

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

SEMI-ANNUAL REPORT

2004

CHOU ASSOCIATES FUND

Illustration of an Assumed Investment of \$10,000

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
June 30, 2004				<u>\$98,962</u>

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.

Dear Unitholders of the Chou Funds:

The results of the Chou Funds are as follows:

As of June 30, 2004	NAV	% Cash Holdings	6Month	1 YR	3YRS	5YRS	10YRS
Chou Associates Fund	\$68.48	22%	4.4%	9.8%	16.0%	11.3%	16.6%
Chou RRSP Fund	\$26.83	41%	6.3%	13.2%	18.1%	14.6%	17.4%
Chou Asia Fund	\$11.73	63%	14.1%	-	-	-	-
Chou Europe Fund	\$11.11	69%	6.3%	-	-	-	-
S&P/TSX Total Return	-	-	4.9%	24.5%	5.2%	5.7%	9.7%
S&P 500 Total Return	-	-	3.4%	19.7%	-0.8%	-2.3%	11.8%
S&P 500 Total Return (\$Cdn)	-	-	6.7%	17.6%	-4.8%	-4.1%	11.4%

- 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.

Hidden Assets in Balance Sheet can take Precedence over Operations

Over the years we have gained some investment success in purchasing companies that were strong financially but experiencing problems with their operations. We believe that when evaluating such companies for our portfolio, the chances of investing successfully improve when the following factors are present and each is weighed carefully:

- 1) The company has strong financials: this is essential. Net debt is negligible relative to sales and shareholders' equity.
- 2) Management is highly motivated and has demonstrated its ability to run operations efficiently.
- 3) A person with clout (e.g., major shareholder) who is outstanding in deploying capital and is either part of or works closely with management is involved. He/she is capable of evaluating the company's operations rationally and is able to make intelligent business decisions such as rationalizing operations, selling unproductive and/or surplus assets and investing the proceeds wisely.
- 4) The outlook for the company's operations appears to be bleak; often the general consensus of the business community will be that the company cannot compete against its peers and is unlikely to survive beyond a year or two. The stock price, as a result, will reflect that sentiment and is priced at well below its net liquidating value. From an investment perspective, this point of maximum pessimism is the perfect time to purchase the stock. An important caveat, however, must be met: the company should not be bleeding cash profusely. As long as it is breaking even operationally, the management will have the time to extract whatever intrinsic value is inherent in the company.
- 5) Other extenuating, and potentially positive factors, are present.

A case in point is Kmart. Late last year we started to purchase the company. It had a number of problems. It had just emerged from bankruptcy (Chapter 11); many believed that due to its operational deficiencies it was going to be clobbered by Walmart and other well-run retailing

companies; and there was talk of Kmart possibly having to file Chapter 22 (going back again to Chapter 11). Although we believed some concerns to be valid, other important positive factors were being overlooked, specifically:

- 1) Kmart had cash of approximately \$2 billion, real estate assets (includes valuable long-term leases) of at least \$1 billion and no debt, and the company was priced at the market for about \$2.5 billion (\$25 per share).
- 2) The company had a new management team.
- 3) The new shareholders with controlling interest were Eddie Lampert and Marty Whitman, both of whom have excellent credentials and track records as exceptional value investors in their own right. Lampert became Chairman of Kmart.
- 4) With Eddie Lampert at the helm, we felt confident that if worst came to worst we should get at least \$25 per share in value as this would be covered amply by cash and valuable real estate assets.

Kmart has announced in recent months that it plans to sell as many as 67 stores (subject to due diligence) out of some 1500+ stores for close to \$800 million. The stock has appreciated to more than \$60. Some analysts estimate that Kmart's real estate assets may be worth more than \$150 per share (take that with a teaspoon of salt).

We acknowledge that we are taking a 'broad brush method' of analyzing the company and know that with companies such as this the operations are weak and difficult to assess and, as such, our analysis is limited to just assessing whether the company will break even. We rely indirectly on the dynamic nature of a free economy, that being that if a company has valuable assets and excellent managers, it will evolve and find a way to compete in a viable manner or return value to shareholders through asset sales or outright sale of the company. In such instances, the values hidden in the balance sheet take precedence over the operating statements.

