

**Chou Associates Fund
Chou RRSP Fund**

**SEMI-ANNUAL
REPORT**

2003

Chou Associates Fund

Illustration of an Assumed Investment of \$10,000

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

Note: The indicated returns are the historical annual compounded total returns assuming reinvestment of distributions and do not take into account sales, redemption, distribution or income taxes payable by the investor. Mutual funds are not guaranteed. Their values fluctuate and past performance may not be repeated.

CHOU ASSOCIATES FUND

August 26, 2003

Dear Unitholders of Chou Associates Fund,

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

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

- The indicated returns are the historical annual compounded total returns assuming reinvestment of distributions and do not take into account sales, redemption, distribution or income taxes payable by the investor. Mutual funds are not guaranteed. Their values fluctuate and past performance may not be repeated.

Factors influencing the first 6 month results:

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

Foreign exchange: The strength of the Canadian dollar had a negative impact on the six month results. If we had applied the December 31, 2002 exchange rates to the U.S. holdings at June 30, 2003, the Fund would be up 5.4%. We believe that the fluctuation in foreign exchange rates should not have a material impact on long-term results.

Concentration: We normally like to concentrate our holdings. However, we did not adhere to this maxim as much as we would have liked. There are periods when the Manager is reluctant to pay an extra dime to acquire a meaningful position of a compelling bargain. Common sense dictates that it does not make good economic sense to forego 100% or more of potential gains for a measly dime. A case in point is Cable & Wireless (ADR and its equivalent PLC shares) which was priced at \$2.10 (this was our second attempt and the price was 75% cheaper than our first purchase) in December 2002. Had we raised the bid by a dime we could have put in a meaningful amount of at least 7% or more of the Fund assets in the stock. We did not. As a result, the Fund was able to place only about 1% of its assets in Cable & Wireless. Currently, the stock is trading around \$5.50.

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

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

Distressed Securities: One distressed security that did not work out was the subordinate debt of Fleming. In retrospect, perhaps the purchase was made without properly assessing the fundamentals of a company that was hobbled financially. That move cost the Fund roughly 3.5%. Our forays into distressed securities over the last 2 years have been reasonably successful even if we include the Fleming mistake. We do not see the area of distressed securities as attractively priced now.

Outlook on the Market

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

In the April 10, 2000 letter we wrote, ‘I’m alarmed by the cavalier way in which people invest in technology stocks; the thought process they are using is a subversion of the investment process. The rise of a stock price for a period of time is by no means an indicator of value, nor is it an assurance that we are looking at a ‘can’t miss’ investment.’

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

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

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

Analogy to the pony story

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

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

Chou Europe Fund and Chou Asia Fund

We are planning to open Chou Europe Fund and Chou Asia Fund on September 12, 2003, subject to the approval of the various securities commissions in Canada. We expect the prospectus to be ready by that time. The minimum investment for each of the Funds is \$10,000. Please be aware of the risks involved including that of the Manager who has not invested heavily in those areas. However, we feel confident that if we apply the same value principles we have used in the past in investing in North American securities, we will do reasonably well in the future. Caveat emptor!

Redemption fees

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

Yours truly,

Francis Chou
Francis Chou
(Fund Manager)

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

(Unaudited)

ASSETS

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

LIABILITIES

Accounts payable and accrued charges	<u>278,414</u>
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NET ASSETS AT MARKET VALUE \$ 97,489,414

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

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

(Unaudited)

INCOME

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

EXPENSES

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

NET INVESTMENT INCOME 137,529

REALIZED GAIN FROM INVESTMENTS SOLD -2,201,908

TOTAL INCOME \$ -2,064,379

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

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

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

* Common Shares Unless Indicated Otherwise.

CHOU RRSP FUND

August 26, 2003

Dear Unitholders of Chou RRSP Fund,

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

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

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Factors influencing the first 6 month results:

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

Foreign exchange: The strength of the Canadian dollar had a minor negative impact on the six month results. If we had applied the December 31, 2002 exchange rates to the U.S. holdings at June 30, 2003, the Fund would be up 7.3%. We believe that the fluctuation in foreign exchange rates should not have a material impact on long-term results.

Concentration: We normally like to concentrate our holdings. However, we did not adhere to this maxim as much as we would have liked. There are periods when the Manager is reluctant to pay an extra dime to acquire a meaningful position of a compelling bargain. Common sense dictates that it does not make good economic sense to forego 100% or more of potential gains for a measly dime. A case in point is Anormed which was priced at \$1.85 late last year. Had we raised the bid by a dime we could have put in a meaningful amount of at least 5% or more of the Fund assets in the stock. We did not. Consequently, the Fund did not purchase shares in Anormed. Currently, the stock is trading around \$3.60.

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

Outlook on the Market

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Chou Europe Fund and Chou Asia Fund

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Redemption fees

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Yours truly,

Francis Chou

Francis Chou
(Fund Manager)

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

(Unaudited)

ASSETS

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

LIABILITIES

Accounts payable and accrued charges	<u>92,494</u>
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NET ASSETS AT MARKET VALUE \$ 50,479,747

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

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

(Unaudited)

INCOME

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

EXPENSES

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

NET INVESTMENT INCOME 522,236

REALIZED GAIN FROM INVESTMENTS SOLD 395,041

TOTAL INCOME \$ 917,277

Net Investment Income Per Unit \$ 0.25

Total Income Per Unit \$ 0.44

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

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

* Common Shares Unless Indicated Otherwise.

Chou RRSP Fund

Illustration of an Assumed Investment of \$10,000

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

Note: The indicated returns are the historical annual compounded total returns assuming reinvestment of distributions and do not take into account sales, redemption, distribution or income taxes payable by the investor. Mutual funds are not guaranteed. Their values fluctuate and past performance may not be repeated.

Chou Associates Management Inc.

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L3R 0E4

Legal Counsel

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M4S 3B1

Note: We moved to the present address on September 14, 2004.