

**Chou Associates Fund
Chou RRSP Fund**

**SEMI-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 Distribution | Value of Cumulative Reinvested Dividends | Total Value of Shares |
|---------------|--|---|---|--------------------------|
| Dec.31, 1987 | \$10,000 | \$0 | \$0 | \$10,000 |
| Dec.31, 1988 | 10,547 | 567 | 313 | 11,427 |
| Dec.31, 1989 | 11,731 | 959 | 874 | 11,563 |
| Dec.31, 1990 | 9,692 | 792 | 1,631 | 12,114 |
| Dec.31, 1991 | 11,031 | 1,629 | 2,271 | 14,931 |
| Dec.31, 1992 | 12,994 | 2,081 | 2,844 | 17,918 |
| Dec.31, 1993 | 14,411 | 3,254 | 3,154 | 20,819 |
| Dec.31, 1994 | 13,892 | 3,137 | 3,253 | 20,282 |
| Dec.31, 1995 | 16,504 | 5,832 | 4,235 | 26,571 |
| Dec.31, 1996 | 19,841 | 7,011 | 5,747 | 32,599 |
| Dec.31, 1997 | 22,755 | 13,074 | 9,911 | 45,739 |
| Dec.31, 1998 | 25,894 | 17,693 | 12,771 | 56,358 |
| Dec.31, 1999 | 22,914 | 16,483 | 11,536 | 50,933 |
| Dec.31, 2000 | 23,054 | 16,877 | 15,266 | 55,197 |
| Dec.31, 2001 | 25,894 | 21,964 | 19,175 | 67,033 |
| Dec.31, 2002 | 32,159 | 30,498 | 24,474 | 87,131 |
| June 30, 2003 | | | | \$85,871 |

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

August 26, 2003

Dear Unitholders of Chou Associates Fund,

The net asset value (NAV) of Chou Associates Fund at June 30, 2003 was \$63.74 compared to \$64.67 at December 31, 2002, a decrease of 1.4%. The table below shows our 6 month, 1 year, 3 year, 5 year and 10 year annual compound rate of return.

| June 30, 2003 | 6 month | 1 year | 3 year | 5 year | 10 year |
|-----------------------------|---------|--------|--------|--------|---------|
| Chou Associates Fund | -1.4% | 11.1% | 18.0% | 11.8% | 16.1% |
| S&P/TSX Total Return | 6.7% | -0.3% | -10.4% | 0.5% | 7.8% |
| S&P 500 Total Return | 11.8% | 0.3% | -11.2% | -1.6% | 10.0% |
| S&P 500 Total Return(\$Cdn) | -5.0% | -12.1% | -15.0% | -4.6% | 8.6% |

- 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 first 6 month results:

Cash Position: Our average cash position of 48% plus has had a restraining effect on returns. For a more detailed discussion please refer to the section titled 'Outlook on the market'.

Foreign exchange: The strength of the Canadian dollar had a negative impact on the six month results. If we had applied the December 31, 2002 exchange rates to the U.S. holdings at June 30, 2003, the Fund would be up 5.4%. 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. However, we did not adhere to this maxim as much as we would have liked. There are periods when the Manager is reluctant to pay an extra dime to acquire a meaningful position of a compelling bargain. Common sense dictates that it does not make good economic sense to forego 100% or more of potential gains for a measly dime. A case in point is Cable & Wireless (ADR and its equivalent PLC shares) which was priced at \$2.10 (this was our second attempt and the price was 75% cheaper than our first purchase) in December 2002. Had we raised the bid by a dime we could have put in a meaningful amount of at least 7% or more of the Fund assets in the stock. We did not. As a result, the Fund was able to place only about 1% of its assets in Cable & Wireless. Currently, the stock is trading around \$5.50.

Just some 2 years ago, we totally missed out on Gevity which was then trading at \$1. We were bidding 90 cents in spite of knowing that not that long ago, a potential acquirer had offered \$14 for the company. Well, the stock today is trading at \$17. Ouch!

When we examine our past mistakes, we find that the mistake of missing or buying an insignificant amount of a stock by not paying a dime more for an obvious bargain far outweighs any mistakes we have made by buying a stock that has gone down substantially from our purchase price. As much as the Manager has been trying to remedy this affliction, he has not succeeded in the past and we suspect, neither will he in the future. At best, he is hoping to mitigate the problem.

Distressed Securities: One distressed security that did not work out was the subordinate debt of Fleming. In retrospect, perhaps the purchase was made without properly assessing the fundamentals of a company that was hobbled financially. That move cost the Fund roughly 3.5%. Our forays into distressed securities over the last 2 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.

