

# MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2007

## CHOU BOND FUND

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Fund. You can obtain a copy of the interim or annual financial statements at your request, and at no cost, by calling Toll-free: 1-888-357-5070, by writing to us at 110 Sheppard Ave. East, Suite 301, Box 18, Toronto, Ontario M2N 6Y8 or by visiting our website at [www.choufunds.com](http://www.choufunds.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Unitholders may also contact us by using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance, or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements.

Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons including, but not limited to, market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest in, and the risks detailed from time to time in the Fund's Simplified Prospectus. We caution that the foregoing list of factors is not exhaustive, and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the family of Chou Funds does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

Chou Associates Management Inc. ("the Manager") provides management of the overall business of the Fund, including selection of the securities in the Fund's portfolio, providing Fund accounting and administration services and promoting sales of the Fund's units. For the purposes of this document, the terms Chou Associates Management Inc. and "the Manager" are interchangeable. Full contact information is located at the end of this report.

# CHOU BOND FUND

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## Management Discussion of Fund Performance

### Investment Objective and Strategies

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.

### Risk

The risks of investing in the Fund are disclosed in the Prospectus. The principal risks associated with the Fund are liquidity risk, derivative risk, and repurchase and reverse repurchase transactions and securities lending risk.

In addition, the Fund faces the following risks. The foreign invested assets may decline in value if there are declines in the foreign markets in which they are invested. Because the Manager will follow a disciplined value investing style, the performance of the Fund may be less than the performance of the various global exchanges during periods of high market valuations. Conversely, the Fund may outperform these exchanges during periods of prolonged market weakness.

### Results of Operations

For the year ended December 31, 2007, Chou Bond Fund (the "Fund") was down 2.7% for Series A units and 2.5% for Series F units while Citigroup WGBI All Maturities was down 5.6% in Canadian dollars and S&P/TSX Broad Bond Market Total Return Index returned 2.0% in Canadian dollars. In \$US, the Fund returned 14.7% for Series A units and 14.9% for Series F units while Citigroup WGBI All Maturities returned 11.0% and S&P/TSX Broad Bond Market Total Return Index returned 19.9%.

The strength of the Canadian dollar against the US dollar had the biggest negative impact on the results of the Fund. The dramatic difference in performance results between the net asset value per unit (NAVPU) priced in Canadian dollars, versus US dollars, is attributable to the fact that on December 31, 2006, one US dollar was worth approximately \$1.17 Cdn., whereas one year later, on December 31, 2007, one US dollar was worth approximately \$0.99 Cdn. Even if the price of an American security remained the same in 2007, it would have nonetheless shown a depreciation of roughly 15.1% at year end when priced in Canadian dollars.

For the year 2007, the average monthly assets held by the Fund in non-Canadian securities was 69.0%. As such, the strength of the Canadian dollar had a significant impact on the Fund's results.

Major contributors to the Fund's performance were James River Coal Company debts and Catalyst Paper Corporation (Norske Skog) debts. We suffered declines in Hollinger Inc. and UTStarcom debts.

## CHOU BOND FUND

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Our average month-end cash position of 61.8% of net assets has had a restraining effect on returns.

### **Recent Developments**

Effective Thursday, November 1, 2007, Chou Associates Management Inc. corporate office has moved to the following location:

110 Sheppard Avenue East  
Suite 301, Box 18  
Toronto, Ontario M2N 6Y8

### **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, such as the Fund, establish an independent review committee ("IRC") to whom the Manager is to refer all conflict of interest matters for review. This instrument further mandates that the IRC be composed of at least three independent members and requires that they report, at least annually, to the Manager and shareholders in respect of the IRC's duties.

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.

### **Related Party Transactions**

The Manager provides management of the overall business of the Fund, including selection of the securities in each Fund's portfolio, and promoting sales of the Fund's units.

The Manager is also the trustee of the Fund. When you invest in the Fund, you are buying units of a trust. The trustee holds actual title to the property in the Fund - the cash and portfolio securities - on your behalf.

Citigroup Fund Services Canada ("CFSC") is the custodian of the Fund and has physical custody of the securities in the Fund's portfolio.

CFSC is also the recordkeeper of the Fund. The recordkeeper provides or arranges for keeping all unitholder records, processing purchases and redemption orders, processing distributions, and issuing investor account statements and annual tax reporting information for the Fund.

There were no transactions with related parties except in the capacities set out above.

