

**CHOU ASSOCIATES FUND**  
**CHOU ASIA FUND**  
**CHOU EUROPE FUND**  
**CHOU BOND FUND**  
**CHOU RRSP FUND**

**SEMI-ANNUAL REPORT 2008**

## CHOU ASSOCIATES FUND

(unaudited)

### Illustration of an assumed investment of \$10,000 in Canadian dollars

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
Dec.31, 2004	32,241	40,446	30,632	103,319
Dec.31, 2005	36,014	45,180	36,268	117,462
Dec.31, 2006	42,194	52,933	44,384	139,511
Dec.31, 2007	36,819	46,191	42,248	125,258
June 30, 2008				<b><u>122,377</u></b>

NOTE: Rates of return are historical total returns including changes in unit prices and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and which could reduce these returns. The returns are not guaranteed. The Fund's past performance does not necessarily indicate future performance.

The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

**CHOU FUNDS**  
**PERFORMANCE OF THE FUNDS**  
**FOR THE PERIOD ENDED JUNE 30, 2008**  
**(Unaudited)**

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**Chou Associates Fund**

Series A \$Cdn	-2.3%
Series A \$US	-5.1%
Series F \$Cdn	-2.0%
Series F \$US	-4.8%

**Chou Asia Fund**

Series A \$Cdn	7.5%
Series A \$US	4.4%
Series F \$Cdn	7.7%
Series F \$US	4.6%

**Chou Europe Fund**

Series A \$Cdn	-13.7%
Series A \$US	-16.2%
Series F \$Cdn	-13.5%
Series F \$US	-15.9%

**Chou Bond Fund**

Series A \$Cdn	1.6%
Series A \$US	-1.3%
Series F \$Cdn	1.7%
Series F \$US	-1.2%

**Chou RRSP Fund**

Series A \$Cdn	-14.1%
Series A \$US	-16.6%
Series F \$Cdn	-13.9%
Series F \$US	-16.3%

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# CHOU ASSOCIATES FUND

August 15, 2008

Dear Unitholders of Chou Associates Fund,

The net asset value (“NAVPU” or “NAV”) of a Series A unit of Chou Associates Fund at June 30, 2008 was \$78.16 compared to \$79.97 at December 31, 2007, a decrease of 2.3%, while the S&P 500 Total Return Index was down 9.5%. In \$US, a Series A unit of Chou Associates Fund was down 5.1% while the S&P 500 Total Return Index was down 11.9%.

The table shows our six month, 1 year, 3 year, 5 year, 10 year and 15 year annual compound rates of return.

June 30, 2008 (Series A)	6 Month	1 Year	3 Years	5 Years	10 Years	15 Years
Chou Associates (\$Cdn)	-2.3%	-12.3%	3.3%	6.3%	9.0%	12.7%
S&P500 (\$Cdn)	-9.5%	-16.6%	-1.9%	1.6%	-0.8%	7.5%
Chou Associates (\$US) <sup>1</sup>	-5.1%	-8.4%	9.8%	12.4%	13.1%	14.4%
S&P500 (\$US)	-11.9%	-13.1%	4.4%	7.6%	2.9%	9.2%

Rates of return are historical total returns including changes in unit prices and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and which could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

## Factors Influencing the first Six Months’ Results

**MARKET INDEX:** The S&P 500 Total Return Index was down 9.5% in Canadian dollars compared to the Fund being down 2.3%. Our high cash holdings mitigated the loss.

**MEDIA COMPANIES:** We purchased several media stocks. In hindsight, we bought them too early. But we still believe the prices we paid for them were bargain prices. The weak U.S. economy and subprime crisis are impacting advertising and circulation revenues much more than expected and, as a result, investors are putting much lower valuations on media properties. However, in spite of those problems, the companies are still generating fairly decent free cash flow, albeit at lower levels. Their franchise values have undoubtedly weakened but based on criteria such as multiples of free cash flow per share and private market transactions, they are priced as if no one will be reading newspapers or watching television by the end of the year. We believe that the reports of their imminent demise are greatly exaggerated. We feel optimistic that their earning power, although clearly less than in the past, justifies substantially higher valuations when compared to current prices.

**ROUND TRIPS:** For the year 2007 and the first six months of 2008, we took more than our fair share of “round trips.” Some of the undervalued stocks we bought did appreciate to close to fair value, but unfortunately we hung on for too long. In hindsight, it would have been better to sell them a little earlier rather than wait for the last 5% to 10% of appreciation which would have brought them right up to fair value.

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<sup>1</sup>The alternative method of purchasing Chou Associates Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US equivalent conversion of the results of the Chou Associates Fund (\$Cdn). The investments in the Chou Associates Fund (\$Cdn) are the same as the investments in Chou Associates Fund (\$US) except for the currency applied.

Major positive contributors to the Chou Associates Fund's performance were UTStarcom, Overstock.com and King Pharmaceuticals.

### **General Comments on the Market**

As the subprime meltdown and the bursting of the credit bubble play themselves out, they directly and indirectly affect the prices of almost all debt and equity securities indiscriminately, and as such, the market will likely continue to be highly volatile for the remainder of the year. Therefore, the unit value of our Fund will also be volatile.

We are finding bargains in four sectors: retail, media, cable and telecommunications, and pharmaceuticals. One may entertain the idea of adding financial companies to this group, but I believe that the crisis is still in the early to middle stages. The subprime problem has now spread to Alternate A borrowers (between subprime and prime) and to a lesser degree, prime borrowers. It is estimated that the writedowns from the subprime related mess will exceed one trillion dollars. The subprime debacle has taken on a life of its own, and the word subprime is now associated with so many financial, liquidity and credit problems that it has become, practically, a part of our business lingo. For example, "He subprimed the deal" meaning he messed up the deal.

On the positive side several financial companies are cheap, however on the negative side there are two situations that can occur. The first is that some companies are in dire need of funds to shore up their capital, and are practising what I've coined, "the 'DROP' principle" on unsuspecting investors. (D is for dribbling out the bad news slowly, R is for raising money, and OP is for dishing out the most optimistic projections.) Once the money has been raised from investors, these companies will announce (a few months later) 'the big drop' – that is, taking a big writedown.

The second situation is that there are good financial companies that get caught in short term funding problems – through no fault of their own – and have had to raise money urgently regardless of their undervalued share price. This action to sell equity securities (including convertibles) at an undervalued price can be so dilutive that the intrinsic value instantaneously drops closer to the price at which they first started to raise the money. Unfortunately, in the first months of 2008 we have seen evidence of both scenarios.

In general, at this time, we are avoiding financial companies whose problems are difficult to quantify, but are on the lookout for companies that either have problems we understand and can quantify and/or have been somewhat tainted by association with the subprime problems.

### **Hedging Currency for the Long Term – Partial Capitulation to Currency Volatility**

In our 2007 annual letter, dated March 12, 2008 we wrote, "Our bias at this time is 'not' to hedge because we believe that the Canadian dollar is trading in the range of fair value..... The only time where we may be inclined to hedge the currency is during a period of extreme undervaluation. So for now, be prepared for a bit of a bumpy ride, and some extra volatility, but take into account the results of the aforementioned studies which indicate that (at least in the past) it all evens out in the long run. And remember, hedging currencies comes with a cost.....about 1% a year".

Since that time we've done a partial about face. We realized that when you are running a mutual fund, the degree of volatility your unitholders can stomach should be taken into consideration. While the effect on long term results may be statistically insignificant, on a year-to-year basis, currency swings can truly distort results. These swings can be heart stopping, particularly for our unitholders, and especially when the currency goes against them. This was evident with the Fund in 2007. A considerable amount of management time was spent explaining to anxious unitholders how currency swings distorted the 2007 results.

And so, as at August 15, 2008, we have forward currency contracts in which we agreed to buy Canadian dollars and sell US dollars in December of 2008. The amount hedged is approximately 30% of the portfolio. Hopefully, this will make the results less bumpy over the years.

As you are aware, we do offer an alternative to investors who believe strongly that the Canadian dollar is going to strengthen considerably against the U.S. dollar. We offer units of the Fund in U.S. dollars, and investors can switch the units denominated in Canadian dollars to U.S. dollars without any penalty, charges, or incurring a capital gain or loss in so doing.

### **Credit Default Swaps (CDS)**

We haven't bought any CDS yet. We missed some great buys while we were waiting for regulatory approvals but we believe we will have other chances in the future.

### **Other Matters**

FOREIGN CURRENCY HEDGING: As at August 15, 2008, the amount hedged against the U.S. dollar was approximately 30% of the portfolio.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in \$US can now do so.

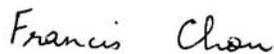
INDEPENDENT REVIEW COMMITTEE (IRC): The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Bruce Kerr and Joe Tortolano. The IRC report is posted on our website [www.choufunds.com](http://www.choufunds.com). Hardcopies are available, upon request, by contacting Chou Associates.

REDEMPTION FEE: 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.

OTHER: As at August 15, 2008, the NAV of a Series A unit of the Fund was \$79.58 and the cash position was 12% of net assets. The Fund is down 0.5% from the beginning of the year. In \$US, it is down 7.2%.

Except for the performance numbers of the Chou Associates Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,



Francis Chou  
Fund Manager

**CHOU ASSOCIATES FUND**  
**STATEMENT OF NET ASSETS**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

	<b>2008</b>	<b>DEC 31, 2007</b>
<b>ASSETS</b>		
Cash and treasury bills	\$ 115,884,594	\$ 243,115,775
Accrued interest and dividend income	3,295,448	1,975,845
Receivable for units subscribed	664,379	467,639
Unrealized gain on foreign currency forward contracts	341,349	-
Investments	<u>541,454,492</u>	<u>460,987,931</u>
	<u>661,640,262</u>	<u>706,547,190</u>
<b>LIABILITIES</b>		
Accrued expenses	952,055	1,038,776
Payable for units redeemed	1,368,161	805,047
Distributions payable	-	472,150
Liability for investment purchased	<u>9,587,525</u>	<u>8,036,041</u>
	<u>11,907,741</u>	<u>10,352,014</u>
<b>NET ASSETS</b>	<u>\$ 649,732,521</u>	<u>\$ 696,195,176</u>

**NET ASSETS, BY SERIES**

Series A	\$ 600,971,472	\$ 643,067,453
Series F	<u>48,761,049</u>	<u>53,127,723</u>
	<u>\$ 649,732,521</u>	<u>\$ 696,195,176</u>

**NUMBER OF UNITS OUTSTANDING (Note 4)**

Series A	7,702,672	8,051,058
Series F	625,659	667,640

**NET ASSET VALUE PER UNIT**

**Canadian dollars**

Series A	\$ 78.02	\$ 79.87
Series F	\$ 77.94	\$ 79.58

**U.S. dollars**

Series A	\$ 76.64	\$ 80.76
Series F	\$ 76.56	\$ 80.46

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

*Francis Chou*

*Tracy Chou*

**CHOU ASSOCIATES FUND**  
**STATEMENT OF OPERATIONS**  
**FOR THE PERIOD ENDED JUNE 30, 2008**  
(Unaudited)

	<b>2008</b>	<b>2007</b>
<b>INVESTMENT INCOME</b>		
Interest	\$ 9,093,194	\$ 9,561,312
Dividends	5,397,558	7,487,812
Interest from securities lending	321,455	965,258
Income from derivatives	<u>245,362</u>	<u>1,086,972</u>
	<u>15,057,569</u>	<u>19,101,354</u>
<b>EXPENSES</b>		
Management fees (Note 6)	5,086,799	5,734,929
Foreign withholding taxes	565,826	195,449
Custodian fees	311,567	330,765
Audit	38,221	36,008
Filing fees	31,187	18,144
Independent Review Committee fees	29,059	-
FundSERV fees	22,015	12,765
Legal	<u>10,066</u>	<u>4,025</u>
	<u>6,094,740</u>	<u>6,332,085</u>
<b>NET INVESTMENT INCOME FOR THE PERIOD</b>	<u>8,962,829</u>	<u>12,769,269</u>
<b>NET REALIZED AND UNREALIZED GAIN (LOSS) AND TRANSACTION COSTS</b>		
Transaction costs	(216,132)	(91,347)
Net realized gain (loss) on sale of investments	7,103,023	(4,183,395)
Unrealized loss	<u>(32,191,771)</u>	<u>(9,761,526)</u>
	<u>(25,304,880)</u>	<u>(14,036,268)</u>
<b>DECREASE IN NET ASSETS FROM OPERATIONS</b>	<u>\$ (16,342,051)</u>	<u>\$ (1,266,999)</u>
<b>DECREASE IN NET ASSETS FROM OPERATIONS</b>		
Series A	\$ (15,257,154)	\$ (1,135,132)
Series F	<u>(1,084,897)</u>	<u>(131,867)</u>
	<u>\$ (16,342,051)</u>	<u>\$ (1,266,999)</u>
<b>DECREASE IN NET ASSETS FROM OPERATIONS, PER UNIT</b>		
Series A	\$ (1.94)	\$ (0.15)
Series F	\$ (1.67)	\$ (0.26)

