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

ANNUAL REPORT

2006

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, 2005	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**

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.

CHOU FUNDS

PERFORMANCE OF THE FUNDS

December 31	2006	2005	2004	2003	2002	2001	2000
Chou Associates Fund							
Total Return	18.77%	13.70%	9.02%	3.57%	29.99%	21.44%	8.37%
Management Expense Ratio (MER)	1.74%	1.75%	1.77%	1.86%	1.87%	2.02%	2.00%
Portfolio turnover rate	14.60%	10.00%	30.00%	33.40%	43.10%	38.90%	23.80%
Net Assets, end of the year (in millions)	$ 650.2	$ 345.8	$ 166.7	$ 122.7	$ 81.5	$ 15.4	$ 12.7
Chou Asia Fund							
Total Return	15.15%	7.00%	18.50%	2.82%			
Management Expense Ratio (MER)	1.77%	1.76%	*0.77%	*0.49%			
Portfolio turnover rate	35.00%	44.00%	22.09%	-			
Net Assets, end of the year (in millions)	$ 43.8	$ 32.2	$ 16.3	$ 4.6			
Chou Europe Fund							
Total Return	10.70%	11.35%	13.61%	4.59%			
Management Expense Ratio (MER)	1.78%	1.84%	*0.87%	*0.40%			
Portfolio turnover rate	36.80%	33.00%	9.55%	-			
Net Assets, end of the year (in millions)	$ 17.4	$ 12.8	$ 4.5	$ 1.7			
Chou Bond Fund							
Total Return	22.00%						
Management Expense Ratio (MER)	*0.40%						
Portfolio turnover rate	5.30%						
Net Assets, end of the year (in millions)	$ 36.4						
Chou RRSP Fund							
Total Return	9.63%	15.70%	13.36%	11.62%	31.85%	17.02%	16.49%
Management Expense Ratio (MER)	1.74%	1.75%	1.79%	1.79%	1.83%	2.01%	2.12%
Portfolio turnover rate	24.40%	22.70%	15.40%	15.40%	33.20%	25.80%	25.60%
Net Assets, end of the year (in millions)	$ 333.7	$ 298.8	$ 172.0	$ 86.0	$ 15.9	$ 5.7	$ 4.8

*Management fee after waivers and absorption

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CHOU ASSOCIATES FUND

March 2, 2007

Dear Unitholders of Chou Associates Fund,

After the distribution of $1.26, the net asset value ("NAVPU" or "NAV") of a Series A unit of Chou Associates Fund at December 31, 2006 was $91.65 compared to $78.22 at December 31, 2005, an increase of 18.8%, while the S&P 500 Total Return Index returned 16.0% in Canadian dollars. In $US, a Series A unit of Chou Associates Fund returned 18.8% while the S&P 500 Total Return Index returned 15.8%.

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

December 31, 2006 (Series A unit)	**Past Year**	**Past 3 Years**	**Past 5 Years**	**Past 10 Years**	**Past 15 Years**
Chou Associates($Cdn)	18.8%	13.8%	14.7%	15.1%	15.7%
S&P500 ($Cdn)	16.0%	6.6%	-0.2%	6.7%	10.7%
Chou Associates($US)[1]	18.8%	17.9%	21.9%	16.9%	15.7%
S&P500 ($US)	15.8%	10.4%	6.1%	8.4%	10.6%

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.

Factors influencing the 2006 results

Major positive contributors to the Fund's performance were Royal Boskalis Westminster, Berkshire Hathaway, Sears Holdings, The DirecTV Group and Level 3 Communications debts. We suffered declines in Interstate Bakeries, Overstock.com, and Collins & Aikman bank debts.

Our average month-end cash balance of 37% of net assets has had a restraining effect on returns. We chose to maintain cash because we were not able to find investments meeting our Margin of Safety criteria.

General comments on the market

We continue to have problems finding compelling bargains in the marketplace. Not only are the P/E ratios and price-to-book values still high, and dividend yields low, relative to historic

[1]The alternative method of purchasing Chou Associates Fund in $US has been offered since September 2005. Performance for years prior to September 2005 are 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.

valuations, the number of companies that are underpriced is at an all time low. We would caution all investors that their chances of a large permanent loss of capital are high if they invest in today's market leaders at current prices.