Our investment in MCI Worldcom (MCI) follows the same script. We don't know with any degree of certainty how the telecommunications industry landscape will play itself out in a few years. But what we do know is that MCI has a new management team and a highly motivated group of value managers owning significant amount of MCI shares. Over the past two years, MCI has shown some ability to generate cash from operations and asset sales as it went through the bankruptcy process. Our analysis shows that at the current price of \$16, it is well covered by its cash and other valuable assets including infrastructure, long-term contracts, tax loss carryforwards and real estate assets to name a few.

One part of our job in analyzing a company is to assess whether an outstanding company is priced at an outstanding price, an average company priced at an average price or a poor company priced at a poor price. One can make money in investment if you buy an outstanding company at an average price (this is our preferred choice) or an average company at a poor price.

In the case of MCI, our opinion is that we are buying a below average company at a fire sale price (Chapter 22 price) which is somewhat similar to the conclusion we had reached earlier with Kmart. If that assessment proves to have been optimistic, we think we should get most of our money back. The company recently announced that it has identified \$2.2 billion of surplus cash (roughly \$7 a share) and will start returning that cash to shareholders through a quarterly tax free distribution of \$0.40 per share. In a nutshell, if you are buying CRAP (cannot realize a profit), make sure you are paying no more than scrap value.

Market Outlook

Based on most common valuation methods such as dividend yield, P/E ratio and premium to book value, the market is not cheap. In addition, the after-tax profit margins generated by companies are at least 60% higher than the historical average. Factors such as these make us wary of the market.

We continue to look diligently for undervalued stocks and will buy them only when they meet our price criteria. However, we will not chase stocks to keep up with the market averages. If given a choice, as we said in the annual letter, we would prefer to lose half of our unitholders rather than half of our unitholders' money.

Other matters

We launched both the Chou Asia Fund and Chou Europe Fund on August 26, 2003. We have not charged the full management fee of 1.5%. We have charged a fee only to cover the trailer fees paid to dealers and financial planners (0.5%). We are extending this policy for the year 2004.

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. We hope this fee is enough to dissuade short-term investors from jumping in and out of the Fund to chase short-term performance.

The minimum amount to invest in the Fund is \$10,000 and subsequent investment is \$1,000.

Starting on September 15, 2004, our new office will be at:

Suite 710
95 Wellington Street West,
P.O. Box 27
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M5J 2N7

Yours truly,



Francis Chou
Fund Manager

**STATEMENT OF NET ASSETS
AS AT JUNE 30, 2004**

(Unaudited)	CHOU ASSOCIATES FUND
ASSETS	
Cash and treasury bills	\$ 31,703,580
Accounts receivable	530,321
Investments at market value	<u>113,939,076</u>
	146,172,977
LIABILITIES	
Accounts payable and accrued charges	\$ 283,762
Premium covered call option	<u>168,378</u>
NET ASSETS AT MARKET VALUE	\$ 145,720,837
Net Asset Value Per Unit (NAVPU)	\$ 68.48
NAVPU, December 31, 2003	\$ 65.58
% change from December 31, 2003	4.4%
Unit Outstanding, June 30, 2004	2,127,892

**STATEMENT OF INCOME AND EXPENSE
FOR THE SIX MONTHS ENDED
JUNE 30, 2004**

(Unaudited)	CHOU ASSOCIATES FUND
INCOME	
Dividends	\$ 548,589
Interest	763,988
Other Income	<u>48,639</u>
	1,361,216
EXPENSES	
Management Fees	1,090,991
Custodian Fees	86,670
Filing Fees	8,000
Audit	3,300
Legal	-
Fundserv Fees	<u>11,600</u>
	<u>1,200,561</u>
NET INVESTMENT INCOME	160,655
REALIZED GAIN FROM INVESTMENT SOLD	<u>2,443,749</u>
TOTAL INCOME	\$ 2,604,404
Net Investment Income Per Unit	\$ 0.08
Total Income Per Unit	\$ 1.22