**CHOU ASSOCIATES FUND**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE PERIOD ENDED JUNE 30, 2008**  
(Unaudited)

	2008	2007
<b>SERIES A</b>		
NET ASSETS, beginning of the period	\$ 643,067,453	\$ 614,043,756
Change in accounting policy (Note 2(a))	-	(2,168,077)
	<u>643,067,453</u>	<u>611,875,679</u>
Decrease in net assets from operations	(15,257,154)	(1,135,132)
Proceeds from issue of units	22,717,454	159,049,535
Payments on redemption of units	(49,556,281)	(16,568,710)
Reinvested distributions	-	551
	<u>600,971,472</u>	<u>753,221,923</u>
NET ASSETS, end of the period		
<b>SERIES F</b>		
NET ASSETS, beginning of the period	53,127,723	36,142,073
Change in accounting policy (Note 2(a))	-	(126,810)
	<u>53,127,723</u>	<u>36,015,263</u>
Decrease in net assets from operations	(1,084,897)	(131,867)
Proceeds from issue of units	4,964,038	21,116,146
Payments on redemption of units	(8,245,815)	(921,715)
Reinvested distributions	-	(84)
	<u>48,761,049</u>	<u>56,077,743</u>
NET ASSETS, end of the period		
<b>TOTAL NET ASSETS, end of the period</b>	<b>\$ 649,732,521</b>	<b>\$ 809,299,666</b>

**CHOU ASSOCIATES FUND**  
**STATEMENT OF INVESTMENTS**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

	No. of Shares or Par Value	Cost	Market Value
<b>SHARES*</b>			
Berkshire Hathaway Inc., Class A	210	\$ 21,727,432	\$ 25,760,445
Biovail Corporation	1,576,377	23,864,372	15,453,733
BT Group PLC	1,850,000	7,655,743	7,493,158
DISH Network Corporation	50,000	1,395,153	1,477,624
Flagstone Reinsurance Holdings Ltd.	1,700,000	19,926,987	20,403,738
Gannett Company Inc.	270,000	7,442,849	5,956,206
IDT Corporation, Class B	314,800	3,238,750	544,792
King Pharmaceuticals Inc.	5,611,961	63,031,859	59,814,757
Royal Boskalis Westminster nv	761,100	8,159,512	41,427,132
K-Swiss Inc., Class A	472,720	7,015,236	7,049,992
Mannkind Corporation	438,989	3,734,116	1,340,670
Media General Inc., Class A	2,052,117	46,390,726	24,859,712
Office Depot Inc.	972,053	11,154,475	10,825,657
Olympus Re Holdings Ltd.	1,652,836	7,633,948	9,506,600
Overstock.com Inc.	1,504,209	31,016,174	39,736,770
Qwest Communications International Inc.	2,000,000	9,125,034	7,960,746
RCN Corporation	1,700,884	21,071,744	18,336,552
Sanofi-Aventis ADR	500,000	17,678,517	16,893,680
Sears Holdings Corporation	233,700	13,783,409	17,524,169
Sprint Nextel Corporation	729,544	14,296,825	7,040,554
Sun-Times Media Group Inc., Class A	2,522,100	13,878,980	975,647
The McClatchy Company, Class A	2,851,679	23,726,041	19,682,368
Utah Medical Products Inc.	61,070	1,411,403	1,743,845
UTStarcom Inc.	3,350,000	14,428,860	18,688,411
Watson Pharmaceuticals Inc.	905,400	26,286,085	25,005,601
Westwood One Inc.	280,600	2,082,593	311,359
XO Holdings Inc.	2,957,554	13,018,615	1,234,422
		<u>434,175,438</u>	<u>407,048,340</u>
<b>BONDS</b>			
Abitibi-Consolidated Inc., 6.276%, June 15, 2011	26,906,000	14,053,142	13,421,227
Abitibi-Consolidated Inc., 15.5%, July 15, 2010	40,035,000	29,427,422	32,196,891
Collins & Aikman Corp. bank debts	5,000,000	4,471,467	1,847,667
Collins & Aikman Corp. bank debts	5,000,000	4,668,324	1,847,667
Global Crossing (UK) Ltd., 10.75%, Dec 15, 2014	16,660,000	18,976,677	17,129,449

(continued)

**CHOU ASSOCIATES FUND**  
**STATEMENT OF INVESTMENTS**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

	No. of Shares or Par Value	Cost	Market Value
<b>BONDS (continued)</b>			
Level 3 Comm. Inc., 6.0%, Mar 15, 2010	25,750,000	18,951,337	24,370,647
Level 3 Comm. Inc., 6.0%, Sep 15, 2009	13,523,000	8,601,386	13,211,604
The McClatchy Company, 7.125%, June 1, 2011	4,659,000	3,792,264	4,209,283
Overstock.com Inc., 3.75%, Dec 1, 2011	6,825,000	5,483,607	5,003,972
Primus Telecomm., 14.25%, May 20, 2011	23,500,000	<u>27,185,455</u>	<u>21,291,432</u>
		<u>135,611,081</u>	<u>134,529,839</u>
<b>TOTAL EQUITIES AND BONDS</b>		569,786,519	541,578,179
<b>DERIVATIVES (Schedule 1)</b>		(378,416)	(123,687)
<b>TRANSACTION COSTS</b>		<u>(870,591)</u>	<u>-</u>
<b>PORTFOLIO TOTAL</b>		<u>\$ 568,537,512</u>	<u>\$ 541,454,492</u>

\* Common shares unless indicated otherwise

**CHOU ASSOCIATES FUND**  
**SCHEDULE OF DERIVATIVES**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

**Schedule 1**

Written Call Options	Expiry Date	Strike Price	Number	Cost	Market Value
Overstock.com Inc.	Jan 2009	\$ 45.00	810	\$ (378,416)	\$ (123,687)

**FOREIGN CURRENCY FORWARD CONTRACTS**

Amount sold USD	Amount bought CDN	Maturity	Contract Cost	Market Value	Unrealized Gain
\$146,756,677	\$ 150,000,000	December 10, 2008	\$149,398,035	\$149,739,384	\$ 341,349

**CHOU ASSOCIATES FUND**  
**Discussion of Financial Risk Management (Note 3)**  
**(Unaudited)**

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**Risk Management**

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of U.S. and foreign businesses considered by the Manager to be undervalued. The Fund may also invest in the equity securities of Canadian businesses. Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term indebtedness.

The investment strategy follows a strong discipline with regard to price paid to acquire portfolio investments. The level of investment in a company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by various factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

**Credit Risk**

As of June 30, 2008, the Fund invested approximately 20% of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from S&P and Fitch. These credit ratings denote that the company's financial position is weak and its bonds should be considered as a speculative investment.

**Interest Risk**

Interest rate risk arises from the affect of changes in interest rates on future cash flows or the current value of financial instruments. The table below summarizes the Fund's exposure to interest rate risks by remaining term to maturity.

Debt Instruments by Maturity Date:

Less than 1 year	\$ 3,695,333
1-3 years	\$ 113,705,058
3-5 years	\$ 0
Greater than 5 years	\$ 17,129,449

**CHOU ASSOCIATES FUND**  
**Discussion of Financial Risk Management (Note 3) (continued)**  
**(Unaudited)**

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**Other Price Risk**

The impact on net assets of the Fund due to a 1 percent change in benchmark, using historical correlation between the Fund's return as compared to the return of the Fund's benchmark, as at June 30, 2008, with all other variables held constant, is included in the following table. The analysis uses 20 data points based on the quarterly net returns of the Series A units of the Fund. The returns of the other series of units of the Fund are substantially similar to that of the Series A units save for differences in expense structure.

Benchmark	Impact on NAV
S&P 500 Total Return Index	\$ 36,707,000

The historical correlation may not be representative of the future correlation, and accordingly the impact on net assets could be materially different.

**Foreign Currency Risk**

Currencies to which the Fund had exposure as at June 30, 2008, are as follows:

	Financial Instruments (\$)	Percentage of NAV(%)
United States Dollar	564,285,000	85.7%
Euro Currency	54,777,000	8.4%
Sterling Pound	8,273,000	1.3%

The amounts on the above table are based on the market value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets (including dividends and interest receivables and receivables for investments sold) and financial liabilities (including payable and for investments purchased) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

As at June 30, 2008, approximately 23% of the Fund's net assets is hedged against the US dollar. If the Canadian dollar had strengthened or weakened by 1% in relation to all currencies with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$4,729,000.

In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

# CHOU ASIA FUND

August 15, 2008

Dear Unitholders of Chou Asia Fund,

The net asset value (“NAVPU” or “NAV”) of a Series A unit of Chou Asia Fund at June 30, 2008 was \$16.71 compared to \$15.55 at December 31, 2007, an increase of 7.5% while the MSCI AC (Morgan Stanley Capital International All Country) Asia Pacific Total Return Index in Canadian dollars was down 9.8%. In \$US, a Series A unit of Chou Asia Fund returned 4.4% while the MSCI AC Asia Pacific Total Return Index was down 12.2%.

The table shows our six month, 1 year, 3 year and since inception compound rates of return.

June 30, 2008 (Series A)	<b>6 Month</b>	<b>1 Year</b>	<b>3 Years</b>	<b>Since Inception</b>
Chou Asia (\$Cdn)	7.5%	6.0%	14.8%	14.1%
MSCI AC Asia Pacific TR (\$Cdn)	-9.8%	-12.2%	6.8%	7.4%
Chou Asia (\$US) <sup>1</sup>	4.4%	10.7%	22.1%	20.9%
MSCI AC Asia Pacific TR (\$US)	-12.2%	-8.4%	13.7%	14.0%

Rates of return are historical total returns including changes in unit prices and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and which could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

Major positive contributors to the Fund’s performance were UTStarcom Inc., a telecommunications company; Chunghwa Telecom Company, the largest telecom services provider in Taiwan; and Sankyo Company Ltd, a manufacturer and seller of Pachinko and Pachisuro slot machines in Japan.

We suffered declines in Hanfeng Evergreen Inc., Glacier Ventures International Corporation, and Sears Holdings Corporation.

We are fortunate that we have avoided the bloodbath in the Asian markets. Our high average cash holding of 60% of net assets now gives us the wherewithal to purchase stocks at bargain prices in Asia. Our focus at this time is in Japan. China does not look cheap in spite of their markets being down more than 50% this year-to-date. While waiting for opportunities, instead of having our cash sit in low yielding treasuries, the Fund may start investing in corporate debts, preferably the ones that are rated non-investment grade.

FOREIGN CURRENCY HEDGING: As at August 15, 2008, the amount hedged against the U.S. dollar was approximately 12% of the portfolio.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in \$US can now do so.

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<sup>1</sup> The alternative method of purchasing Chou Asia Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US equivalent conversion of the results of the Chou Asia Fund (\$Cdn). The investments in the Chou Asia Fund (\$Cdn) are the same as the investments in Chou Asia Fund (\$US) except for the currency applied.

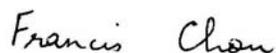
INDEPENDENT REVIEW COMMITTEE (IRC): The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Bruce Kerr and Joe Tortolano. The IRC report is posted on our website [www.choufunds.com](http://www.choufunds.com). Hardcopies are available, upon request, by contacting Chou Associates.

REDEMPTION FEE: 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.

OTHER: As at August 15, 2008, the NAV of a Series A unit of the Fund was \$15.50 and the cash position was 58% of net assets. The Fund is down 0.3% from the beginning of the year. In \$US, it is down 7.1%.

Except for the performance numbers of the Chou Asia Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

A handwritten signature in cursive script that reads "Francis Chou".