Preservation of capital is being given almost zero consideration

The cardinal principle of investing is to think first about preserving capital before thinking about making money. In equities, we try to accomplish that by paying far less than what the company is worth, as measured by sustainable earning power and/or hard assets that are not depreciating in value. In other words, we want an adequate "Margin of Safety" and this is what distinguishes investment from speculation.

Although the methodologies may differ, the same cardinal principle applies when one is investing in other financial instruments. For example, the greater the probability of permanent loss of capital, the greater the spread should be between a particular debt instrument and risk-free treasuries. Currently the spreads between the higher risk securities and U.S. treasuries are at near historic lows. Other indicators also are showing that investors are in a euphoric mood and so are chasing yields and/or returns without giving due weight to the risk of potential market disruptions which could result in permanent loss of capital.

The following are some examples:

1) The spread between U.S. corporate high yield debt and 5 year U.S. treasuries is at a near historic low. The average spread between January 1991 and March 2007 was about 481 basis points (4.81%). Currently it is 270 basis points. At its widest, in November 2002, it was 1,094 basis points (source: Citigroup).

2) The spread between U.S. corporate high yield debt and U.S. investment grade bond is approaching the lowest we have ever seen. The average spread is about 436 basis points. Currently it is 187 basis points. At its widest, in November 2002, it was 845 basis points (source: Citigroup).

3) 1.6% of global junk-bond debt (by dollar amount) defaulted in 2006, the lowest default rate experienced by this group since 1981. The historical default rate for junk bonds is 4.9%. Junk bonds are debt offerings of companies rated Ba or lower (by Moody's) and involve investment risks which may include the loss of principal invested as a result of the failure of the company (source: Financial Times).

4) Consumer debt relative to GDP in the U.S. is the highest ever. Over the past 60 years, the ratio was less than 50%. Currently it is over 90% and trending higher.

5) Long term interest rates have been trending down since 1981. In September 1981, the interest rate on 10 year U.S. treasuries was 15.3%. Recently it was at 4.75%. This bull market is 26 years long! Contrarians would instinctively think the trend is due for a reversal.

6) Inflation in the U.S. has trended down from its high of 14.8% in 1980 to less than 2.1% currently. Again, this trend is 27 years long and contrarians would instinctively think it is due for a reversal.

7) Business school graduates are gravitating in large numbers to hedge funds and private equity funds. Historically, they have been attracted to industries that are about to peak or have peaked.

From these examples, it appears obvious that investors are throwing caution to the wind. Risk is not priced into riskier securities at all. Whenever the majority of investors are purchasing securities at prices that implicitly assume that everything is perfect with the world, an economic dislocation or other shock always seems to appear out of the blue. And when that happens, investors learn, once again, that they ignore risk at their peril.

We continue to diligently look for undervalued stocks and will buy them only when they meet our price criteria – in other words - when they are priced for '**IMPERFECTION**'.

Derivatives and financial institutions
We remain a keen and interested observer of derivative instruments. Derivative instruments are financial instruments created by market participants so that they can trade and/or manage more easily the asset upon which these instruments are based. Derivatives are not asset classes unto themselves. Their values are derived solely from an underlying interest, which may be a commodity such as wheat or a financial product such as a bond or stock, a foreign currency, or an economic/stock index.

According to the Bank for International Settlements, contracts outstanding worldwide for derivatives at the end of June 30, 2006 rose to $370 *trillion*. We are alarmed by the exponential rise in the use of derivatives. No one knows how dangerous these instruments can be. They have not been stress tested. However we cannot remain complacent. We believe the risk embedded in derivative instruments is pervasive and most likely not limited or localized to a particular industry. Financial institutions are most vulnerable when (not if) surprises occur – and when they occur they are almost always negative.

As a result, we have not invested heavily in financial institutions although at times their stock prices have come down to buy levels. Some 30 years ago, when an investor looked at a bank, he or she knew what the items on the balance sheet meant. The investor understood what criteria the bankers used to loan out money, how to interpret the loss reserving history, and how to assess the quality and sustainability of revenue streams and expenses of the bank to generate reasonable earnings. In a nutshell, we were able to appraise how much the bank was worth based on how efficiently its bankers were utilizing the **3-6-3** rule.

The **3-6-3** rule works like this: The bank pays 3% on savings accounts, loans out money to businesses with solid financials at 6%, and then the banker leaves the office at 3pm to play golf.

That was 30 years ago and you can see how easy it was to evaluate a bank.