**STATEMENT OF NET ASSETS
AS AT JUNE 30, 2004**

CHOU RRSP FUND	CHOU ASIA FUND	CHOU EUROPE FUND
\$ 54,515,361	\$ 6,622,878	\$ 2,209,129
119,080	8,780	1,543
<u>78,952,083</u>	<u>3,843,282</u>	<u>1,006,293</u>
133,586,524	10,474,940	3,216,965
\$ 216,789	\$ 13,386	\$ 3,632
<u>-</u>	<u>-</u>	<u>-</u>
\$ 133,369,735	\$ 10,461,554	\$ 3,213,333
\$ 26.83	\$ 11.73	\$ 11.11
\$ 25.24	\$ 10.28	\$ 10.46
6.3%	14.1%	6.3%
4,970,231	891,774	289,127

**STATEMENT OF INCOME AND EXPENSE
FOR THE SIX MONTHS ENDED
JUNE 30, 2004**

CHOU RRSP FUND	CHOU ASIA FUND	CHOU EUROPE FUND
\$ 897,142	\$ 22,539	\$ 6,225
682,273	54,084	16,186
<u>-</u>	<u>-</u>	<u>-</u>
1,579,415	76,623	22,411
908,104	21,111	7,094
81,597	11,326	3,072
8,272	543	750
7,522	1,140	1,113
2,500	-	-
<u>7,119</u>	<u>443</u>	<u>240</u>
<u>1,015,114</u>	<u>34,563</u>	<u>12,269</u>
564,301	42,060	10,141
<u>1,081,500</u>	<u>-</u>	<u>(116,197)</u>
\$ 1,645,801	\$ 42,060	\$ (106,056)
\$ 0.11	\$ 0.05	\$ 0.04
\$ 0.33	\$ 0.05	\$ (0.37)

CHOU ASSOCIATES FUND
STATEMENT OF INVESTMENTS
AS AT JUNE 30, 2004

	Number of Shares	Average Cost	Market Value
SHARES*			
Berkshire Hathaway Inc., Class A	75	\$ 8,122,588	\$ 8,897,373
BMTC Group Inc., Class A	195,706	434,232	2,152,766
BJ's Wholesale Club Inc.	50,000	1,069,825	1,667,111
Boskalis Westminster	360,367	11,590,142	12,451,705
BT Group PLC, ADR	48,700	1,994,631	2,377,194
BT Group PLC	1,850,000	7,655,743	8,911,065
Cable & Wireless Publications, ADR	25,600	216,524	242,070
Cable & Wireless Publications, PLC	500,000	577,936	1,566,003
Crimmi Mae, REITS	396,479	3,463,901	6,329,493
GB Holdings Inc.	497,500	1,877,974	1,426,547
Global Crossing	501,702	11,068,684	10,438,185
IDT Corp, Class B	20,000	386,309	491,865
Kings Pharmaceuticals Inc.	200,000	3,727,104	3,054,148
Kmart Holding Corp.	133,700	4,101,890	12,892,118
MCI Inc.	402,201	8,843,417	7,740,411
Metro One Telecommunications Inc.	350,000	2,179,678	686,183
North Fork Bancorporation	72,500	3,162,477	3,679,148
Natuzzi SPA	22,000	249,274	315,124
Orthodontic Centers of America Inc.	676,600	7,270,300	7,390,443
Takefuji Corporation	10,000	595,100	969,493
World Acceptance Corp.	105,113	1,212,155	2,569,647
XO Communications Inc.	872,000	<u>7,012,738</u>	<u>4,826,354</u>
		\$ 86,812,622	\$ 101,074,446
BONDS			
GB Property Funding 11%, 2004	190,000	196,958	215,391
Allegiance Telecom 12.875%, 2008	2,425,000	1,649,660	1,342,191
Level 3 Communications 9.125%, 2008	1,000,000	1,118,481	1,053,614
Level 3 Communications 10.5%, 2008	2,000,000	2,118,270	2,107,229
Level 3 Communications 11%, 2008	7,315,000	<u>8,038,936</u>	<u>8,146,206</u>
		\$ 13,122,305	\$ 12,864,631
TOTAL		\$ 99,934,927	\$ 113,939,077

* Common Shares Unless Indicated Otherwise.