Francis Chou  
Fund Manager

**CHOU ASIA FUND**  
**STATEMENT OF NET ASSETS**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

	<b>2008</b>	<b>DEC 31, 2007</b>
<b>ASSETS</b>		
Cash and treasury bills	\$ 45,363,921	\$ 48,419,104
Accrued interest and dividend income	66,171	65,715
Receivable for units subscribed	18,120	42,500
Unrealized gain on foreign currency forward contracts	98,756	-
Other receivable	-	50,914
Investments	<u>37,089,732</u>	<u>27,814,567</u>
	<u>82,636,700</u>	<u>76,392,800</u>
<b>LIABILITIES</b>		
Accrued expenses	123,687	117,142
Payable for units redeemed	60,896	148,419
Distributions payable	<u>-</u>	<u>70,252</u>
	<u>184,583</u>	<u>335,813</u>
<b>NET ASSETS</b>	<u>\$ 82,452,117</u>	<u>\$ 76,056,987</u>

**NET ASSETS, BY SERIES**

Series A	\$ 80,345,982	\$ 74,106,334
Series F	<u>2,106,135</u>	<u>1,950,653</u>
	<u>\$ 82,452,117</u>	<u>\$ 76,056,987</u>

**NUMBER OF UNITS OUTSTANDING** (Note 4)

Series A	4,810,171	4,784,598
Series F	<u>125,410</u>	<u>125,524</u>

**NET ASSET VALUE PER UNIT**

**Canadian dollars**

Series A	\$ 16.70	\$ 15.49
Series F	\$ 16.79	\$ 15.54

**U.S. dollars**

Series A	\$ 16.41	\$ 15.66
Series F	\$ 16.50	\$ 15.71

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

*Francis Chou*

*Tracy Chou*

**CHOU ASIA FUND**  
**STATEMENT OF OPERATIONS**  
**FOR THE PERIOD ENDED JUNE 30, 2008**  
(Unaudited)

	2008	2007
<b>INVESTMENT INCOME</b>		
Interest	\$ 657,041	\$ 573,985
Dividends	236,001	117,164
Income from derivatives	62,764	124,625
Interest from securities lending	<u>58,604</u>	<u>-</u>
	<u>1,014,410</u>	<u>815,774</u>
<b>EXPENSES</b>		
Management fees (Note 6)	602,678	422,154
Custodian fees	35,738	26,217
Foreign withholding taxes	16,805	14,156
Audit	7,432	11,496
Filing fees	3,576	1,303
Independent review committee fees	3,211	-
FundSERV fees	2,525	1,566
Legal	<u>1,229</u>	<u>1,914</u>
	<u>673,194</u>	<u>478,806</u>
<b>NET INVESTMENT INCOME FOR THE PERIOD</b>	<u>341,216</u>	<u>336,968</u>
<b>NET REALIZED AND UNREALIZED GAIN AND TRANSACTION COSTS</b>		
Transaction costs	(13,180)	(12,189)
Net realized gain on sale of investments	842,790	503,027
Unrealized gain	<u>4,730,682</u>	<u>7,701,015</u>
	<u>5,560,292</u>	<u>8,191,853</u>
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>	<u>\$ 5,901,508</u>	<u>\$ 8,528,821</u>
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>		
Series A	\$ 5,761,642	\$ 8,120,998
Series F	<u>139,866</u>	<u>407,823</u>
	<u>\$ 5,901,508</u>	<u>\$ 8,528,821</u>
<b>INCREASE IN NET ASSETS FROM OPERATIONS, PER UNIT</b>		
Series A	\$ 1.20	\$ 2.49
Series F	<u>\$ 1.20</u>	<u>\$ 2.53</u>

**CHOU ASIA FUND**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE PERIOD ENDED JUNE 30, 2008**  
(Unaudited)

	<b>2008</b>	<b>2007</b>
<b>SERIES A</b>		
<b>NET ASSETS</b> , beginning of the period	\$ 74,106,334	\$ 41,889,091
Change in accounting policy (Note 2(a))	-	(39,439)
	<u>74,106,334</u>	<u>41,849,652</u>
Increase in net assets from operations	5,761,642	8,120,998
Proceeds from issue of units	5,911,200	15,018,352
Payments on redemption of units	(5,433,194)	(1,692,190)
Distribution of income to unitholders		
Investment income	-	-
Reinvested distributions	-	-
	<u>80,345,982</u>	<u>63,296,812</u>
<b>NET ASSETS</b> , end of the period		
<b>SERIES F</b>		
<b>NET ASSETS</b> , beginning of the period	1,950,653	1,960,684
Change in accounting policy (Note 2(a))	-	(1,832)
	<u>1,950,653</u>	<u>1,958,852</u>
Increase in net assets from operations	139,866	407,823
Proceeds from issue of units	592,405	834,701
Payments on redemption of units	(576,789)	(106,000)
Distribution of income to unitholders		
Investment income	-	(32,320)
Reinvested distributions	-	32,320
	<u>2,106,135</u>	<u>3,095,376</u>
<b>NET ASSETS</b> , end of the period		
<b>TOTAL NET ASSETS</b> , end of the period	\$ 82,452,117	\$ 66,392,188

**CHOU ASIA FUND**  
**STATEMENT OF INVESTMENTS**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

	No. of Shares or Par Value	Cost	Market Value
<b>SHARES*</b>			
Chintai Corporation	917	\$ 214,569	\$ 228,673
Chunghwa Telecom Company Ltd. ADR	163,409	3,225,076	4,220,301
Delta Electronics Public Company Ltd.	1,763,300	897,401	1,101,746
ElectroTech Investments Limited	647,000	231,496	183,904
Glacier Ventures International Corporation	946,579	2,556,000	3,644,329
Hanfeng Evergreen Inc.	495,750	1,182,081	6,479,453
Hutchison Telecommunications International Ltd. ADR	20,000	380,512	430,613
N.E. Chemcat Corporation	33,000	589,562	603,983
Nippon Television Network Corporation	3,110	549,841	361,681
Sankyo Company Ltd.	60,000	2,684,475	3,974,976
Sears Holdings Corporation	14,000	447,495	1,049,800
SK Telecom Company Ltd. ADR	170,000	3,795,157	3,594,450
Telecom Corporation of New Zealand Ltd. ADR	113,777	1,568,746	1,564,793
UTStarcom Inc.	1,730,000	<u>6,783,255</u>	<u>9,651,030</u>
		<u>25,105,666</u>	<u>37,089,732</u>
<b>TOTAL EQUITIES</b>		25,105,666	37,089,732
<b>TRANSACTION COSTS</b>		<u>(63,274)</u>	<u>-</u>
<b>PORTFOLIO TOTAL</b>		<u>\$ 25,042,392</u>	<u>\$ 37,089,732</u>

\* Common shares unless indicated otherwise

**CHOU ASIA FUND**  
**SCHEDULE OF DERIVATIVES**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

**FOREIGN CURRENCY FORWARD CONTRACTS**

Amount sold USD	Amount bought CDN	Maturity	Contract Cost	Market Value	Unrealized Gain
\$ 9,708,738	\$ 10,000,000	December 16, 2008	\$ 9,883,478	\$ 9,982,234	\$ 98,756

**CHOU ASIA FUND**  
**Discussion of Financial Risk Management (Note 3)**  
**(Unaudited)**

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**Risk Management**

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of Asian businesses considered by the Manager to be undervalued. Investments may be made in securities other than equities and in businesses located outside of Asia. Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term indebtedness.

The investment strategy follows a strong discipline with regard to price paid to acquire portfolio investments. The level of investment in a company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by various factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

**Credit Risk**

As of June 30, 2008, the Fund had no investments in debt instruments.

**Interest Risk**

As of June 30, 2008, the Fund had no investments in debt instruments.

**Other Price Risk**

The impact on net assets of the Fund due to a 1 percent change in benchmark, using historical correlation between the Fund's return as compared to the return of the Fund's benchmark, as at June 30, 2008, with all other variables held constant, is included in the following table. The analysis uses 19 data points based on the quarterly net returns of the Series A units of the Fund. The returns of the other series of units of the Fund are substantially similar to that of the Series A units save for differences in expense structure.

Benchmark	Impact on NAV
MSCI AC Asia Pacific Total Return Index	\$ 3,167,000

The historical correlation may not be representative of the future correlation, and accordingly the impact on net assets could be materially different.

**CHOU ASIA FUND**  
**Discussion of Financial Risk Management (Note 3) (continued)**  
**(Unaudited)**

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**Foreign Currency Risk**

Currencies to which the Fund had exposure as at June 30, 2008, are as follow:

	Financial Instruments (\$)	Percentage of NAV(%)
United States Dollar	45,890,000	55.6%
Japanese Yen	5,370,000	6.5%
Thailand Baht	1,102,000	1.3%
Singapore Dollar	207,000	0.3%

The amounts on the above table are based on the market value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets (including dividends and interest receivables and receivables for investments sold) and financial liabilities (including payable and for investments purchased) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

As at June 30, 2008, approximately 12% of the Fund's net assets is hedged against the US dollar. If the Canadian dollar had strengthened or weakened by 1% in relation to all currencies with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$422,000.

In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

## CHOU EUROPE FUND

August 15, 2008

Dear Unitholders of Chou Europe Fund,

The net asset value (“NAVPU” or “NAV”) of a Series A unit of Chou Europe Fund at June 30, 2008 was \$9.96 compared to \$11.54 at December 31, 2007, a decrease of 13.7% while the MSCI AC (Morgan Stanley Capital International All Country) Europe Total Return Index in Canadian dollars was down 9.1%. In \$US, a Series A unit of the Fund was down 16.2% while the MSCI AC Europe Total Return Index was down 11.5%.

The table shows our six month, 1 year, 3 year and since inception compound rates of return.

June 30, 2008 (Series A)	<b>6 Month</b>	<b>1 Year</b>	<b>3 Years</b>	<b>Since Inception</b>
Chou Europe (\$Cdn)	-13.7%	-23.3%	-6.2%	1.5%
MSCI AC Europe TR (\$Cdn)	-9.1%	-13.1%	8.1%	10.8%
Chou Europe (\$US) <sup>1</sup>	-16.2%	-19.9%	-0.2%	7.6%
MSCI AC Europe TR (\$US)	-11.5%	-9.4%	15.0%	17.4%

Rates of return are historical total returns including changes in unit prices and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and which could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

We purchased several retail company stocks in the United Kingdom at bargain prices, but, in hindsight, realized that we bought them too early. We underestimated the severity of the weak retail sales environment in the U.K. Some companies ran into financial difficulties in spite of having net cash in their balance sheet. Also, several insurance companies stopped providing cover to the suppliers of retail companies. As a result, many retailers, including ScS Upholstery, which we have in our portfolio, had to raise capital immediately to be able to stay in business or risk going into administration (In England, that is the terminology used for going into Chapter 11).

In the case of ScS Upholstery, its shares were delisted from trading on July 4, 2008 after the retailer said it agreed to sell its sole operating subsidiary to Sun Capital Partners. It is unlikely that there will be sufficient funds to enable any distribution to the shareholders of ScS Upholstery. The Fund wrote down its investment in ScS Upholstery to zero.

Our experience with ScS Upholstery is disappointing, to say the least. We believe that the investment in ScS Upholstery is a permanent loss of capital rather than a temporary quotational loss because of market fluctuations.

On the bright side, the retail stocks and other equities we have in the portfolio are as cheap as they have been for the last 20 years. We feel optimistic that their earning power justifies substantially higher valuations when compared to current prices.

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<sup>1</sup>The alternative method of purchasing Chou Europe Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US equivalent conversion of the results of the Chou Europe Fund (\$Cdn). The investments in the Chou Europe Fund (\$Cdn) are the same as the investments in Chou Europe Fund (\$US) except for the currency applied.

FOREIGN CURRENCY HEDGING: As at August 15, 2008, the amount hedged against the U.S. dollar was approximately 40% of the portfolio.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in \$US can now do so.

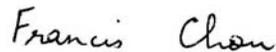
INDEPENDENT REVIEW COMMITTEE (IRC): The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Bruce Kerr and Joe Tortolano. The IRC report is posted on our website [www.choufunds.com](http://www.choufunds.com). Hardcopies are available, upon request, by contacting Chou Associates.

REDEMPTION FEE: 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.

OTHER: As at August 15, 2008, the NAV of a Series A unit of the Fund was \$9.77 and the cash position was 13% of net assets. The Fund is down 15.4% from the beginning of the year. In \$US, it is down 21.1%.

Except for the performance numbers of the Chou Europe Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

A handwritten signature in cursive script that reads "Francis Chou".