Now, when an investor examines a bank's financials, he or she is subjected to reams of information and numbers but has no way of ascertaining with a high degree of certainty how solid the assets are, or whether the liabilities are all disclosed, or even known, much less properly priced. As the investor digs deeper into the footnotes, instead of becoming enlightened, more doubts may surface about the true riskiness of the bank's liabilities. Those liabilities could be securitized, hidden in derivative instruments or morphed into any number of other instruments that barely resemble the original loans.

We wonder whether bankers are using a rule that is as difficult to understand as their derivative instruments. We call it the **1-12-11** rule, namely, the bank pays 1% on checking accounts, loans out money to businesses with weak financials at 12%, and the banker leaves the office at 11am to play golf with hedge fund and private equity managers where they discuss how to chop and/or bundle the loan portfolios into different tranches and create, out of thin air, new derivative products that are rated triple A (from products that originally were B rated). These products are then sold to institutions (who may be oblivious of the risk involved) that are reaching for yields.

The above example is written tongue-in-cheek and it is not meant to be entirely representative of what bankers do. It is meant to show just how creative participants have been in producing new derivative products, with little regard for a sound understanding of their leverage and true risk characteristics. We may be witnessing a 'tragedy of the commons' where the search for quick individual profits is causing a system-wide increase in risk and reckless behavior.

Credit default swaps (CDS)

In our semi-annual report dated August 11, 2005 we informed investors of our interest in CDS. By way of this letter, we are providing our unitholders with the 60 days notice required by securities authorities so that the Chou Funds may choose to invest in CDS commencing no earlier than May 31, 2007.

With that legal announcement out of the way, we can now continue to discuss the investment merits of CDS. Although they are derivatives, we are willing to look into them provided we find that there is sufficient and ample coverage against counterparty risk.

In terms of investment ideas in derivatives, we believe that CDS are selling at prices that are compelling. At recent prices, they offer the cheapest form of insurance against market disruptions. In CDS, one party sells credit protection and the other party buys credit protection. Put another way, one party is selling insurance and the counterparty is buying insurance against the default of the third party's debt. The Chou Funds would be interested in buying this type of insurance.

To give you some sense of perspective, in October 2002, the 5 year CDS of General Electric Company was quoted at an annual price of 110 basis points. Recently, it was quoted at an annual price of less than 8 basis points.

To make money in CDS, you don't need a default of the third party's debt. If there is any hiccup in the economy, the CDS price will rise from these low levels. The negative aspect is that, like insurance, the premium paid for the protection erodes over time and may expire worthless.

Sub-prime mortgage lenders

Some of the greatest excesses of easy credit were committed by sub-prime mortgage lenders. Credit standards were so lax and liberal that homeowners didn't even need to produce verification of income to be able to borrow up to 100% or more of the appraised value of their houses.

Companies with the most liberal lending practices have started to report serious, even crippling, financial problems. Some optimists believe that the worst is over. However, they may be in for a surprise. Instead of it being the darkest hour before the dawn, it could be the darkest hour before pitch black. It will take a while (and maybe a long while) for the excesses to wring themselves out of the system.

Other matters

Fee Based Series ("F") units: Due to repeated requests from financial planners and dealers, we introduced a new class of units called Series F units in September 2005. In this class the dealers will not receive any trailer fees but they can charge any fee with the consent of their client.

Foreign Currency Hedging: Several currency hedges existed during the year but none existed as at December 31, 2006.

$US Dollar Valuation: Any investor who wishes to purchase the Chou Funds in $US will now be able to do so.

New Service Providers: Effective November 6, 2006, Citigroup Fund Services Canada, Inc. (CFSC) and its affiliates are the new service providers of fund operation to the Chou Funds.

Concentra Financial is providing the Chou Funds with trustee services for registered products such as administering plans for RRSPs, RRIFs, LRIFs and LIFs.

Investment Awards: Please forgive me for this shameful display of self-promotion but Chou Associates Fund won the 2006 U.S. Equity Fund of the Year at the Investment Awards ceremony held on November 30, 2006 in Toronto.

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

As of March 2, 2007, the NAV of a Series A unit of the Fund was $93.43 and the cash position was 43% of net assets. The Fund is up 2.0% from the beginning of the year.