Outlook on the Market

In several of our annual letters over the past 10 years, we expressed our concerns about the high market levels. On March 20, 1998, we wrote ‘What troubles me, however, is that as the market keeps rising, it is injecting a speculative element that will eventually lead to a permanent loss of capital, a risk that we cannot afford.’

In the April 10, 2000 letter we wrote, ‘I’m 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. The rise of a stock price for a period of time is by no means an indicator of value, nor is it an assurance that we are looking at a ‘can’t miss’ investment.’

Although we voiced our deep reservations about the overvaluations in the market, the Fund did reasonably well over the past 3, 5 and 10 years because there were always some sectors in the market that were undervalued and we were able to take advantage of the slender opportunities that came our way.

The current market is not cheap but more significant and ominous is the fact that almost all sectors are fairly valued to overvalued. Additionally, we have to factor in problems associated with historically high levels of consumer debt and statistics related to troubling housing prices. We are extremely wary of the market now and instead of getting carried away with the recent market upsurge, we believe the more appropriate response would be to ‘Lie down until the feeling passes’.

We are quite comfortable holding cash until we spot a bona fide bargain. Historically, we tend to concentrate our holdings and we believe the cash can be deployed quickly if bargains can be had regardless of market levels.

Analogy to the pony story

In the discussion of net-net working capital stocks in the 2002 annual report, we wrote, ‘Years ago we might have anticipated, with bated breath, that ‘there must be a pony somewhere in that basket of net-net working capital stocks’, but current experience has taught us that unless we factor in the cost of restructuring, and the mindset of management, we may find a pony, yes – but it will be a dead one!’ We have been asked what is the analogy to the pony story. It was first written up in one of the Sequoia Fund’s reports in the early 1990’s.

It is a story of two young twins. One was an extreme optimist, the other an extreme pessimist. Their parents were looking to temper each son’s extreme views through the choice of gifts presented to them at Christmas. The pessimist was given a raft of beautiful toys but he broke out in tears saying, ‘I’m afraid I might break them’. His brother, the optimist, was directed to a pile of manure on the other side of the tree and wished a happy holiday. A big grin slowly appeared on his face as he said, ‘There must be a pony around here somewhere’.

Chou Europe Fund and Chou Asia Fund

We are planning to open Chou Europe Fund and Chou Asia Fund on September 12, 2003, subject to the approval of the various securities commissions in Canada. We expect the prospectus to be ready by that time. The minimum investment for each of the Funds is \$10,000. 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 reasonably well in the future. Caveat emptor!

Redemption fees

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

Yours truly,

Francis Chou
Francis Chou
(Fund Manager)

CHOU ASSOCIATES FUND
STATEMENT OF NET ASSETS
AS AT JUNE 30, 2003

(Unaudited)

ASSETS

| | |
|--|-------------------|
| Cash and treasury bills | \$ 45,273,849 |
| Accounts Receivable | 546,750 |
| Investments at market value(average cost \$41,765,004) | <u>51,947,229</u> |
| | 97,767,828 |

LIABILITIES

| | |
|--------------------------------------|----------------|
| Accounts payable and accrued charges | <u>278,414</u> |
|--------------------------------------|----------------|

NET ASSETS AT MARKET VALUE \$ 97,489,414

| | |
|----------------------------------|-----------|
| Net Asset Value Per Unit (NAVPU) | \$ 63.74 |
| NAVPU, December 31, 2002 | \$ 64.67 |
| % change from December 31, 2002 | -1.4% |
| Units Outstanding, June 30, 2003 | 1,529,575 |

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STATEMENT OF INCOME AND EXPENSE
FOR THE SIX MONTHS ENDED
JUNE 30, 2003

(Unaudited)

INCOME

| | |
|----------------------|----------------|
| Dividends (Canadian) | \$ 86,301 |
| Dividends (Foreign) | 151,023 |
| Interest | <u>646,884</u> |
| | 884,209 |

EXPENSES

| | |
|-----------------|--------------|
| Management fees | 679,837 |
| Custodian fees | 56,222 |
| Filing fees | 7,500 |
| Legal | 1,671 |
| Fundserv fees | <u>1,450</u> |
| | 746,680 |

NET INVESTMENT INCOME 137,529

REALIZED GAIN FROM INVESTMENTS SOLD -2,201,908

TOTAL INCOME \$ -2,064,379

| | |
|--------------------------------|----------|
| Net Investment Income Per Unit | \$ 0.09 |
| Total Income Per Unit | \$ -1.35 |