Francis Chou  
Fund Manager

**CHOU EUROPE FUND**  
**STATEMENT OF NET ASSETS**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

	<b>2008</b>	<b>DEC 31, 2007</b>
<b>ASSETS</b>		
Cash and treasury bills	\$ 2,002,675	\$ 5,176,421
Accrued interest and dividend income	100,113	12,401
Unrealized gain on foreign currency forward contracts	49,378	-
Investments	<u>10,524,044</u>	<u>9,310,816</u>
	<u>12,676,210</u>	<u>14,499,638</u>
<b>LIABILITIES</b>		
Accrued expenses	23,837	6,319
Payable for units redeemed	89,511	301,160
Distributions payable	<u>-</u>	<u>7,754</u>
	<u>113,348</u>	<u>315,233</u>
<b>NET ASSETS</b>	<b>\$ 12,562,862</b>	<b>\$ 14,184,405</b>
<b>NET ASSETS, BY SERIES</b>		
Series A	\$ 11,976,465	\$ 13,449,188
Series F	<u>586,397</u>	<u>735,217</u>
	<u>\$ 12,562,862</u>	<u>\$ 14,184,405</u>
<b>NUMBER OF UNITS OUTSTANDING (Note 4)</b>		
Series A	1,208,039	1,173,236
Series F	<u>58,725</u>	<u>63,862</u>
<b>NET ASSET VALUE PER UNIT</b>		
<b>Canadian dollars</b>		
Series A	\$ 9.91	\$ 11.46
Series F	\$ 9.99	\$ 11.51
<b>U.S. dollars</b>		
Series A	\$ 9.74	\$ 11.59
Series F	<u>\$ 9.81</u>	<u>\$ 11.64</u>

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

*Francis Chou*

*Tracy Chou*

**CHOU EUROPE FUND**  
**STATEMENT OF OPERATIONS**  
**FOR THE PERIOD ENDED JUNE 30, 2008**  
(Unaudited)

	2008	2007
<b>INVESTMENT INCOME</b>		
Dividends	\$ 199,180	\$ 26,210
Interest	119,113	318,603
Interest from securities lending	3,486	-
Income from derivatives	-	44,509
	<u>321,779</u>	<u>389,322</u>
<b>EXPENSES</b>		
Management fees (Note 6)	105,770	137,705
Foreign withholding taxes	25,622	3,358
Custodian fees	10,578	8,397
Audit	3,684	8,160
Filing fees	649	447
Independent Review Committee fees	630	-
FundSERV fees	456	538
Legal	-	2,090
	<u>147,389</u>	<u>160,695</u>
<b>NET INVESTMENT INCOME FOR THE PERIOD</b>	<u>174,390</u>	<u>228,627</u>
<b>NET REALIZED AND UNREALIZED GAIN (LOSS) AND TRANSACTION COSTS</b>		
Transaction costs	(3,381)	(6,625)
Net realized gain (loss) on sale of investments	6,423	(385,664)
Unrealized loss	(2,126,745)	(772,405)
	<u>(2,123,703)</u>	<u>(1,164,694)</u>
<b>DECREASE IN NET ASSETS FROM OPERATIONS</b>	<u>\$ (1,949,313)</u>	<u>\$ (936,067)</u>
<b>DECREASE IN NET ASSETS FROM OPERATIONS</b>		
Series A	\$ (1,854,160)	\$ (844,143)
Series F	<u>(95,153)</u>	<u>(91,924)</u>
	<u>\$ (1,949,313)</u>	<u>\$ (936,067)</u>
<b>DECREASE IN NET ASSETS FROM OPERATIONS, PER UNIT</b>		
Series A	\$ (1.52)	\$ (0.71)
Series F	<u>\$ (1.56)</u>	<u>\$ (0.71)</u>

**CHOU EUROPE FUND**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE PERIOD ENDED JUNE 30, 2008**  
(Unaudited)

	2008	2007
<b>SERIES A</b>		
NET ASSETS, beginning of the period	\$ 13,449,188	\$ 15,919,121
Change in accounting policy (Note 2(a))	<u>-</u>	<u>(7,866)</u>
	13,449,188	15,911,255
Decrease in net assets from operations	(1,854,160)	(844,143)
Proceeds from issue of units	1,867,224	2,854,992
Payments on redemption of units	<u>(1,485,787)</u>	<u>(2,036,931)</u>
NET ASSETS, end of the period	<u>11,976,465</u>	<u>15,885,173</u>
<b>SERIES F</b>		
NET ASSETS, beginning of the period	735,217	1,492,957
Change in accounting policy (Note 2(a))	<u>-</u>	<u>(737)</u>
	735,217	1,492,220
Decrease in net assets from operations	(95,153)	(91,924)
Proceeds from issue of units	9,843	688,938
Payments on redemption of units	<u>(63,510)</u>	<u>(175,626)</u>
NET ASSETS, end of the period	<u>586,397</u>	<u>1,913,608</u>
<b>TOTAL NET ASSETS, end of the period</b>	<u>\$ 12,562,862</u>	<u>\$ 17,798,781</u>

**CHOU EUROPE FUND**  
**STATEMENT OF INVESTMENTS**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

	No. of Shares or Par Value	Cost	Market Value
<b>SHARES*</b>			
Alexon Group PLC	517,738	\$ 1,130,114	\$ 676,967
AstraZeneca PLC	13,000	701,770	564,232
Clinton Cards PLC	650,000	826,716	527,073
CryptoLogic Limited	25,000	417,483	365,000
Glacier Ventures International Corporation	256,628	623,808	988,018
GlaxoSmithKline PLC	28,000	764,303	631,474
Hollinger Inc.	606,748	1,245,316	9,101
Royal Boskalis Westminster nv	14,400	149,734	783,801
Natuzzi S.p.A. ADR	72,000	706,248	233,081
Next PLC	20,000	646,019	392,872
Penn Treaty American Corporation	100,000	870,350	487,621
Ryanair Holdings PLC ADR	35,000	919,052	1,012,959
Sanofi-Aventis ADR	20,000	884,092	675,747
ScS Upholstery PLC	342,360	1,135,888	41,642
Sears Holdings Corporation	5,000	160,240	374,929
Topps Tiles PLC	370,000	513,589	510,045
		<u>11,694,722</u>	<u>8,274,562</u>
<b>BONDS</b>			
Abitibi-Consolidated Inc., 6.276%, Jun 15, 2011	2,450,000	1,290,754	1,222,107
Global Crossing (UK) Ltd., 10.75%, Dec 15, 2014	650,000	682,335	668,316
Global Crossing (UK) Ltd., 11.75%, Dec 15, 2014	180,000	420,378	359,059
		<u>2,393,467</u>	<u>2,249,482</u>
<b>TOTAL EQUITIES AND BONDS</b>		14,088,189	10,524,044
<b>TRANSACTION COSTS</b>		<u>(26,417)</u>	<u>-</u>
<b>PORTFOLIO TOTAL</b>		<u>\$ 14,061,772</u>	<u>\$ 10,524,044</u>

\* Common shares unless indicated otherwise

**CHOU EUROPE FUND**  
**SCHEDULE OF DERIVATIVES**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

**FOREIGN CURRENCY FORWARD CONTRACTS**

<b>Amount sold USD</b>	<b>Amount bought CDN</b>	<b>Maturity</b>	<b>Contract Cost</b>	<b>Market Value</b>	<b>Unrealized Gain</b>
\$ 4,854,369	\$ 5,000,000	December 16, 2008	\$ 4,941,739	\$ 4,991,117	\$ 49,378

**CHOU EUROPE FUND**  
**Discussion of Financial Risk Management (Note 3)**  
**(Unaudited)**

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**Risk Management**

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of European businesses considered by the Manager to be undervalued. Investments may be made in securities other than equities and in businesses located outside of Europe. Investment may include common and preferred shares, convertible debentures, government and corporate bonds and short-term indebtedness.

The investment strategy follows a strong discipline with regard to price paid to acquire portfolio investments. The level of investment in a company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by various factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

**Credit Risk**

As of June 30, 2008, the Fund invested approximately 18% of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from S&P and Fitch. These credit ratings denote that the company's financial position is weak and its bonds should be considered as a speculative investment.

**Interest Risk**

Interest rate risk arises from the affect of changes in interest rates on future cash flows or the current value of financial instruments. The table below summarizes the Fund's exposure to interest rate risks by remaining term to maturity.

Debt Instruments by Maturity Date:

Less than 1 year	\$ 0
1-3 years	\$ 1,222,107
3-5 years	\$ 0
Greater than 5 years	\$ 1,027,375

**CHOU EUROPE FUND**  
**Discussion of Financial Risk Management (Note 3) (continued)**  
**(Unaudited)**

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**Other Price Risk**

The impact on net assets of the Fund due to a 1 percent change in benchmark, using historical correlation between the Fund's return as compared to the return of the Fund's benchmark, as at June 30, 2008, with all other variables held constant, is included in the following table. The analysis uses 19 data points based on the quarterly net returns of the Series A units of the Fund. The returns of the other series of units of the Fund are substantially similar to that of the Series A units save for differences in expense structure.

Benchmark	Impact on NAV
MSCI AC Europe Total Return Index	\$ -95,000

The historical correlation may not be representative of the future correlation, and accordingly the impact on net assets could be materially different.

**Foreign Currency Risk**

Currencies to which the Fund had exposure as at June 30, 2008, are as follows:

	Financial Instruments (\$)	Percentage of NAV(%)
United States Dollar	4,810,000	38.1%
Euro Currency	3,930,000	31.2%
Sterling Pound	1,161,000	9.2%

The amounts on the above table are based on the market value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets (including dividends and interest receivables and receivables for investments sold) and financial liabilities (including payable and for investments purchased) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

As at June 30, 2008, approximately 40% of the Fund's net assets is hedged against the US dollar. If the Canadian dollar had strengthened or weakened by 1% in relation to all currencies with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$50,000.

In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

## CHOU BOND FUND

August 15, 2008

Dear Unitholders of Chou Bond Fund,

The net asset value (“NAVPU” or “NAV”) of a Series A unit of Chou Bond Fund at June 30, 2008 was \$11.64 compared to \$11.46 at December 31, 2007, an increase of 1.6% while Citigroup WGBI (World Government Bond Index) All Maturities (\$Cdn) returned 7.9% and Lehman Brothers U.S. Corporate High Yield Index (\$Cdn) returned 1.5%. In \$US, a Series A unit of Chou Bond Fund was down 1.3% while Citigroup WGBI All Maturities returned 5.0% and Lehman Brothers U.S. Corporate High Yield Index was down 1.3%.

The table shows our six month, 1 year and since inception annual compound rates of return.

June 30, 2008 (Series A)	6 Month	1 Year	Since Inception
Chou Bond (\$Cdn)	1.6%	-3.5%	8.4%
Citigroup WGBI (\$Cdn)	7.9%	12.3%	1.1%
Lehman’s U.S High Yield (\$Cdn)	1.5%	-6.8%	-0.7%
Chou Bond (\$US) <sup>1</sup>	-1.3%	0.8%	14.4%
Citigroup WGBI (\$US)	5.0%	17.0%	6.7%
Lehman’s U.S High Yield (\$US)	-1.3%	-2.3%	4.3%

Rates of return are historical total returns including changes in unit prices and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and which could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### Change of Index

As of January 31, 2008 the S&P/TSX Broad Market All Corporates Total Return (“TSX”) index discontinued providing the bond index. We, therefore, embarked on a search for a new index that would be most suited to measure against Chou Bond Fund.

The Fund now uses a new index provider, the Lehman Brothers U.S. Corporate High Yield Index, as a benchmark for performance measurement. The Lehman Brothers index replaces the Fund’s use of the TSX index commencing this reporting period. It will also replace our use of the Citigroup WGBI All Maturities (\$CDN) (“WGBI”) index commencing the next reporting period.

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<sup>1</sup> The alternative method of purchasing Chou Bond Fund in \$US has been offered since September 2005. The investments in the Chou Bond Fund (\$Cdn) are the same as the investments in Chou Bond Fund (\$US) except for the currency applied.

From inception to December 31, 2007, the Fund had 60% of its assets invested in cash equivalents (mostly short term government treasuries). The remaining 40% of assets were invested in non-investment grade corporates. The percentage of investment in cash equivalents reflected the fact that we could not find enough debt securities to invest in that met our margin of safety and investment criteria. The indices that we used, and considered to be the most appropriate measurement against the Chou Bond Fund, were TSX and WGBI. The TSX index measures the investment grade debt issues of Canadian companies. The WGBI includes some of the largest and most liquid government bond markets globally with at least an investment grade rating.