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

Francis Chou
Fund Manager

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AUDITORS' REPORT

To the Trustee and the Unitholders of
Chou Associates Fund
Chou Asia Fund
Chou Europe Fund
Chou Bond Fund
Chou RRSP Fund
(collectively referred to as the "Chou Funds")

We have audited the statements of net assets of the Chou Funds as at December 31, 2006 and 2005, the statements of operations and changes in net assets for the years then ended (except Chou Bond Fund which is for the year ended December 31, 2006 and for the period from August 10, 2005 to December 31, 2005) and the statements of investments at December 31, 2006. These financial statements are the responsibility of the Chou Funds' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Chou Funds as at December 31, 2006 and 2005, their results of operations and changes in net assets for the years, or periods then ended and their statements of investments as at December 31, 2006, in accordance with Canadian generally accepted accounting principles.

Burns Hubley LLP

Chartered Accountants

Markham, Ontario
February 28, 2007

CHOU ASSOCIATES FUND
STATEMENT OF NET ASSETS
AS AT DECEMBER 31, 2006

	2006	2005
ASSETS		
Cash and treasury bills	$ 265,801,886	$ 83,143,768
Accrued interest and dividend income	3,539,442	1,312,936
Receivable for units subscribed	5,598,961	933,498
Unrealized gain on foreign exchange forward contracts	-	4,955,920
Investments	386,650,787	256,089,241
	661,591,076	346,435,363
LIABILITIES		
Accrued expenses	996,756	568,652
Payable for units redeemed	769,324	37,141
Distributions payable	171,898	-
Liability for investment purchased	9,467,269	-
	11,405,247	605,793
NET ASSETS	$ 650,185,829	$ 345,829,570
NET ASSETS, BY SERIES		
Series A	$ 614,043,756	$ 342,333,898
Series F	36,142,073	3,495,672
	$ 650,185,829	$ 345,829,570
NUMBER OF UNITS OUTSTANDING (Note 3)		
Series A	6,700,136	4,376,444
Series F	395,408	44,689
NET ASSET VALUE PER UNIT		
Canadian dollars		
Series A	$ 91.65	$ 78.22
Series F	$ 91.40	$ 78.22
U.S. dollars		
Series A	$ 78.65	$ 67.09
Series F	$ 78.45	$ 67.09

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

Francis Chou

Tracy Chou

CHOU ASSOCIATES FUND

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
INVESTMENT INCOME		
Interest	$ 12,991,896	$ 5,954,109
Interest from securities lending	2,377,870	-
Dividends	2,003,856	5,622,462
Income (loss) from derivatives	(14,029)	390,006
	17,359,593	11,966,577
EXPENSES		
Management fees (Note 5)	7,555,233	4,302,532
Custodian fees	559,792	292,600
Foreign withholding taxes	318,790	863,841
Filing fees	42,840	34,617
FundSERV fees	35,036	22,259
Audit	24,000	16,585
Legal	18,655	14,150
	8,554,346	5,546,584
NET INVESTMENT INCOME FOR THE YEAR	8,805,247	6,419,993
NET REALIZED AND UNREALIZED GAIN (LOSS)		
Net realized gain (loss) on sale of investments	19,037,817	(3,878,848)
Unrealized gain	60,585,530	30,901,587
	79,623,347	27,022,739
INCREASE IN NET ASSETS FROM OPERATIONS	$ 88,428,594	$ 33,442,732
INCREASE IN NET ASSETS FROM OPERATIONS		
Series A	$ 84,559,419	$ 33,343,393
Series F	3,869,175	99,339
	$ 88,428,594	$ 33,442,732
INCREASE IN NET ASSETS FROM OPERATIONS, PER UNIT		
Series A	$ 15.45	$ 7.62
Series F	$ 16.60	$ 2.22

CHOU ASSOCIATES FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
SERIES A		
NET ASSETS, beginning of the year	$ 342,333,898	$ 166,710,954
Increase in net assets from operations	84,559,419	33,343,393
Proceeds from issue of units	282,623,194	155,315,502
Payments on redemption of units	(95,309,201)	(12,862,223)
Distribution of income to unitholders		
Investment income	(8,286,419)	(5,967,990)
Realized gains	-	-
Return of capital	-	-
Reinvested distributions	8,122,865	5,794,262
NET ASSETS, end of the year	614,043,756	342,333,898
SERIES F		
NET ASSETS, beginning of the year	3,495,672	-
Increase in net assets from operations	3,869,175	99,339
Proceeds from issue of units	29,602,583	3,396,722
Payments on redemption of units	(817,013)	-
Distribution of income to unitholders		
Investment income	(706,314)	(61,997)
Realized gains	-	-
Return of capital	-	-
Reinvested distributions	697,970	61,608
NET ASSETS, end of the year	36,142,073	3,495,672
TOTAL NET ASSETS, end of the year	$ 650,185,829	$ 345,829,570