CHOU ASSOCIATES FUND
STATEMENT OF INVESTMENTS
AS AT JUNE 30, 2003

| | Number of Shares | Average Cost | Market Value |
|-------------------------------------|---------------------|------------------|------------------|
| SHARES* | | | |
| Akita Drilling, Class A | 60,000 | \$ 378,967 | \$ 1,242,000 |
| Alderwoods Group | 10,000 | 51,623 | 72,093 |
| Berkshire Hathaway, Class A | 75 | 8,122,588 | 7,327,180 |
| BMTC Group, Class A | 97,853 | 434,232 | 1,761,354 |
| BJ's Wholesale Club | 50,000 | 1,069,825 | 1,014,688 |
| Cable & Wireless Publication, ADR | 75,600 | 639,423 | 557,246 |
| Cable & Wireless Publication PLC | 500,000 | 577,936 | 1,260,036 |
| Caldwell Partners Int'l, Class A | 410,000 | 639,600 | 635,500 |
| | | | |
| Cavalier Homes | 68,400 | 189,537 | 190,794 |
| Citigroup Inc. | 7,500 | 146,808 | 432,556 |
| Criimi Mae, REIT | 301,984 | 2,156,771 | 4,455,902 |
| Criimi Mae, Class B Preferred | 24,600 | 497,775 | 851,934 |
| Global Tech Appliances | 28,000 | 215,057 | 188,654 |
| Hollinger Inc., Retractable Common | 45,050 | 542,520 | 175,695 |
| IDT Corp., Class B | 20,000 | 386,309 | 474,330 |
| Int'l Forest Products, Class A | 200,000 | 703,469 | 1,012,000 |
| | | | |
| King Pharmaceuticals | 100,000 | 1,729,000 | 1,988,950 |
| Metro One Telecommunications | 50,000 | 369,837 | 346,988 |
| North Fork Bancorporation | 72,500 | 3,162,477 | 3,327,517 |
| Orthodontic Centres of America | 761,500 | 8,182,579 | 8,219,398 |
| Rothmans Canada | 48,600 | 520,084 | 1,287,900 |
| Tri-White Corporation | 600,000 | 1,204,000 | 1,710,000 |
| Westshore Terminals, Income Trust | 16,700 | 48,465 | 96,860 |
| WilTel Communications Group | 132,000 | 2,533,475 | 2,636,087 |
| World Acceptance | 190,000 | <u>2,191,066</u> | <u>4,186,094</u> |
| | | 36,693,424 | 45,451,753 |
| | | | |
| Bonds | | | |
| RCN, Senior Notes, 10.125%, 2010 | 1,000,000 | 449,965 | 525,536 |
| Worldcom, Senior Notes, 6.5%, 2004 | 5,000,000 | 1,076,390 | 1,987,603 |
| Worldcom, Senior Notes, 8.0%, 2006 | 4,000,000 | 951,452 | 1,590,082 |
| Worldcom, Senior Notes, 6.75%, 2008 | 6,051,000 | <u>2,593,773</u> | <u>2,392,256</u> |
| | | 5,071,580 | 6,495,476 |
| | | | |
| TOTAL | | \$41,765,004 | \$51,947,229 |

* Common Shares Unless Indicated Otherwise.

CHOU RRSP FUND

August 26, 2003

Dear Unitholders of Chou RRSP Fund,

The net asset value (NAV) of Chou RRSP Fund at June 30, 2003 was \$24.18 compared to \$23.08 at December 31, 2002, an increase of 4.8%. The table below shows our 6 month, 1 year, 3 year, 5 year and 10 year annual compound rate of return.

| June 30, 2003 | 6 month | 1 year | 3 year | 5 year | 10 year |
|------------------------------|---------|--------|--------|--------|---------|
| Chou RRSP Fund | 4.8% | 10.9% | 21.9% | 13.7% | 16.3% |
| S&P/TSX Total Return | 6.7% | -0.3% | -10.4% | 0.5% | 7.8% |
| S&P 500 Total Return | 11.8% | 0.3% | -11.2% | -1.6% | 10.0% |
| S&P 500 Total Return (\$Cdn) | -5.0% | -12.1% | -15.0% | -4.6% | 8.6% |

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Factors influencing the first 6 month results:

Cash Position: Our average cash position of 52% plus has had a restraining effect on returns. For a more detailed discussion please refer to the section titled 'Outlook on the market'.