Since the subprime crisis began we continue to find many opportunities for investing, and currently the Fund has more than 70% of its assets invested in U.S. dollar-denominated corporate debt securities, which are considered to be high yield non-investment grade. We found Lehman Brothers U.S. Corporate High Yield Index to be the most appropriate match as the index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.

Lehman Brothers Fixed Income Indices have been voted No. 1 Bond Market Index provider in the U.S. by *Institutional Investor* magazine since rankings began in 1997 and also have been voted top index provider by *Credit* magazine since 2004. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Bal/BB+/BB+ or below. The index excludes Emerging Markets debt. The index was created in 1986, with index history backfilled to January 1, 1983.

### **General Comments on the Market**

The subprime meltdown has directly and indirectly affected the prices of almost all debt securities indiscriminately. As a result, we are finding some highly mispriced debt securities that have the potential to give equity-like returns. We are constantly getting calls from desperate sellers who are dumping securities onto the market. We are trying to buy them as cheaply as possible. One of the consequences of buying them as cheaply as possible is that it can depress other debt securities with similar characteristics and ratings (non-investment grade). Since the Fund holds non-investment grade securities, the NAV of the Fund will be depressed temporarily (partially due to our action). In the short-term we may be adversely affected but it will likely benefit us in the long run. Our philosophy is that the cheaper you buy, the higher the return.

### **Other Matters**

**FOREIGN CURRENCY HEDGING:** As at August 15, 2008, the amount hedged against the U.S. dollar was approximately 56% of the portfolio.

**U.S. DOLLAR VALUATION:** Any investor who wishes to purchase the Chou Funds in \$US can now do so.

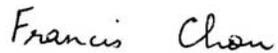
**INDEPENDENT REVIEW COMMITTEE (IRC):** The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Bruce Kerr and Joe Tortolano. The IRC report is posted on our website [www.choufunds.com](http://www.choufunds.com). Hardcopies are available, upon request, by contacting Chou Associates.

REDEMPTION FEE: 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.

OTHER: As at August 15, 2008, the NAV of a Series A unit of the Fund was \$11.69 and the cash position was 18% of net assets. The Fund is up 2.1% from the beginning of the year. In \$US, it is down 4.8%.

Except for the performance numbers of the Chou Bond Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

A handwritten signature in cursive script that reads "Francis Chou".

Francis Chou  
Fund Manager

**CHOU BOND FUND**  
**STATEMENT OF NET ASSETS**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

	<b>2008</b>	<b>DEC 31, 2007</b>
<b>ASSETS</b>		
Cash and treasury bills	\$ 26,305,545	\$ 51,045,510
Accrued interest income	1,330,520	497,824
Receivable for units subscribed	279,300	94,679
Unrealized gain on foreign currency forward contracts	113,783	-
Investments	<u>65,738,617</u>	<u>35,498,731</u>
	<u>93,767,765</u>	<u>87,136,744</u>
<b>LIABILITIES</b>		
Accrued expenses	103,798	101,168
Due to broker	3,371,447	-
Payable for units redeemed	468,064	112,158
Distributions payable	<u>-</u>	<u>67,192</u>
	<u>3,943,309</u>	<u>280,518</u>
<b>NET ASSETS</b>	<u>\$ 89,824,456</u>	<u>\$ 86,856,226</u>

**NET ASSETS, BY SERIES**

Series A	\$ 77,790,731	\$ 76,252,319
Series F	<u>12,033,725</u>	<u>10,603,907</u>
	<u>\$ 89,824,456</u>	<u>\$ 86,856,226</u>

**NUMBER OF UNITS OUTSTANDING (Note 4)**

Series A	6,684,490	6,660,305
Series F	<u>1,033,006</u>	<u>925,972</u>

**NET ASSET VALUE PER UNIT**

**Canadian dollars**

Series A	\$ 11.64	\$ 11.45
Series F	\$ 11.65	\$ 11.45

**U.S. dollars**

Series A	\$ 11.43	\$ 11.58
Series F	\$ 11.44	\$ 11.58

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

*Francis Chou*

*Tracy Chou*

**CHOU BOND FUND**  
**STATEMENT OF OPERATIONS**  
**FOR THE PERIOD ENDED JUNE 30, 2008**  
**(Unaudited)**

	<b>2008</b>	<b>2007</b>
<b>INVESTMENT INCOME</b>		
Interest	\$ 2,964,111	\$ 1,691,852
Dividends	104,015	-
	<u>3,068,126</u>	<u>1,691,852</u>
<b>EXPENSES</b>		
Management fees (Note 6)	525,589	388,064
Custodian fees	41,505	31,148
Foreign withholding taxes	8,949	2,394
Audit	7,433	11,580
Filing fees	4,155	1,518
Independent Review Committee fees	3,684	-
FundSERV fees	2,933	1,952
Legal	1,376	1,590
	<u>595,624</u>	<u>438,246</u>
<b>NET INVESTMENT INCOME FOR THE PERIOD</b>	<u>2,472,502</u>	<u>1,253,606</u>
<b>NET REALIZED AND UNREALIZED GAIN (LOSS) AND TRANSACTION COSTS</b>		
Transaction costs	(888)	(2,750)
Net realized gain (loss) on sale of investments	94,353	(82,420)
Unrealized loss	(1,304,522)	(662,850)
	<u>(1,211,057)</u>	<u>(748,020)</u>
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>	<u>\$ 1,261,445</u>	<u>\$ 505,586</u>
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>		
Series A	\$ 1,076,435	\$ 428,879
Series F	185,010	76,707
	<u>\$ 1,261,445</u>	<u>\$ 505,586</u>
<b>INCREASE IN NET ASSETS FROM OPERATIONS, PER UNIT</b>		
Series A	\$ 0.16	\$ 0.09
Series F	\$ 0.19	\$ 0.12

**CHOU BOND FUND**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE PERIOD ENDED JUNE 30, 2008**  
(Unaudited)

	2008	2007
<b>SERIES A</b>		
<b>NET ASSETS</b> , beginning of the period	\$ 76,252,319	\$ 31,776,231
Change in accounting policy (Note 2(a))	<u>-</u>	<u>(17,854)</u>
	76,252,319	31,758,377
Increase in net assets from operations	1,076,435	428,879
Proceeds from issue of units	9,215,782	45,917,649
Payments on redemption of units	(8,753,805)	(3,090,637)
Reinvested distributions	<u>-</u>	<u>99</u>
<b>NET ASSETS</b> , end of the period	<u>77,790,731</u>	<u>75,014,367</u>
<b>SERIES F</b>		
<b>NET ASSETS</b> , beginning of the period	10,603,907	4,595,162
Change in accounting policy (Note 2(a))	<u>-</u>	<u>(2,582)</u>
	10,603,907	4,592,580
Increase in net assets from operations	185,010	76,707
Proceeds from issue of units	2,997,567	5,699,207
Payments on redemption of units	(1,752,759)	(261,118)
Reinvested distributions	<u>-</u>	<u>-</u>
<b>NET ASSETS</b> , end of the period	<u>12,033,725</u>	<u>10,107,376</u>
<b>TOTAL NET ASSETS</b> , end of the period	<u>\$ 89,824,456</u>	<u>\$ 85,121,743</u>

**CHOU BOND FUND**  
**STATEMENT OF INVESTMENTS**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

	No. of Units or Par Value	Cost	Market Value
<b>SHARES*</b>			
Doral Financial Corporation, preferred	5,000	\$ 806,956	\$ 472,733
Rainmaker Income Fund, trust units	200,000	664,000	430,000
SFK Pulp Fund, trust units	1,183,400	2,385,908	2,366,800
Tembec Holdings Inc.**	180,633	<u>1,163,905</u>	<u>634,022</u>
		<u>5,020,769</u>	<u>3,903,555</u>
<b>BONDS</b>			
Abitibi-Consolidated Inc., 7.75%, Jun 15, 2011	2,000,000	1,617,322	1,017,998
Abitibi-Consolidated Inc., 6.276%, Jun 15, 2011	5,000,000	2,534,706	2,494,096
Abitibi-Consolidated Inc., 8.55%, Aug 1, 2010	7,915,000	4,642,158	4,834,473
CanWest MediaWorks LP, 9.25%, Aug 1, 2015	2,000,000	1,707,920	1,689,877
Catalyst Paper (Norske Skog) 8.625%, Jun 15, 2011	3,775,000	2,841,824	3,266,502
Clarke Inc., 6.0%, convertible, Dec. 31, 2013	300,000	370,746	299,250
Expressjet Holdings, 4.25%, conv., Aug 1, 2023	5,000,000	4,194,350	3,512,094
Glacier Ventures Int'l Corp., 13.0%, Sep 15, 2011	1,670,000	1,670,000	1,670,000
Global Crossing (UK) Ltd., 10.75%, Dec 15, 2014	190,000	199,872	195,354
GMAC, 4.10%, Mar 15, 2009	95,000	89,354	90,979
GMAC, 5.10%, Aug 15, 2009	67,000	63,614	57,208
GMAC, 5.20%, Nov 15, 2009	100,000	94,299	87,039
GMAC, 5.25%, Aug 15, 2009	100,000	95,854	86,784
GMAC, 5.25%, Jun 15, 2009	78,000	74,855	69,161
Hollinger Inc., 11.875%, Mar 1, 2011	680,000	771,244	103,836
Hollinger Inc., 12.875%, Mar 1, 2011	1,192,000	1,303,069	279,094
Interstate Bakeries Inc., 6.0%, Aug 15, 2014	500,000	506,645	127,250
James River Coal Co., 9.375%, Jun 1, 2012	3,000,000	2,525,876	3,023,455
JetBlue Airway 3.75%, conv., Mar 15, 2035	2,500,000	1,647,104	1,625,998
Knight Ridder Inc., 5.75%, Sep 1, 2017	5,000,000	3,381,806	3,303,404
Level 3 Comm., 2.875%, conv., Jul 15, 2010	1,950,000	1,408,372	1,727,451
Level 3 Comm., 6.0%, Mar 15, 2010	5,550,000	4,672,852	5,252,703
Level 3 Financing Inc., 12.25%, Mar 15, 2013	2,000,000	1,916,443	2,066,536
The McClatchy Company, 9.875%, Apr 15, 2009	55,000	78,016	55,710
The McClatchy Company, 6.875%, Mar 15, 2029	5,000,000	2,984,618	3,283,044
Nortel Networks Ltd., 10.75%, Jul 15, 2016	2,000,000	1,962,841	2,020,726
Overstock.com Inc., 3.75%, Dec 1, 2011	2,295,000	1,762,555	1,682,654
Pinnacle Airline Corp. 3.25%, Feb 15, 2025	5,000,000	3,289,008	3,308,494
Primus Telecomm. Group, 3.75%, Sep 15, 2010	5,500,000	3,189,831	2,491,551
Primus Telecomm. Group, 14.25%, May 20, 2011	4,781,000	5,298,747	4,331,673
Rewards Networks Inc., 3.25%, Oct 15, 2023	3,750,000	3,386,601	3,702,968
Taiga Building Products Ltd., 14.0%, Sep 1, 2020	1,712,000	1,705,899	1,498,856

(continued)

**CHOU BOND FUND**  
**STATEMENT OF INVESTMENTS**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

	No. of Units or Par Value	Cost	Market Value
<b>BONDS (continued)</b>			
Tembec, 9.381%, Feb 12, 2012	625,000	637,118	591,711
Texas Comp. Electric, 10.25%, Nov 1, 2015	2,000,000	<u>1,932,609</u>	<u>1,987,133</u>
		<u>64,558,128</u>	<u>61,835,062</u>
<b>TOTAL EQUITIES AND BONDS</b>		69,578,897	65,738,617
<b>TRANSACTION COSTS</b>		<u>(11,149)</u>	<u>-</u>
<b>PORTFOLIO TOTAL</b>		<u>\$ 69,567,748</u>	<u>\$ 65,738,617</u>

\* Common shares unless indicated otherwise

\*\* Shares received from recapitalization of Tembec notes

**CHOU BOND FUND**  
**SCHEDULE OF DERIVATIVES**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

**FOREIGN CURRENCY FORWARD CONTRACTS**

Amount sold USD	Amount bought CDN	Maturity	Contract Cost	Market Value	Unrealized Gain
\$ 48,918,892	\$ 50,000,000	December 10, 2008	\$ 49,799,345	\$ 49,913,128	\$ 113,783

**CHOU BOND FUND**  
**Discussion of Financial Risk Management (Note 3)**  
**(Unaudited)**

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**Risk Management**

The Fund's objective is to provide conservation of principal and income production with capital appreciation as a secondary consideration. The Fund invests primarily in Canadian and US bonds. These bonds include, but are not limited to, Government of Canada, provincial, municipal and corporate issues, including convertibles and high yield bonds. Investments may be made in bonds outside of Canada and the U.S.