CHOU RRSP FUND
STATEMENT OF INVESTMENTS
AS AT JUNE 30, 2004

	Number of Shares	Average Cost	Market Value
SHARES *			
Accord Financial Corp	13,100	\$ 66,594	\$ 116,328
Akita Drilling Ltd., Class A	80,000	1,535,003	2,080,000
Amisco Industries Ltd.	97,700	543,440	654,590
Berkshire Hathaway Inc., Class A	15	1,606,722	1,779,475
BMTC Group Inc., Class A	87,850	216,428	966,350
Boskalis Westminster	250,000	7,948,014	8,638,211
BT Group PLC	1,150,000	4,660,963	5,539,311
Caldwell Partners Int'l Inc., Class A	572,900	1,097,335	1,059,865
Danier Leather	269,900	2,591,875	2,631,525
Denninghouse Inc.	180,000	836,135	486,000
Descartes Systems Group Inc.	2,809,600	4,578,431	4,073,920
Hanfeng Evergreen Inc.	1,000,000	2,000,000	1,989,066
Hanfeng Evergreen Inc., Warrants	500,000	-	-
Glacier Ventures Int'l Corp.	215,228	173,043	398,172
GSW Inc., Class B	51,000	1,099,050	1,685,550
Hollinger Inc., Retractable Common	80,248	411,601	417,290
Hollinger Inc., Preferred II	9,500	57,449	85,975
Heroux Devtek Inc.	122,800	597,451	650,840
Int'l Forest Products Ltd., Class A	465,400	2,177,466	3,164,720
Liquidation World Inc.	1,155,000	5,100,958	8,142,750
MCI Inc.	455,700	9,205,994	8,770,007
MRRM Inc.	63,800	320,595	574,200
Norwall Group Inc.	63,300	237,838	272,190
Orthodontic Centers of America Inc.	360,500	3,307,970	3,937,710
Persona Inc.	587,200	2,428,887	3,899,008
Rainmaker Income Fund	269,400	883,029	1,104,540
Rogers Sugar Income Fund	274,500	996,515	1,106,235
Rothmans Canada Inc.	61,800	1,709,148	2,069,682
Samuel Manu-Tech Inc.	28,800	188,795	233,856
Smithfield Foods Inc.	39,900	1,433,791	1,564,497
Tri-White Corporation	427,500	2,379,600	2,864,250
Velan Inc.	223,200	2,656,357	2,914,992
Westcast Industries Inc., Class A	74,400	2,556,620	2,380,800
XO Communications Inc.	487,854	3,309,966	2,700,179
TOTAL		<u>\$ 68,913,063</u>	<u>\$ 78,952,084</u>

* Common Shares Unless Indicated Otherwise.

CHOU ASIA FUND
STATEMENT OF INVESTMENTS
AS AT JUNE 30, 2004

	Number of Shares	Average Cost	Market Value
SHARES*			
Boskalis Westminster	16,000	\$ 501,149	\$ 552,846
Fuji Television Network	100	295,254	306,414
Hanfeng Evergreen Inc.	163,500	342,295	346,620
Hanfeng Evergreen Inc., Warrants	163,500	-	-
Hanfeng Evergreen Inc.	57,500	115,000	114,371
Hanfeng Evergreen Inc., Warrants	28,750	-	-
Kmart Holding Corp.	14,000	447,495	1,349,960
MCI Inc.	40,200	984,098	773,654
Takefuji Corporation	2,400	198,315	232,678
The Seiyu Ltd.	38,000	<u>159,568</u>	<u>166,738</u>
TOTAL		<u>\$ 3,043,174</u>	<u>\$ 3,843,281</u>

* Common Shares Unless Indicated Otherwise.

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CHOU EUROPE FUND
STATEMENT OF INVESTMENTS
AS AT JUNE 30, 2004

	Number of Shares	Average Cost	Market Value
SHARES*			
Boskalis Westminster	4,800	\$ 149,734	\$ 165,854
BT Group Inc., ADR	1,300	53,830	63,457
Hanfeng Evergreen Inc.	36,500	73,000	77,380
Hanfeng Evergreen Inc., Warrants	36,500	-	-
Hanfeng Evergreen Inc.	30,000	60,000	59,672
Hanfeng Evergreen Inc., Warrants	15,000	-	-
Jarvis PLC	61,000	193,813	115,457
Kmart Holding Corp.	5,000	160,240	482,129
Yukos Corp., ADR	1,000	<u>59,813</u>	<u>42,345</u>
TOTAL		<u>\$ 750,430</u>	<u>\$ 1,006,294</u>

* 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 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
June 30, 2004				<u>\$ 77,232</u>

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.

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