## CHOU BOND FUND

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### Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past years. This information is derived from the Fund's audited annual financial statements.

#### Net Asset Value (NAV) Per Unit Series A

	<u>2007</u>	<u>2006</u>	<u><sup>(3)</sup>2005</u>
<b>Net asset value, beginning of year</b> <sup>(1)</sup>	\$ <sup>(4)</sup> 12.20	\$ 10.34	\$ 10.00
<b>Increase(decrease) from operations</b>			
Total revenue	\$ 0.67	\$ 0.73	\$ 0.06
Total expenses	(0.16)	(0.05)	(0.01)
Realized gains (losses) for the year	(0.53)	0.18	0
Unrealized gains (losses) for the year	(0.65)	1.14	0.26
<b>Total increase (decrease) from operations</b>	\$ (0.67)	\$ 2.00	\$ 0.31
<b>Distributions</b>			
From income	\$ 0.43	\$ 0.34	\$ 0.05
From dividends	0	0	0
From capital gains	0	0.06	0
<b>Total annual distributions</b> <sup>(2)</sup>	\$ 0.43	\$ 0.40	\$ 0.05
<b>Net asset value at end of year</b>	\$ <sup>(4)</sup> 11.45	\$ 12.21	\$ 10.34
<b>Net asset value at end of year in \$US</b>	\$ <sup>(4)</sup> 11.58	\$ 10.48	\$ 8.87

#### Ratios/Supplemental Data Series A

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net Assets (000's) <sup>(5)</sup>	\$ 76,295	\$ 31,776	\$ 2,933
Number of units outstanding	6,660,305	2,602,344	283,682
Management expense ratio <sup>(6)</sup>	1.34%	0.40%	0.16%
Management expense ratio before waivers or absorptions	1.34%	1.47%	0.48%
Portfolio turnover rate <sup>(7)</sup>	36.52%	5.30%	0%
Trading expense ratio <sup>(8)</sup>	0.02%	0.04%	0%

## CHOU BOND FUND

### Net Asset Value (NAV) Per Unit Series F

	<u>2007</u>	<u>2006</u>	<u><sup>(3)</sup>2005</u>
<b>Net asset value, beginning of year <sup>(1)</sup></b>	\$ <sup>(4)</sup> 12.21	\$ 10.34	\$ 10.00
<b>Increase(decrease) from operations</b>			
Total revenue	\$ 0.67	\$ 0.89	\$ 0.06
Total expenses	(0.14)	(0.03)	(0.01)
Realized gains (losses) for the year	(0.52)	0.21	0
Unrealized gains (losses) for the year	(0.64)	1.05	0.34
<b>Total increase (decrease) from operations</b>	\$ (0.63)	\$ 2.12	\$ 0.39
<b>Distributions</b>			
From income	\$ 0.45	\$ 0.35	\$ 0.05
From dividends	0	0	0
From capital gains	0	0.06	0
<b>Total annual distributions <sup>(2)</sup></b>	\$ 0.45	\$ 0.41	\$ 0.05
<b>Net asset value at end of year</b>	\$ <sup>(4)</sup> 11.45	\$ 12.22	\$ 10.34
<b>Net asset value at end of year in \$US</b>	\$ <sup>(4)</sup> 11.58	\$ 10.48	\$ 8.87

### Ratios/Supplemental Data Series F

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net Assets (000's) <sup>(5)</sup>	\$ 10,610	\$ 4,595	\$ 23
Number of units outstanding	925,972	376,179	2,186
Management expense ratio <sup>(6)</sup>	1.18%	0.24%	0.12%
Management expense ratio before waivers or absorptions	1.18%	1.31%	0.43%
Portfolio turnover rate <sup>(7)</sup>	36.52%	5.30%	0%
Trading expense ratio <sup>(8)</sup>	0.02%	0.04%	0%

<sup>(1)</sup> Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase from operations is based on the weighted-average number of units outstanding over the financial year. This schedule is not a reconciliation of the beginning and ending net asset value per unit.

<sup>(2)</sup> Distributions were reinvested in additional units of the Fund or paid in cash upon request.

<sup>(3)</sup> Series A numbers for 2005 are for the period from September 16 to December 31. Series F numbers for 2005 are for the period from September 30 to December 31.