The investment strategy follows a strong discipline with regard to price paid to acquire portfolio investments. The level of investment in a company's debt securities is generally commensurate with the current price of the company's debt securities in relation to its intrinsic value as determined by various factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

**Credit Risk**

As of June 30, 2008, the Fund invested approximately 70% of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from S&P and Fitch. These credit ratings denote that the company's financial position is weak and its bonds should be considered as a speculative investment.

**Interest Risk**

Interest rate risk arises from the affect of changes in interest rates on future cash flows or the current value of financial instruments. The table below summarizes the Fund's exposure to interest rate risks by remaining term to maturity.

Debt Instruments by Maturity Date:

Less than 1 year	\$ 0
1-3 years	\$ 29,598,912
3-5 years	\$ 5,681,703
Greater than 5 years	\$ 26,554,448

**CHOU BOND FUND**  
**Discussion of Financial Risk Management (Note 3) (continued)**  
**(Unaudited)**

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**Other Price Risk**

The impact on net assets of the Fund due to a 1 percent change in benchmark, using historical correlation between the Fund's return as compared to the return of the Fund's benchmark, as at June 30, 2008, with all other variables held constant, is included in the following table. The analysis uses 12 data points based on the quarterly net returns of the Series A units of the Fund. The returns of the other series of units of the Fund are substantially similar to that of the Series A units save for differences in expense structure.

Benchmark	Impact on NAV
Citigroup WGBI All Maturities	\$ 2,605,000

The historical correlation may not be representative of the future correlation, and accordingly the impact on net assets could be materially different.

**Foreign Currency Risk**

Currencies to which the Fund had exposure as at June 30, 2008, are as follows:

	Financial Instruments (\$)	Percentage of NAV(%)
United States Dollar	72,014,000	78.2%

The amounts on the above table are based on the market value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets (including dividends and interest receivables and receivables for investments sold) and financial liabilities (including payable and for investments purchased) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

As at June 30, 2008, approximately 56% of the Fund's net assets is hedged against the US dollar. If the Canadian dollar had strengthened or weakened by 1% in relation to all currencies with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$215,000.

In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

## CHOU RRSP FUND

August 15, 2008

Dear Unitholders of Chou RRSP Fund,

The net asset value (“NAVPU” or “NAV”) of a Series A unit of Chou RRSP Fund at June 30, 2008 was \$24.29 compared to \$28.28 at December 31, 2007, a decrease of 14.1% while the S&P/TSX Total Return Index was up 6.0%. In \$US, a Series A unit of Chou RRSP Fund was down 16.6% while the S&P/TSX Total Return Index was up 3.2%.

The table shows our six month, 1 year, 3 year, 5 year, 10 year and 15 year annual compound rates of return.

June 30, 2008 (Series A )	6 Month	1 Year	3 Years	5 Years	10 Years	15 Years
Chou RRSP (\$Cdn)	-14.1%	-25.5%	-2.5%	3.6%	8.5%	11.9%
S&P/TSX (\$Cdn)	6.0%	6.7%	16.2%	18.2%	9.0%	11.1%
Chou RRSP (\$US) <sup>1</sup>	-16.6%	-22.2%	3.7%	9.7%	12.6%	13.8%
S&P/TSX (\$US)	3.2%	11.1%	23.6%	25.0%	13.0%	12.8%

Rates of return are historical total returns including changes in unit prices and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and which could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### Factors Influencing the first Six Months’ Results

**MEDIA COMPANIES:** We purchased several media stocks. In hindsight, we bought them too early. But we still believe the prices we paid for them were bargain prices. The weak U.S. economy and subprime crisis are impacting advertising and circulation revenues much more than expected and, as a result, investors are putting much lower valuations on media properties. However, in spite of those problems, the companies are still generating fairly decent free cash flow, albeit at lower levels. Their franchise values have undoubtedly weakened but based on criteria such as multiples of free cash flow per share and private market transactions, they are priced as if no one will be reading newspapers or watching television by the end of the year. We believe that the reports of their imminent demise are greatly exaggerated. We feel optimistic that their earning power, although clearly less than in the past, justifies substantially higher valuations when compared to current prices.

**ROUND TRIPS:** For the year 2007 and the first six months of 2008, we took more than our fair share of “round trips.” Some of the undervalued stocks we bought did appreciate to close to fair value, but unfortunately we hung on for too long. In hindsight, it would have been better to sell them a bit earlier rather than wait for the last 5% to 10% of appreciation which would have brought them right up to fair value.

Major positive contributors to the Fund’s performance for the period were Overstock.com and King Pharmaceuticals.

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<sup>1</sup> The alternative method of purchasing Chou RRSP Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US equivalent conversion of the results of the Chou RRSP Fund (\$Cdn). The investments in the Chou RRSP Fund (\$Cdn) are the same as the investments in Chou RRSP Fund (\$US) except for the currency applied.

## **General Comments on the Market**

As the subprime meltdown and the bursting of the credit bubble play themselves out, they directly and indirectly affect the prices of almost all debt and equity securities indiscriminately, and as such, the market will likely continue to be highly volatile for the remainder of the year. Therefore, the unit value of our Fund will also be volatile.

We are finding bargains in three sectors: retail, media and pharmaceuticals. One may entertain the idea of adding financial companies to this group, but I believe that the crisis is still in the early to middle stages. The subprime problem has now spread to Alternate A borrowers (between subprime and prime) and to a lesser degree, prime borrowers. It is estimated that the writedowns from the subprime related mess will exceed one trillion dollars. The subprime debacle has taken on a life of its own, and the word subprime is now associated with so many financial, liquidity and credit problems that it has become, practically, a part of our business lingo. For example, “He subprimed the deal” meaning he messed up the deal.

On the positive side several financial companies are cheap, however on the negative side there are two situations that can occur. The first is that some companies are in dire need of funds to shore up their capital, and are practising what I’ve coined, “the ‘DROP’ principle” on unsuspecting investors. (D is for dribbling out the bad news slowly, R is for raising money, and OP is for dishing out the most optimistic projections.) Once the money has been raised from investors, these companies will announce (a few months later) ‘the big drop’ – that is, taking a big writedown.

The second situation is that there are good financial companies that get caught in short term funding problems – through no fault of their own – and have had to raise money urgently regardless of their undervalued share price. This action to sell equity securities (including convertibles) at an undervalued price can be so dilutive that the intrinsic value instantaneously drops closer to the price at which they first started to raise the money. Unfortunately, in the first months of 2008 we have seen evidence of both scenarios.

In general, at this time, we are avoiding financial companies whose problems are difficult to quantify, but are on the lookout for companies that either have problems we understand and can quantify and/or have been somewhat tainted by association with the subprime problems.

With regard to our portfolio, we have not done well for the past couple of years, both on an absolute level and relative to the market. But the equities we have in the portfolio are as cheap as they have been for the last 20 years. Based on our experience, we feel confident that they will likely do well in the future. We believe that patience is a virtue in value investing and eventually ‘Value will out’ in the future.

## **Hedging Currency for the Long Term – Partial Capitulation to Currency Volatility**

In our 2007 annual letter, dated March 12, 2008 we wrote, “Our bias at this time is ‘not’ to hedge because we believe that the Canadian dollar is trading in the range of fair value..... The only time where we may be inclined to hedge the currency is during a period of extreme undervaluation. So for now, be prepared for a bit of a bumpy ride, and some extra volatility, but take into account the results of the aforementioned studies which indicate that (at least in the past) it all evens out in the long run. And remember, hedging currencies comes with a cost.....about 1% a year”.

Since that time we’ve done a partial about face. We realized that when you are running a mutual fund, the degree of volatility your unitholders can stomach should be taken into consideration. While the effect on long term results may be statistically insignificant, on a year-to-year basis, currency swings can truly distort results. These swings can be heart stopping, particularly for our unitholders, and especially when the currency goes against them. This was evident with the Fund in 2007. A considerable amount of management time was spent explaining to anxious unitholders how currency swings distorted the 2007 results.

And so, as at August 15, 2008, we have forward currency contracts in which we agreed to buy Canadian dollars and sell US dollars in December of 2008. The amount hedged is approximately 25% of the portfolio. Hopefully, this will make the results less bumpy over the years.

As you are aware, we do offer an alternative to investors who believe strongly that the Canadian dollar is going to strengthen considerably against the U.S. dollar. We offer units of the Fund in U.S. dollars, and investors can switch the units denominated in Canadian dollars to U.S. dollars without any penalty, charges, or incurring a capital gain or loss in so doing.

### **Credit Default Swaps (CDS)**

We haven't bought any CDS yet. We missed some great buys while we were waiting for regulatory approvals but we believe we will have other chances in the future.

### **Other Matters**

FOREIGN CURRENCY HEDGING: None existed as at June 30, 2008 but as at August 15, 2008 the amount hedged against the U.S. dollar was approximately 25% of the portfolio.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in \$US can now do so.

INDEPENDENT REVIEW COMMITTEE (IRC): The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Bruce Kerr and Joe Tortolano. The IRC report is posted on our website [www.choufunds.com](http://www.choufunds.com). Hardcopies are available, upon request, by contacting Chou Associates.

REDEMPTION FEE: 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.

OTHER: As at August 15, 2008, the NAV of a Series A unit of the Fund was \$24.54 and the cash position was approximately 1% of net assets. The Fund is down 13.2% from the beginning of the year. In \$US, it is down 19.1%.

Except for the performance numbers of the Chou RRSP Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,



Francis Chou  
Fund Manager

**CHOU RRSP FUND**  
**STATEMENT OF NET ASSETS**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

	<b>2008</b>	<b>DEC 31, 2007</b>
<b>ASSETS</b>		
Cash and treasury bills	\$ 3,084,106	\$ 18,527,380
Accrued interest and dividend income	1,091,399	589,031
Receivable for units subscribed	61,097	22,170
Investments	<u>203,577,401</u>	<u>263,384,677</u>
	<u>207,814,003</u>	<u>282,523,258</u>
<b>LIABILITIES</b>		
Accrued expenses	326,263	437,797
Payable for units redeemed	949,120	619,179
Distributions payable	<u>-</u>	<u>332,525</u>
	<u>1,275,383</u>	<u>1,389,501</u>
<b>NET ASSETS</b>	<u>\$ 206,538,620</u>	<u>\$ 281,133,757</u>

**NET ASSETS, BY SERIES**

Series A	\$ 200,201,476	\$ 269,331,056
Series F	<u>6,337,144</u>	<u>11,802,701</u>
	<u>\$ 206,538,620</u>	<u>\$ 281,133,757</u>

**NUMBER OF UNITS OUTSTANDING** (Note 4)

Series A	8,304,117	9,573,239
Series F	<u>262,480</u>	<u>419,985</u>

**NET ASSET VALUE PER UNIT**

**Canadian dollars**

Series A	\$ 24.11	\$ 28.13
Series F	\$ 24.14	\$ 28.10

**U.S. dollars**

Series A	\$ 23.68	\$ 28.44
Series F	\$ 23.71	\$ 28.41

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

*Francis Chou*

*Tracy Chou*

**CHOU RRSP FUND**  
**STATEMENT OF OPERATIONS**  
**FOR THE PERIOD ENDED JUNE 30, 2008**  
(Unaudited)

	2008	2007
<b>INVESTMENT INCOME</b>		
Dividends	\$ 2,189,309	\$ 3,197,429
Interest	2,039,400	3,643,379
Income from derivatives	940,094	1,314,885
Interest from securities lending	<u>39,853</u>	<u>403,743</u>
	<u>5,208,656</u>	<u>8,559,436</u>
<b>EXPENSES</b>		
Management fees (Note 6)	1,832,224	2,707,516
Foreign withholding taxes	144,601	108,996
Custodian fees	112,541	140,201
Audit	19,268	25,667
Filing fees	11,267	8,585
Independent Review Committee fees	11,118	-
FundSERV fees	7,953	8,295
Legal	<u>1,695</u>	<u>3,967</u>
	<u>2,140,667</u>	<u>3,003,227</u>
<b>NET INVESTMENT INCOME FOR THE PERIOD</b>	<u>3,067,989</u>	<u>5,556,209</u>
<b>NET REALIZED AND UNREALIZED GAIN (LOSS) AND TRANSACTION COSTS</b>		
Transaction costs	(23,011)	(37,881)
Net realized gain on sale of investments	14,181,112	5,668,435
Unrealized gain (loss)	<u>(55,600,681)</u>	<u>3,750,275</u>
	<u>(41,442,580)</u>	<u>9,380,829</u>
<b>INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>	<u>\$ (38,374,591)</u>	<u>\$ 14,937,038</u>
<b>INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>		
Series A	\$ (36,904,058)	\$ 14,161,279
Series F	<u>(1,470,533)</u>	<u>775,759</u>
	<u>\$ (38,374,591)</u>	<u>\$ 14,937,038</u>
<b>INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS, PER UNIT</b>		
Series A	\$ (4.15)	\$ 1.50
Series F	\$ (4.63)	\$ 1.53