CHOU ASSOCIATES FUND
STATEMENT OF INVESTMENTS
AS AT DECEMBER 31, 2006

	No. of Shares or Par Value	Cost	Market Value
SHARES*			
Berkshire Hathaway Inc., Class A	210	$ 21,727,432	$ 26,913,728
Biovail Corp.	480,100	8,209,122	11,810,460
Blue Ocean Re Holdings Ltd.	179,704	21,320,976	24,567,908
BT Group PLC	1,850,000	7,655,743	12,730,810
Cardinal Health Inc.	37,000	2,021,143	2,777,738
EchoStar Comm. Corp., Class A	50,000	1,689,844	2,215,632
Flagstone Reinsurance Holdings Ltd.	1,700,000	19,926,986	22,225,071
GB Holdings Inc.	217,600	821,401	106,490
Interstate Bakeries Corp.	383,500	2,308,230	1,072,452
King Pharmaceuticals Inc.	1,190,000	14,588,878	22,074,526
Royal Boskalis Westminster nv	360,367	11,590,142	41,555,875
Olympus Re Holdings Ltd.	1,652,836	10,235,125	10,804,234
Overstock.com Inc.	1,504,209	31,016,174	27,692,785
Sears Holdings Corp.	133,700	4,101,890	26,161,405
Sun-Times Media Group Inc.	769,800	4,256,886	4,404,136
The DirecTV Group Inc.	475,000	7,524,175	13,803,570
Utah Medical Products Inc.	79,230	1,831,102	3,045,603
UTStarcom Inc.	1,050,000	7,528,654	10,705,297
Verizon Comm. Inc.	265,727	9,406,073	11,530,462
Watson Pharmaceuticals Inc.	50,000	1,415,454	1,516,511
Westwood One Inc.	280,600	2,082,593	2,308,308
XO Holdings Inc.	2,957,554	13,018,615	14,818,441
		204,276,638	294,841,442
BONDS			
Adelphia Comm. Corp., 10.875%, Oct 1, 2010	4,000,000	$ 2,618,124	$ 4,264,641
Adelphia Comm. Corp, 10.25%, Nov 1, 2006	1,000,000	545,088	1,069,073
Adelphia Comm. Corp., 9.375%, Nov 15, 2009	1,372,000	985,539	1,502,738
Collins & Aikman Corp. bank debts	5,000,000	4,471,467	3,262,567
Collins & Aikman Corp. bank debts	5,000,000	4,668,324	3,262,567
Global Crossing (UK) Ltd., 10.75%, Dec 15, 2014	16,660,000	18,976,677	21,110,846
Level 3 Comm. Inc., 12.875%, Mar 15, 2010	8,398,000	8,521,211	10,127,858
Level 3 Comm. Inc., 6.0%, Mar 15, 2010	15,750,000	10,689,324	16,880,112
Level 3 Comm. Inc., 6.0%, Sep 15, 2009	13,523,000	8,601,386	14,748,583
Overstock.com Inc., 3.75%, Dec 1, 2011	6,825,000	5,483,607	6,043,905
UTStarcom Inc., 0.875%, Mar 1, 2008	9,130,000	7,403,697	9,895,745
		72,964,444	92,168,635

* Common shares unless indicated otherwise

CHOU ASSOCIATES FUND
SCHEDULE OF DERIVATIVES
AS AT DECEMBER 31, 2006

Written Call Options	Expiry Date	Strike Price	Number	Cost	Market Value
Sears Holdings Corp.	Jan 2007	$ 190	310	$ (276,492)	$ (3,612)
Sears Holdings Corp.	Jan 2007	195	825	(810,480)	(9,613)
The DirecTV Group Inc.	Jan 2008	23	500	(157,195)	(273,822)
The DirecTV Group Inc.	Jan 2008	25	200	(37,346)	(72,243)
				$ (1,281,513)	$ (359,290)
PORTFOLIO TOTAL				$ 275,959,569	$ 386,650,787

CHOU ASIA FUND

March 2, 2007

Dear Unitholders of Chou Asia Fund,

After the distribution of $0.11, the net asset value ("NAVPU" or "NAV") of a Series A unit of Chou Asia Fund at December 31, 2006 was $14.48 compared to $12.67 at December 31, 2005, an increase of 15.2%. The table below shows our results against the MSCI AC Asia Pacific Index (Morgan Stanley Capital Int'l All Country).