Foreign exchange: The strength of the Canadian dollar had a minor negative impact on the six month results. If we had applied the December 31, 2002 exchange rates to the U.S. holdings at June 30, 2003, the Fund would be up 7.3%. 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. However, we did not adhere to this maxim as much as we would have liked. There are periods when the Manager is reluctant to pay an extra dime to acquire a meaningful position of a compelling bargain. Common sense dictates that it does not make good economic sense to forego 100% or more of potential gains for a measly dime. A case in point is Anormed which was priced at \$1.85 late last year. Had we raised the bid by a dime we could have put in a meaningful amount of at least 5% or more of the Fund assets in the stock. We did not. Consequently, the Fund did not purchase shares in Anormed. Currently, the stock is trading around \$3.60.

When we examine our past mistakes, we find that the mistake of missing or buying an insignificant amount of a stock by not paying a dime more for an obvious bargain far outweighs any mistakes we have made by buying a stock that has gone down substantially from our purchase price. As much as the Manager has been trying to remedy this affliction, he has not succeeded in the past and we suspect, neither will he in the future. At best, he is hoping to mitigate the problem.

Outlook on the Market

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In the April 10, 2000 letter we wrote, 'I'm 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. The rise of a stock price for a period of time is by no means an indicator of value, nor is it an assurance that we are looking at a 'can't miss' investment'.

Although we voiced our deep reservations about the overvaluations in the market, the Fund did reasonably well over the past 3, 5 and 10 years because there were always some sectors in the market that were undervalued and we were able to take advantage of the slender opportunities that came our way.

The current market is not cheap but more significant and ominous is the fact that almost all sectors are fairly valued to overvalued. Additionally, we have to factor in problems associated with historically high levels of consumer debt and statistics related to troubling housing prices. We are extremely wary of the market now and instead of getting carried away with the recent market upsurge, we believe the more appropriate response would be to 'Lie down until the feeling passes'.

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It is a story of two young twins. One was an extreme optimist, the other an extreme pessimist. Their parents were looking to temper each son's extreme views through the choice of gifts presented to them at Christmas. The pessimist was given a raft of beautiful toys but he broke out in tears saying, 'I'm afraid I might break them'. His brother, the optimist, was directed to a pile of manure on the other side of the tree and wished a happy holiday. A big grin slowly appeared on his face as he said, 'There must be a pony around here somewhere'.

Chou Europe Fund and Chou Asia Fund

We are planning to open Chou Europe Fund and Chou Asia Fund on September 12, 2003, subject to the approval of the various securities commissions in Canada. We expect the prospectus to be ready by that time. The minimum investment for each of the Funds is \$10,000. 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 reasonably well in the future. Caveat emptor!

Redemption fees

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

Yours truly,

Francis Chou

Francis Chou
(Fund Manager)

CHOU RRSP FUND
STATEMENT OF NET ASSETS
AS AT JUNE 30, 2003

(Unaudited)

ASSETS

| | |
|--|-------------------|
| Cash and treasury bills | \$ 27,995,153 |
| Accounts Receivable | 1,313,286 |
| Investments at market value(average cost \$18,780,162) | <u>21,263,803</u> |
| | 50,572,242 |

LIABILITIES

| | |
|--------------------------------------|---------------|
| Accounts payable and accrued charges | <u>92,494</u> |
|--------------------------------------|---------------|

NET ASSETS AT MARKET VALUE \$ 50,479,747

| | |
|----------------------------------|-----------|
| Net Asset Value Per Unit (NAVPU) | \$ 24.18 |
| NAVPU, December 31, 2002 | \$ 23.08 |
| % change from December 31, 2002 | 4.8% |
| Units Outstanding, June 30, 2003 | 2,087,575 |

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STATEMENT OF INCOME AND EXPENSE
FOR THE SIX MONTHS ENDED
JUNE 30, 2003

(Unaudited)

INCOME

| | |
|----------------------|----------------|
| Dividends (Canadian) | \$ 183,719 |
| Dividends (Foreign) | 218,814 |
| Interest | <u>331,729</u> |
| | <u>734,262</u> |

EXPENSES

| | |
|-----------------|----------------|
| Management fees | 185,529 |
| Custodian fees | 19,148 |
| Filing fees | 3,000 |
| Fundserv fees | <u>4,349</u> |
| | <u>212,026</u> |