**CHOU RRSP FUND**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE PERIOD ENDED JUNE 30, 2008**  
(Unaudited)

	2008	2007
<b>SERIES A</b>		
<b>NET ASSETS</b> , beginning of the period	\$ 269,331,056	\$ 317,282,443
Change in accounting policy (Note 2(a))	-	(1,375,803)
	<u>269,331,056</u>	<u>315,906,640</u>
Increase (decrease) in net assets from operations	(36,904,058)	14,161,279
Proceeds from issue of units	5,503,391	27,937,393
Payments on redemption of units	(37,728,913)	(22,730,711)
Reinvested distributions	-	607
	<u>200,201,476</u>	<u>335,275,208</u>
<b>NET ASSETS</b> , end of the period		
<b>SERIES F</b>		
<b>NET ASSETS</b> , beginning of the period	11,802,701	16,460,731
Change in accounting policy (Note 2(a))	-	(71,377)
	<u>11,802,701</u>	<u>16,389,354</u>
Increase (decrease) in net assets from operations	(1,470,533)	775,759
Proceeds from issue of units	434,073	3,428,343
Payments on redemption of units	(4,429,097)	(2,098,656)
Reinvested distributions	-	-
	<u>6,337,144</u>	<u>18,494,800</u>
<b>NET ASSETS</b> , end of the period		
<b>TOTAL NET ASSETS</b> , end of the period	\$ 206,538,620	\$ 353,770,008

**CHOU RRSP FUND**  
**STATEMENT OF INVESTMENTS**  
**AS AT JUNE 30, 2008**  
**(Unaudited)**

	No. of Shares or Par Value	Cost	Market Value
<b>SHARES*</b>			
Biovail Corporation	1,310,823	\$ 24,247,186	\$ 12,859,174
BMTC Group Inc., Class A	678,956	6,584,918	11,379,303
BT Group PLC	1,150,000	4,660,963	4,657,909
CanWest Global Comm. Corporation	3,045,500	26,905,093	8,375,125
Consolidated-Tomoka Land Company	6,210	354,683	266,779
Danier Leather Inc.	969,800	9,215,066	6,012,760
Flagstone Reinsurance Holdings Ltd.	1,300,000	15,197,000	15,602,859
Fraser Papers Inc.	1,096,100	6,442,700	2,104,512
International Forest Products Ltd., Class A	1,025,500	6,098,755	5,281,325
Isotechnika Inc.	939,700	1,774,242	676,584
King Pharmaceuticals Inc.	2,199,139	22,885,543	23,439,394
Royal Boskalis Westminster nv	203,247	2,153,880	11,062,857
Liquidation World Inc.	1,155,000	5,100,958	1,628,550
MRRM Inc.	41,100	206,528	180,840
Overstock.com Inc.	715,500	14,906,146	18,901,402
Rainmaker Income Fund, trust units	2,345,800	7,690,157	5,043,470
Ridley Canada Ltd.	347,400	2,785,863	3,338,514
Symetra Financial Corporation	174,000	2,673,000	2,515,270
Taiga Building Products Ltd.	1,272,400	1,692,292	1,539,604
Torstar Corporation, Class B	1,259,616	27,567,050	15,354,719
Tri-White Corporation	193,600	1,077,639	1,345,520
TVA Group Inc., Class B	735,528	10,966,829	10,701,932
Wescast Industries Inc., Class A	88,700	2,886,263	568,567
		<u>204,072,754</u>	<u>162,836,969</u>
<b>BONDS</b>			
Abitibi-Consolidated Inc., 6.276%, Jun 15, 2011	20,000,000	10,558,590	9,976,382
Abitibi-Consolidated Inc., 8.55%, Aug 1, 2010	10,000,000	5,918,313	6,107,988
Abitibi-Consolidated Inc., 15.5%, Jul 15, 2010	6,719,000	5,128,433	5,403,545
Glacier Ventures Int'l Corp., 13.0%, Sep 15, 2011	10,330,000	10,330,000	10,330,000
Hollinger Inc., 11.875%, Mar 1, 2011	1,450,000	1,637,018	221,415
Hollinger Inc., 12.875%, Mar 1, 2011	12,568,000	14,169,350	2,942,665
Taiga Building Products Ltd., 14.0% Sep 1, 2020	6,769,168	6,769,168	5,926,407
		<u>54,510,872</u>	<u>40,908,402</u>
<b>TOTAL EQUITIES AND BONDS</b>		258,583,626	203,745,371
<b>DERIVATIVES (Schedule 1)</b>		(410,384)	(167,970)
<b>TRANSACTION COSTS</b>		(459,287)	-
<b>PORTFOLIO TOTAL</b>		<u>\$ 257,713,955</u>	<u>\$ 203,577,401</u>

\* Common shares unless indicated otherwise

**CHOU RRSP FUND**  
**SCHEDULE OF DERIVATIVES**  
**AS AT JUNE 30, 2008**  
(Unaudited)

**Schedule 1**

<b>Written Call Options</b>	<b>Expiry Date</b>	<b>Strike Price</b>	<b>Number</b>	<b>Cost</b>	<b>Market Value</b>
Overstock.com Inc.	Jan 2009	\$ 40.00	300	(118,996)	(68,715)
Overstock.com Inc.	Jan 2009	\$ 45.00	650	<u>(291,388)</u>	<u>(99,255)</u>
				<u>\$ (410,384)</u>	<u>\$ (167,970)</u>

**CHOU RRSP FUND**  
**Discussion of Financial Risk Management (Note 3)**  
**(Unaudited)**

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**Risk Management**

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of Canadian businesses considered by the Manager to be undervalued. The Fund may also invest in equity and debt instruments of U.S. and foreign businesses. Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term indebtedness.

The investment strategy follows a strong discipline with regard to price paid to acquire portfolio investments. The level of investment in a company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by various factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

**Credit Risk**

As of June 30, 2008, the Fund invested approximately 20% of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from S&P and Fitch. These credit ratings denote that the company's financial position is weak and its bonds should be considered as a speculative investment.

**Interest Risk**

Interest rate risk arises from the affect of changes in interest rates on future cash flows or the current value of financial instruments. The table below summarizes the Fund's exposure to interest rate risks by remaining term to maturity.

Debt Instruments by Maturity Date:

Less than 1 year	\$ 0
1-3 years	\$ 34,981,995
3-5 years	\$ 0
Greater than 5 years	\$ 5,926,407

**CHOU RRSP FUND**  
**Discussion of Financial Risk Management (Note 3) (continued)**  
**(Unaudited)**

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**Other Price Risk**

The impact on net assets of the Fund due to a 1 percent change in benchmark, using historical correlation between the Fund's return as compared to the return of the Fund's benchmark, as at June 30, 2008, with all other variables held constant, is included in the following table. The analysis uses 20 data points based on the quarterly net returns of the Series A units of the Fund. The returns of the other series of units of the Fund are substantially similar to that of the Series A units save for differences in expense structure.

Benchmark	Impact on NAV
S&P/TSX	\$ -4,577,000

The historical correlation may not be representative of the future correlation, and accordingly the impact on net assets could be materially different.

**Foreign Currency Risk**

Currencies to which the Fund had exposure as at June 30, 2008, are as follow:

	Financial Instruments (\$)	Percentage of NAV(%)
United States Dollar	85,517,000	41.4%
Euro Currency	11,095,000	5.3%
Sterling Pound	4,660,000	2.2%

The amounts on the above table are based on the market value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets (including dividends and interest receivables and receivables for investments sold) and financial liabilities (including payable and for investments purchased) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

As at June 30, 2008, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$1,020,000.

In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

**CHOU FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Unaudited)**

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**1. FORMATION OF CHOU FUNDS**

The individual funds comprising the family of Chou Funds (the “Chou Funds” or the “Funds”) are open-ended investment mutual fund trusts formed pursuant to Declarations of Trust under the laws of the Province of Ontario. Chou Associates Management Inc. is the Manager and Trustee of the Chou Funds.

The Funds were formed on the following dates:

Chou Associates Fund	September 1, 1986
Chou Asia Fund	August 26, 2003
Chou Europe Fund	August 26, 2003
Chou Bond Fund	August 10, 2005
Chou RRSP Fund	September 1, 1986

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**2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements, prepared in accordance with Canadian generally accepted accounting principles (GAAP), include estimates and assumptions by management that could affect the reported amount of assets, liabilities, income and expenses during the reported period. Actual results could differ from those estimated. The following is a summary of significant accounting policies followed by the Funds.

- (a) Adoption of new accounting policies - Section 3862, Financial Instruments – Disclosure and Section 3863, Financial Instruments – Presentation

As at January 1, 2008, the Funds applied the requirements of Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, Financial Instruments – Disclosure and section 3863, Financial Instruments – Presentation. These sections replace section 3861, Financial Instruments – Disclosure and Presentation and enhance existing standards regarding financial instruments disclosure and presentation (Please refer to Note 3).

- (b) Valuation of Investments

The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments – Recognition and Measurement, which applies to the interim periods and fiscal years beginning on or after October 1, 2006, requires that the fair value of financial instruments, which are actively traded, be measured based on the bid/ask price for the security. Prior to that, fair value for GAAP was based on the last traded price for the day, when available. For financial reporting purposes, starting from January 1, 2007, the Funds adopted the amended valuation policy for actively traded securities held by the Funds on a retroactive basis without restatement of prior periods. Accordingly, the opening net asset value in the Statements of Changes in Net Assets for the year ended December 31, 2007 has been adjusted.

**CHOU FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Unaudited)**

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**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

(b) Valuation of Investments (continued)

National Instrument 81-106 (“NI 81-106”), Investment Fund Continuous Disclosure, requires the daily net asset value of an investment fund to be calculated in accordance with GAAP. Notwithstanding the prescribed implementation date of Section 3855, the Canadian Securities Administrators granted interim relief to investment funds from complying with Section 3855 when calculating the daily net asset value for the purpose of processing unitholder transactions. The relief was granted to permit further review of the impact of Section 3855 and is effective until the earlier of September 30, 2008 or the date on which proposed amendments to NI 81-106 come into effect. The net asset value calculated in accordance with Section 3855 is referred to as the Fund’s net asset value for financial reporting (“GAAP Net Asset Value”). A reconciliation between the Fund’s GAAP Net Asset Value and the Fund’s net asset value for purposes other than financial reporting (“Transactional Net Asset Value”) is given in Note 7.

Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Funds be charged to net income in the period. Accordingly, these costs are expensed and are included in “Transaction costs” in the Statement of Operations. Until December 31, 2006, the Funds’ policy had been to add these expenses to the cost of the securities purchased or deduct them from the proceeds of sale. Effective January 1, 2007, the Funds adopted the new accounting policy retroactively, without restatement of prior periods.

Securities listed on a recognized public stock exchange are valued at their bid/ask prices on the valuation date. Securities with no bid/ask prices are valued at their closing sale prices. Securities not listed on a recognized public stock exchange are valued using valuation techniques, on such basis and in such manner established by the Manager.

Short-term investments are recorded at cost, which approximates market value.

(c) Security Transactions, Investment Income, Expenses and Distributions

Security transactions are recorded on the trade date. Realized gains and losses on security transactions are determined on an average cost basis. Interest income and expenses are recorded on an accrual basis. Dividend income and distributions to unitholders are recorded on the ex-dividend date and are gross of withholding taxes.

**CHOU FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Unaudited)**

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**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

(d) Foreign Currency Translation

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.
- (iii) The Funds do not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in the unrealized gain in the statement of operations.