<sup>(4)</sup> The relief granted to investment funds by Canadian securities regulatory authorities from complying on an interim basis with Section 3855 results in a difference between the Transactional NAV and the GAAP NAV due to the differences in valuation techniques of certain investments. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) or ask prices (for investments sold short) to be used in the fair valuation of investments, rather than the use of closing sale prices currently used for the purpose of determining Transactional NAV. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques, rather than the use of valuation techniques by virtue of general practice in the investment funds industry. The provisions of Section 3855 have been applied retroactively without restatement of prior periods. Accordingly, the net asset value at the beginning of the current period has been adjusted.

## CHOU BOND FUND

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As at December 31, 2007	Series A Units (\$)
Net asset value (Transactional NAV), end of year	11.46
Section 3855 adjustment	(0.01)
Net asset value (GAAP NAV), end of year	11.45

As at December 31, 2007	Series F Units (\$)
Net asset value (Transactional NAV), end of year	11.46
Section 3855 adjustment	(0.01)
Net asset value (GAAP NAV), end of year	11.45

<sup>(5)</sup> This information is provided as at December 31 of the year shown and is rounded to the nearest thousand.

<sup>(6)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of weekly average net assets during the period. The 2005 management expense ratio for Series A is for the period from September 16 to December 31 and for Series F is for the period from September 30 to December 31.

<sup>(7)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

<sup>(8)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the year.

# CHOU BOND FUND

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## Management Fees

The Manager manages the Fund. The Manager is entitled to an investment management fee calculated as a percentage of the market value of the net assets equal to 0.0958% per month for Series A units and 0.083% per month for Series F units. The Manager pays 15 basis points per year trailer fees to dealers out of management fees for Series A units. There is no trailer fee paid out for Series F units.

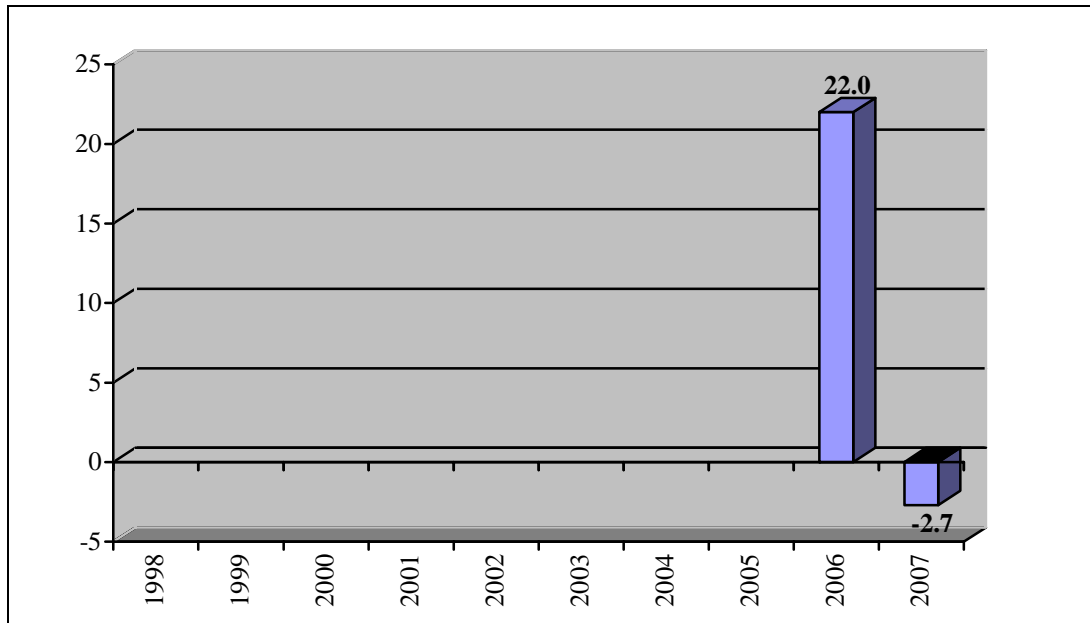
## Past Performance

The following charts and tables show the Fund's past performance. Rates of return are historical total returns including changes in unit prices and assume the reinvestment of all distributions. These 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 Fund's past performance does not necessarily indicate future performance.

## Year-by-Year Returns

The bar charts show the annual performance for Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance varied from year to year.

