $46.36, up 8.4% for the year. The 3 year and 5 year annual compound return of the Fund was 6.4% and 15.7% respectively.

Relative to the market index, the results were satisfactory, however they would have been better had it not been for two factors:

1) Our investment in Reliance Group Holdings, a property and casualty insurer in financial difficulty.

2) Selling some of our stocks at below their cost price. The decision to do so was motivated by tax loss selling in order to counterbalance the very substantial realized gains generated for the year. Some consider this a ‘bona fide, bone headed’ move. To date, the Fund has been fairly successful in identifying and buying good companies at bargain prices. And when prices go down further, logic dictates that we should do more purchasing. Instead, we sold. This short term thinking – minimizing realized gains by taking losses – ran contrary to my better investment judgment. Over the years, I have observed that even the best tenets, if one is not careful, can be shunted aside easily for trivial reasons. It cost us roughly 5% in potential returns for the year 2000.

Impact of Capital Gains on Investment Decisions

Whenever returns are discussed in the industry, it is implied that they are pre-tax. Our Fund efforts to date have been directed towards achieving the best ‘after-tax’ rate of return as we have been conscious of the high capital gains tax rate of approximately 40%. When presented with a choice of undervalued securities, we prefer to select companies whose intrinsic value grows at a double digit rate as this allows us to defer selling the stock as long as possible. The high unrealized gains in our portfolio, relative to costs, reflect our investment approach.

A case in point is Freddie Mac. Our initial purchase price in 1990 was $3 per share. The current price is $63 – our return to date is 21 times the purchase price, or roughly a 35% pre-tax rate of return compounded annually. If we were to sell at the end of each year, and then repurchase the stock immediately the next day, thus incurring capital gains in the process, the after-tax rate of return would only be 21%. By holding on as we have, if we were to sell Freddie Mac today at the current price, and with the same 40% capital gains tax rate, our after-tax return would be considerably more – 29% compounded annually. While Freddie Mac may be an unusual example due to the extremely high rate of return the Fund achieved on this stock, the same calculations apply to stocks in general.

Here is an example based on a 20% pre-tax rate of return: The after-tax return for a stock that is bought and sold every year is 12%. If it is held and then sold after 10 years, the after-tax return is 15%. A $100,000 investment compounded annually for ten years at 12% grows to $300,000, whereas the same $100,000 compounded annually for ten years at 15% grows to $400,000.

The capital gains tax rate has now dropped to approximately 25% -- considerably lower than the tax rate on dividends or interest income. If faced with a choice of undervalued securities, we lean more towards companies reinvesting their earnings at a reasonable rate rather than those that are paying out dividends.

Technology Stocks

In the 1999 Annual Report I warned, in no uncertain terms, about the dangers of investing in high tech stocks, stating: “I am alarmed by the cavalier way in which people invest in technology stocks; the thought process they are using is a subversion of the investment process…Paying 500 times for hot air is not an investment; it's pure speculation… Let's not play a fool's game by thinking that a stock can be bought at 100 times revenues… and someone… will buy it at 200 times revenues the following week."

In the wake of the collapse of high tech stocks -- where many have dropped as much as 95% from their high -- we are now taking a serious look at several of these that offer good long term prospects, and whose shares are trading below net cash. Let me add that one should exercise caution rummaging through this rubble, as many of the companies are still burning cash.

The severe drop in high tech stocks was exacerbated by speculators borrowing on margin. In my opinion, rather than borrow on margin, such investors might consider 'buying into' the concept of margin of safety, a cornerstone of sound investing.

The markets are still high and a case can be made for us to be out of equities totally. I have reservation about that approach. Years ago I would give undue consideration to market levels, and react at times by keeping anywhere from 25% to 30% in cash, even though there were bargains to be had. Once a certain mindset is formed, we tend to reaffirm our thinking by only looking for information that confirms our bias. We choose statistics on a selective basis, ignore other information that may be relevant, and only listen to people that echo our thinking – and in the process we may be missing opportunities. The key is to make the economic environment a component of our decision making process. The most fundamental task at hand is still to search for above average companies with good economics, run by intelligent management, that are selling at an undervalued price.

At year end, cash comprises 24% of our portfolio, due largely to the fact that true bargains have been few and far between. In the past 5 years the Fund has compounded at 15.7%, more than doubling the money. However, I would caution that in light of high market valuation which has persisted for several years now, I am suggesting that we lower our expectations to single digit returns.

In 2000, the Fund's management expense ratio was 2.00% versus 1.85% in 1999. I chose to take a lower management fee in 1999 than allowed.

Yours truly,
"Francis Chou"

Francis Chou

(Manager of the Fund)

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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, 2000 and 1999, the statements of income and changes in net assets for the years then ended and the statement of investments at December 31, 2000. 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 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, 2000 and 1999, its results of operations and changes in its net assets for the years then ended and its investment portfolio as at December 31, 2000, in accordance with generally accepted accounting principles.