(e) Forward Contracts

Forward contracts are agreements to purchase or sell financial instruments at a specified future date. As forward contracts are not traded on the exchange, the agreements between counter parties are not standardized. Changes in value of forward contracts are settled only on termination of the contract. Open forward contracts are revalued to fair value in the statement of net assets, based on the difference between the contract rate and the applicable forward rate to close out the contract. Change in unrealized gains and losses associated with the revaluation of open forward contracts are recorded in the statement of operations as “unrealized gain (loss)”.

Forward currency contracts manage exposure to foreign currency gains and losses arising from short and long-term investments denominated in foreign currencies.

(f) Income Taxes

The Chou Funds qualify as mutual fund trusts under the provisions of the Income Tax Act (Canada). General income tax rules apply to the Chou Funds; however, no income tax is payable by the Chou Funds on investment income and/or net realized capital gains which are distributed to unitholders. In addition, income taxes payable on undistributed net realized capital gains are refundable on a formula basis when units of the fund are redeemed. Sufficient net income and realized capital gains of the Chou Funds, have been, or will be distributed to the unitholders such that no tax is payable by the Chou Funds and accordingly no provision for taxes has been made in the financial statements.

**CHOU FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Unaudited)**

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**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

(f) Income Taxes (continued)

Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains in future years.

(g) Multi-Series Funds

Where a Fund offers more than one series of units, the realized gains/losses from sale of investments, changes in unrealized gains on investments, income and expenses that are common to the Fund as a whole are allocated daily to each series based on the proportionate share of the net asset value of the series. The proportionate share of each series is determined by adding the current day's net unitholder subscriptions of the series to the prior day's net asset value of the series. Any income or expense amounts that are unique to a particular series (for example, management fees) are accounted for separately in that particular series so as to not affect the net asset value of the other series.

(h) Valuation of Fund Units

The net asset value per unit of each series of unit of each Fund is computed by dividing the net asset value of a series of units by the total number of units of the series outstanding at the time. The net asset value per unit is determined at the close of business each Friday.

(i) Securities Lending

The Funds lend portfolio securities from time to time in order to earn additional income. Income from securities lending is included in the Statement of Operations of the Funds and is recognized on an accrual basis.

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**3. MANAGEMENT OF FINANCIAL RISKS**

The Funds' investment activities expose them to various types of risk associated with the financial instruments and markets in which they invest. The Funds' risk management goals are to ensure that the outcome of activities involving risk are consistent with the Funds' objectives and risk tolerance. The following is a summary of the main financial risks:

(a) Credit Risk

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The fair value of the debt instruments includes consideration of the credit worthiness of the issuer. Securities that have a low credit rating have high credit risk.

**CHOU FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**(Unaudited)**

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**3. MANAGEMENT OF FINANCIAL RISKS, continued**

(b) Interest Rate Risk

The Funds may invest in fixed and floating rate securities. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the current value of financial instruments. As interest rates increase, the price of these investments tends to fall. Conversely, if interest rates fall, the price of fixed income securities increases.

(c) Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and equivalents) that are denominated in a currency other than Canadian dollars. For example, a security traded in U.S. dollars will fall in value, in Canadian dollar terms, if the U.S. dollar declines in value relative to the Canadian dollar, even though there is no change to the U.S. dollar value of the security. Conversely, if the Canadian dollar falls in value relative to the U.S. dollar, there is a corresponding gain in the value of the security attributable solely to the change in the exchange rate.

(d) Liquidity Risk

Liquidity risk is the risk the Funds will encounter difficulty in meeting their obligations associated with financial liabilities. The main source of liquidity risk is unit holder redemptions. The Funds manage sufficient cash and marketable securities, and manage the liquidity risk through their ability to close out market positions, to manage this risk.

(e) Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes that are not related to currency or interest rate changes, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or market factors. The maximum risk of securities is their fair market value.

The most significant exposure to other price risk arises from investments in equity securities. The Funds' overall market positions are monitored on a daily basis by the portfolio manager. Financial instruments held by each fund are susceptible to market price risk arising from uncertainties about future prices of instruments.

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**4. UNITS OF THE FUND**

The units of the Chou Funds 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.

	Series A		Series F	
	2008	2007	2008	2007
<b>CHOU ASSOCIATES FUND</b>				
Units outstanding, beginning of the period	8,051,058	6,700,136	667,640	395,408
Add: Units issued during the period	286,742	1,702,481	62,831	226,873
Deduct: Units redeemed during the period	(635,128)	(177,364)	(104,812)	(9,913)
Units outstanding before income distribution	7,702,672	8,225,253	625,659	612,368
Add: Units issued on reinvested income	-	-	-	-
Units outstanding, end of the period	<u>7,702,672</u>	<u>8,225,253</u>	<u>625,659</u>	<u>612,368</u>
<b>CHOU ASIA FUND</b>				
Units outstanding, beginning of the period	4,784,598	2,892,966	125,524	136,072
Add: Units issued during the period	370,989	928,180	36,876	52,400
Deduct: Units redeemed during the period	(345,416)	(105,635)	(36,990)	(6,474)
Units outstanding before income distribution	4,810,171	3,715,511	125,410	181,998
Add: Units issued on reinvested income	-	-	-	-
Units outstanding, end of the period	<u>4,810,171</u>	<u>3,715,511</u>	<u>125,410</u>	<u>181,998</u>
<b>CHOU EUROPE FUND</b>				
Units outstanding, beginning of the period	1,173,236	1,137,019	63,862	107,261
Add: Units issued during the period	173,701	204,922	829	50,003
Deduct: Units redeemed during the period	(138,898)	(148,353)	(5,966)	(12,999)
Units outstanding before income distribution	1,208,039	1,193,588	58,725	144,265
Add: Units issued on reinvested income	-	-	-	-
Units outstanding, end of the period	<u>1,208,039</u>	<u>1,193,588</u>	<u>58,725</u>	<u>144,265</u>

**CHOU FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**4. UNITS OF THE FUND, continued**

	<u>Series A</u>		<u>Series F</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>CHOU BOND FUND</b>				
Units outstanding, beginning of the period	6,660,305	2,602,344	925,972	376,179
Add: Units issued during the period	789,338	3,638,913	258,553	451,426
Deduct: Units redeemed during the period	<u>(765,153)</u>	<u>(245,700)</u>	<u>(151,519)</u>	<u>(20,679)</u>
Units outstanding before income distribution	6,684,490	5,995,557	1,033,006	806,926
Add: Units issued on reinvested income	<u>-</u>	<u>8</u>	<u>-</u>	<u>-</u>
Units outstanding, end of the period	<u><u>6,684,490</u></u>	<u><u>5,995,565</u></u>	<u><u>1,033,006</u></u>	<u><u>806,926</u></u>
<b>CHOU RRSP FUND</b>				
Units outstanding, beginning of the period	9,573,239	9,379,824	419,985	488,221
Add: Units issued during the period	212,652	793,248	16,118	97,240
Deduct: Units redeemed during the period	<u>(1,481,774)</u>	<u>(648,837)</u>	<u>(173,623)</u>	<u>(59,746)</u>
Units outstanding before income distribution	8,304,117	9,524,235	262,480	525,715
Add: Units issued on reinvested income	<u>-</u>	<u>18</u>	<u>-</u>	<u>-</u>
Units outstanding, end of the period	<u><u>8,304,117</u></u>	<u><u>9,524,253</u></u>	<u><u>262,480</u></u>	<u><u>525,715</u></u>

**5. DUE TO RELATED PARTY**

Included in accounts payable of each fund are the following amounts, due to Chou Associates Management Inc., for management fees payable:

	<u>2008</u>	<u>2007</u>
Chou Associates Fund	\$ 869,731	\$ 988,651
Chou Asia Fund	107,682	78,482
Chou Europe Fund	16,758	21,657
Chou Bond Fund	90,548	79,481
Chou RRSP Fund	285,656	445,206

**CHOU FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**6. MANAGEMENT FEES AND EXPENSES**

Chou Associates Management Inc. (“the Manager”) manages the Chou Funds under a management agreement dated August 10, 2005. The Manager is entitled to an annual investment management fee equal to 1.5% of the net asset value of Series A units and 1.0% of the net asset value of Series F units for all Funds other than the Chou Bond Fund on which the Manager is entitled to an annual investment management fee equal to 1.15% of the net asset value of Series A units and 1.0% of the net asset value of Series F units. All other expenses attributable to the Funds are also payable out of the assets of the Funds.

**7. RECONCILIATION OF TRANSACTIONAL NAV TO GAAP NAV**

		Net Asset Value (\$)			Net Asset Value per Unit (\$)		
		Transactional NAV	Section 3855 Adjustment	GAAP NAV	Transactional NAV	Section 3855 Adjustment	GAAP NAV
Chou Associates Fund	A	602,002,951	1,031,479	600,971,472	78.15	0.13	78.02
	F	48,844,526	83,477	48,761,049	78.07	0.13	77.94
Chou Asia Fund	A	80,371,559	25,577	80,345,982	16.71	0.01	16.70
	F	2,106,803	668	2,106,135	16.80	0.01	16.79
Chou Europe Fund	A	12,026,618	50,153	11,976,465	9.95	0.04	9.91
	F	588,846	2,449	586,397	10.03	0.04	9.99
Chou Bond Fund	A	77,792,296	(1,565)	77,790,731	11.64	-	11.64
	F	12,033,967	(242)	12,033,725	11.65	-	11.65
Chou RRSP Fund	A	201,674,222	1,472,746	200,201,476	24.29	0.18	24.11
	F	6,383,673	46,529	6,337,144	24.32	0.18	24.14

**CHOU FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**8. BROKERS' COMMISSIONS**

Total commissions paid to brokers in connection with portfolio transactions for the period ended June 30, 2008 and for the period ended June 30, 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Chou Associates Fund	\$ 216,132	\$ 93,407
Chou Asia Fund	13,180	12,189
Chou Europe Fund	3,381	6,626
Chou Bond Fund	888	2,750
Chou RRSP Fund	23,011	57,477

**9. SECURITIES LENDING**

The Funds have entered into a securities lending program with Citigroup Global Markets Inc. The Funds receive collateral of at least 102% of the value of the securities on loan. Collateral may be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or by the United States Government or its agencies, but may include obligations of other governments with appropriate credit ratings. The aggregate dollar values of the securities that are on loan and the collateral received by the Funds as at June 30, 2008 are as follows:

<u>Fund</u>	<u>Market value of securities on loan</u>	<u>Market value of collateral received</u>
Chou Associates Fund	\$ 32,099,336	\$ 35,629,937
Chou RRSP Fund	3,247,607	3,664,794
Chou Asia Fund	1,049,800	1,272,498
Chou Europe Fund	374,929	508,999

**10. RELATED PARTY TRANSACTIONS**

The Manager, its officers and directors invest in units of the Funds from time to time in the normal course of business. All transactions with the Manager are measured at the exchange amounts.

**CHOU FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**11. INDEPENDENT REVIEW COMMITTEE**

Under the provisions of National Instrument 81-107 Independent Review Committee for Investment Funds ("NI 81-107"), which came into force on November 1, 2006, it is now required that all publicly offered investment funds establish an independent review committee ("IRC") to whom the Manager is to refer all conflict of interest matters for review.

The Funds paid the following fees in respect of the IRC duties for the period ended June 30, 2008:

Chou Associates Fund	\$	12,480
Chou Asia Fund		1,473
Chou Europe Fund		269
Chou Bond Fund		1,712
Chou RRSP Fund		4,366

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**12. FUTURE ACCOUNTING CHANGE**

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit oriented Canadian publicly accountable enterprises. At June 30, 2008 the manager has not developed a changeover plan to IFRS nor has it assessed the impact of IFRS on business arrangements, net asset value per unit and accounting policies. The manager will develop a plan prior to the 2008 year end and will disclose this plan in the 2008 annual financial statements.

**NOTES**  
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**CHOU RRSP FUND**  
(unaudited)

**Illustration of an assumed investment of \$10,000 in Canadian dollars**

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
Dec.31, 2004	27,896	32,038	22,429	82,362
Dec.31, 2005	31,259	37,164	26,871	95,294
Dec.31, 2006	33,326	39,622	31,531	104,479
Dec.31, 2007	27,859	38,841	28,117	94,817
June 30, 2008				<b>81,448</b>

NOTE: Rates of return are historical total returns including changes in unit prices and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and which could reduce these returns. The returns are not guaranteed. The Fund's past performance does not necessarily indicate future performance.

The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

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