NET INVESTMENT INCOME 522,236

REALIZED GAIN FROM INVESTMENTS SOLD 395,041

TOTAL INCOME \$ 917,277

Net Investment Income Per Unit \$ 0.25

Total Income Per Unit \$ 0.44

CHOU RRSP FUND
STATEMENT OF INVESTMENTS
AS AT JUNE 30, 2003

| | Number of Shares | Average Cost | Market Value |
|-------------------------------------|---------------------|---------------------|---------------------|
| SHARES* | | | |
| Accord Financial | 13,100 | \$ 66,594 | \$ 75,325 |
| Akita Drilling, Class A | 20,000 | 137,003 | 414,000 |
| Anthem Works | 5,400 | 57,892 | 63,450 |
| Berkshire Hathaway, Class A | 15 | 1,606,722 | 1,465,436 |
| BMTC Group, Class A | 43,925 | 216,428 | 790,650 |
| Criimi Mae, REIT | 24,495 | 149,591 | 361,434 |
| Criimi Mae, Class B Preferred | 48,900 | 1,426,055 | 1,693,478 |
| Criimi Mae, Class F Preferred | 7,200 | 81,988 | 97,992 |
| | | | |
| Caldwell Partners Int'l, Class A | 162,900 | 437,235 | 252,495 |
| Discovery Capital | 153,000 | 27,481 | 24,480 |
| Glacier Ventures Int'l | 215,228 | 173,043 | 275,492 |
| Hollinger Inc., Retractable Common | 21,670 | 267,679 | 84,513 |
| Int'l Forest Products, Class A | 204,800 | 838,727 | 1,036,288 |
| Liquidation World | 753,100 | 3,384,468 | 3,193,144 |
| Morguard Corporation | 14,600 | 268,572 | 278,130 |
| Producers Oilfield Services | 397,600 | 143,285 | 377,720 |
| | | | |
| MRRM Inc. | 6,650 | 334,163 | 518,700 |
| Orthodontic Centres of America | 183,000 | 1,434,575 | 1,975,246 |
| Persona Inc. | 150,000 | 665,343 | 705,000 |
| Rainmaker Income Fund | 269,400 | 883,029 | 781,260 |
| Rothmans Canada | 13,200 | 299,748 | 349,800 |
| Smithfield Canada | 33,500 | 886,463 | 1,034,658 |
| Tri-White Corporation | 255,000 | 504,600 | 726,750 |
| Wecast Industries | 47,700 | 1,635,032 | 1,596,042 |
| Westshore Terminals, Income Trust | 85,700 | 245,467 | 497,060 |
| Zonagen | 100,000 | 236,083 | 220,994 |
| | | <u>16,407,267</u> | <u>18,889,538</u> |
| | | | |
| Bonds | | | |
| Worldcom, Senior Notes, 7.55%, 2004 | 1,000,000 | 229,635 | 397,521 |
| Worldcom, Senior Notes, 6.75%, 2008 | 5,000,000 | 2,143,260 | 1,976,744 |
| | | <u>2,372,895</u> | <u>2,374,265</u> |
| | | | |
| TOTAL | | \$18,780,162 | \$21,263,803 |

* Common Shares Unless Indicated Otherwise.

Chou RRSP Fund

Illustration of an Assumed Investment of \$10,000

| Period Ended | Value of Initial \$10,000 Investment | Value of Cumulative Reinvested Capital Distribution | Value of Cumulative Reinvested Dividends | Total Value of Shares |
|---------------|--|---|---|--------------------------|
| Dec.31, 1987 | \$10,000 | \$0 | \$0 | \$10,000 |
| Dec.31, 1988 | 10,731 | 326 | 296 | 11,352 |
| Dec.31, 1989 | 11,552 | 1,009 | 704 | 13,265 |
| Dec.31, 1990 | 9,290 | 1,054 | 1,416 | 11,761 |
| Dec.31, 1991 | 9,361 | 1,062 | 1,857 | 12,280 |
| Dec.31, 1992 | 10,089 | 1,145 | 2,170 | 13,404 |
| Dec.31, 1993 | 11,639 | 1,321 | 2,504 | 15,464 |
| Dec.31, 1994 | 10,151 | 1,152 | 2,528 | 13,831 |
| Dec.31, 1995 | 11,787 | 1,338 | 3,338 | 16,463 |
| Dec.31, 1996 | 14,363 | 1,630 | 4,100 | 20,093 |
| Dec.31, 1997 | 19,993 | 3,396 | 6,878 | 30,267 |
| Dec.31, 1998 | 17,456 | 11,031 | 7,387 | 35,874 |
| Dec.31, 1999 | 15,498 | 10,746 | 7,237 | 33,480 |
| Dec.31, 2000 | 16,964 | 12,261 | 9,775 | 39,001 |
| Dec.31, 2001 | 19,173 | 14,915 | 11,551 | 45,640 |
| Dec.31, 2002 | 22,780 | 22,589 | 14,808 | 60,177 |
| June 30, 2003 | | | | \$63,059 |

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 Management Inc.

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