"Burns Hubley LLP"

Chartered Accountants

Markham, Ontario
February 2, 2001

CHOU ASSOCIATES FUND

STATEMENT OF NET ASSETS

AS AT DECEMBER 31, 2000

	2000	1999
ASSETS		
Cash and treasury bills	$ 3,006,640	$ 713,695
Accounts receivable	15,932	232,867
Investments at market value (average cost 2000 - $6,281,424: 1999 - $8,175,816)	11,352,147	12,237,299
	14,374,719	13,183,861
LIABILITIES		
Accounts payable and accrued charges	45,400	278,635
Dividends payable	4,982	319
Premium call options at market value (average cost 2000 - $ Nil; 1999 - $ Nil)	1,644,468	688,805
	1,694,850	967,759
NET ASSETS AT MARKET VALUE	$ 12,679,869	$ 12,216,102
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Capital	$ 9,253,614	$ 8,843,424
Unrealized appreciation in the value of investments	5,070,723	4,061,483
Unrealized loss in covered call options	(1,644,468)	(688,805)
	$ 12,679,869	$ 12,216,102
NUMBER OF UNITS OUTSTANDING (Note 2)	273,496	265,105
NET ASSET VALUE PER UNIT	$ 46.36	$ 46.08

CHOU ASSOCIATES FUND

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2000

	2000	1999
INCOME		
Dividends	$ 1,033,249	$ 295,622
Interest	71,928	26,624
	1,105,177	322,246
EXPENSES		
Management fees (Note 3)	193,536	199,823
Custodian fees	33,029	29,728
Foreign withholding taxes	19,948	26,602
Legal	13,000	4,960
Audit	4,700	4,923
	264,213	266,036
NET INVESTMENT INCOME	840,964	56,210
REALIZED GAIN FROM INVESTMENTS SOLD	67,486	198,193
NET INCOME FROM OPERATIONS	$ 908,450	$ 254,403
NET INVESTMENT INCOME PER UNIT (based upon the number of units outstanding at the year end prior to reinvested distributions of income)	$ 3.31	$ 0.22
REALIZED GAIN PER UNIT	$ 0.27	$ 0.76
NET INCOME PER UNIT	$ 3.58	$ 0.98

CHOU ASSOCIATES FUND

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2000

	2000	1999
NET ASSETS, beginning of the year	$ 12,216,102	$ 13,046,376
INCREASED BY		
Net investment income	840,963	56,210
Net realized capital gains on investments sold	67,487	198,193
Unrealized appreciation (depreciation) in value of investments	1,009,240	(1,351,800)
Unrealized loss on call options	(955,663)	(162,709)
Reinvested distributions	903,468	254,084
Proceeds from sale of units	221,214	1,155,260
	2,086,709	149,238
	14,302,811	13,195,614
DECREASED BY		
Payments on redemption of units	714,492	725,109
Distribution of income to unitholders	908,450	254,403
	1,622,942	979,512
NET ASSETS, end of the year	$ 12,679,869	$ 12,216,102

CHOU ASSOCIATES FUND

STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2000

Description	Number of Shares	Average Cost	Market Value
Shares			
Akita Drilling Ltd., Class A	60,000	$ 378,967	$ 648,000
BMTC Group, Class A	57,900	515,013	547,155
Cavalier Homes	68,400	189,537	89,448
Citigroup Inc.	38,000	743,830	2,899,977
Freddie Mac	14,000	122,559	1,441,115
Goldfarb Corp., Class A	137,300	1,050,239	446,225
Hollinger Inc., Retractable Common	69,900	905,736	1,086,945
Loews Corp.	5,200	329,462	804,850
Metromedia Int'l Group, Preferred	6,000	234,302	124,645
Progressive Corp.	5,500	542,746	851,797
Reebok International	20,600	407,592	841,734
Reliance Group Sub. Debenture 9.75% 2003	500,000	148,180	7,473
Rothmans Inc.	48,600	520,084	1,074,060
Wesco Financial Corp.	1,000	142,323	421,088
Westshore Terminals Inc., Unit Trust	16,700	50,854	67,635
		$ 6,281,424	$ 11,352,147

CHOU ASSOCIATES FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Fund conform with 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 owned 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.

	2000	1999
Units outstanding, beginning of the year	265,105	250,538
Add: Units issued during the year	4,685	23,693
Deduct: Units redeemed during the year	(15,781)	(14,640)
Units outstanding before income distribution	254,009	259,591
Add: Units issued on reinvested income	19,487	5,514
Units outstanding, end of the year	273,496	265,105

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 $180,875 (1999 - $186,750) which represents 1.48% (1999 - 1.44%) 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.

	2000	**1999**
Investment counselling fees	$ 193,536	$ 199,823
Other expenses	50,729	39,611
Total	$ 244,265	$ 239,434
Management expense ratio	2.00%	1.85%
Management expense ratio (net of GST)	1.87%	1.73%

4. BROKERS' COMMISSIONS

Total commissions paid to brokers in connection with portfolio transactions for the year ended December 31, 2000 were $31,423 (1999 - $40,720).

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:

2000	1999	1998	3 Year Annual Return	1997	1996	5 Year Annual Return
+8.37%	-9.63%	+23.2%	+6.40%	+40.3%	+22.7%	+15.7%

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