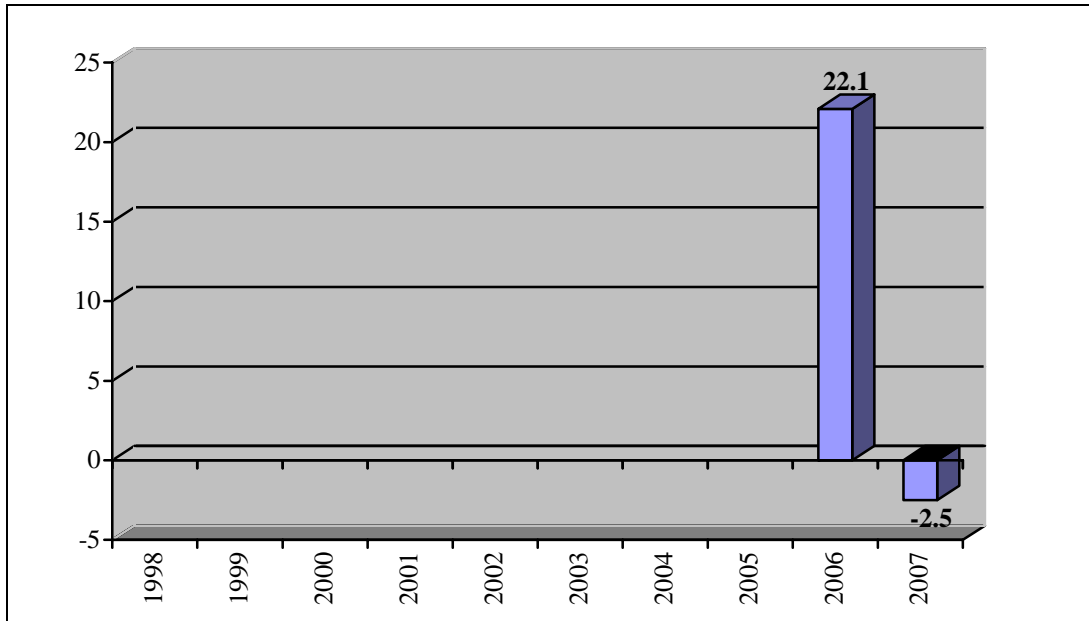
### Series A



# CHOU BOND FUND

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## Series F



## Annual Compound Returns

The following tables <sup>(1)</sup> show the annual compound total return for Series A and Series F units of the Fund. The past year is as at December 31, 2007. Below each return are benchmarks for comparison.

### Series A

	Past Year	Since Inception
Bond Fund	-2.7%	9.6%
Citigroup WGBI All Maturities	-5.6%	-2.0%
S&P/TSX Broad Market Bond Total Return	2.0%	2.9%

### Series F

	Past Year	Since Inception
Bond Fund	-2.5%	9.9%
Citigroup WGBI All Maturities	-5.6%	-0.6%
S&P/TSX Broad Market Bond Total Return	2.0%	3.0%

<sup>(1)</sup> Tables assume the reinvestment of all dividends.

## CHOU BOND FUND

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### Summary of Investment Portfolio as at December 31, 2007

#### **Portfolio Allocation**

Foreign Corporate debts	24.3%
Corporate debts	11.5%
Income trusts	3.0%
Preferred shares	2.1%
Net Cash & Equivalents	<u>59.1%</u>
Total Portfolio	100.0%

#### **Total Holdings**

(excluding cash equivalents)

UTStarcom Inc. debts	8.1%
Primus Telecommunications debts	6.8%
Rewards Network Inc. debts	4.0%
Catalyst Paper Corporation (Norske Skog) debts	3.7%
James River Coal Company debts	3.1%
SFK Pulp Fund trust units	2.4%
Glacier Ventures International Corporation debts	1.9%
Taiga Building Products Ltd. debts	1.9%
Abitibi-Consolidated Inc. debts	1.8%
Tembec Industries Inc. debts	1.3%
Overstock.com Inc. debts	1.0%
Thornburg Mortgage Inc. preferred	1.0%
Hollinger Inc. debts	0.9%
Doral Financial Corporation preferred	0.8%
Rainmaker Income Fund trust units	0.6%
GMAC debts	0.5%
Clarke Inc. debts	0.4%
Blue Ocean Re Holdings Ltd. preferred	0.3%
Global Crossing Ltd. UK Finance debts	0.2%
Interstate Bakeries Corp. debts	<u>0.2%</u>
Total Holdings	40.9%

The summary of Investment Portfolio will change due to ongoing portfolio transactions of the Fund. The next quarterly update as at March 31, 2008 will be in the Quarterly Portfolio Disclosure which will be posted on our website [www.choufunds.com](http://www.choufunds.com) on or before May 31, 2008.

For more information contact your investment advisor or:

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