December 31, 2006 (Series A unit)	**2006**	**2005**	**2004**	**2003***
Chou Asia Fund	15.2%	7.0%	18.5%	2.8%
MSCI AC Asia Pacific (Total Return) ($ Cdn)	17.1%	19.5%	9.6%	4.4%

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.

* From September 19, 2003

Major contributors to the Fund's performance were Hanfeng Evergreen ("Hanfeng"), Sears Holdings and Talk America. We suffered declines in Metro One Telecommunications and Takefuji.

Hanfeng is a leading provider of slow and controlled release fertilizer to the agriculture and urban greening markets in China. The shares of Hanfeng are listed on the Toronto Stock Exchange, but the company earns all of its revenues and incurs most of its expenses in Chinese Yuan ("RMB"). We therefore categorize it as an investment in Asian business.

We are finding that bargains are hard to come by in Asia, however we are happy with the results we have achieved so far in spite of the high average month-end cash position of 38% of net assets. Please read the letter in Chou Associates Fund. It covers issues that should be of interest to you.

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 possible short-term performance.

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

As of March 2, 2007, the NAV of a Series A unit of the Fund was $15.46 and the cash position was 57% of net assets. The Fund is up 6.8% from the beginning of the year.

Yours truly,

Francis Chou

Francis Chou
Fund Manager

CHOU ASIA FUND

STATEMENT OF NET ASSETS

AS AT DECEMBER 31, 2006

	2006	2005
ASSETS		
Cash and treasury bills	$ 25,097,316	$ 15,534,646
Accrued interest and dividend income	94,485	19,582
Receivable for units subscribed	214,357	43,504
Investments	18,542,020	16,704,125
	43,948,178	32,301,857
LIABILITIES		
Accrued expenses	71,040	54,983
Payable for units redeemed	22,462	64,324
Distributions payable	4,901	-
	98,403	119,307
NET ASSETS	$ 43,849,775	$ 32,182,550
NET ASSETS, BY SERIES		
Series A	$ 41,889,091	$ 32,042,452
Series F	1,960,684	140,098
	$ 43,849,775	$ 32,182,550
NUMBER OF UNITS OUTSTANDING (Note 3)		
Series A	2,892,966	2,528,888
Series F	136,072	11,057
NET ASSET VALUE PER UNIT		
Canadian dollars		
Series A	$ 14.48	$ 12.67
Series F	$ 14.41	$ 12.67
U.S. dollars		
Series A	$ 12.43	$ 10.87
Series F	$ 12.37	$ 10.87

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

Francis Chou

Tracy Chou

CHOU ASIA FUND

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
INVESTMENT INCOME		
Interest	$ 745,979	$ 612,021
Dividends	238,336	518,610
Income from derivatives	-	9,917
	984,315	1,140,548
EXPENSES		
Management fees (Note 3)	595,438	419,986
Custodian fees	41,745	29,296
Foreign withholding taxes	28,431	67,941
Audit	11,200	5,510
Filing fees	5,500	4,100
FundSERV fees	3,717	2,630
Legal	2,000	2,369
	688,031	531,832
NET INVESTMENT INCOME FOR THE YEAR	296,284	608,716
NET REALIZED AND UNREALIZED GAIN		
Net realized gain on sale of investments	24,119	367,644
Unrealized gain	4,960,622	846,372
	4,984,741	1,214,016
INCREASE IN NET ASSETS FROM OPERATIONS	$ 5,281,025	$ 1,822,732
INCREASE IN NET ASSETS FROM OPERATIONS		
Series A	$ 5,105,723	$ 1,818,159
Series F	175,302	4,573
	$ 5,281,025	$ 1,822,732
INCREASE IN NET ASSETS FROM OPERATIONS, PER UNIT		
Series A	$ 1.88	$ 0.72
Series F	$ 2.63	$ 0.41

CHOU ASIA FUND

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
SERIES A		
NET ASSETS, beginning of the year	$ 32,042,452	$ 16,320,646
Increase in net assets from operations	5,105,723	1,818,159
Proceeds from issue of units	9,199,690	18,606,881
Payments on redemption of units	(4,453,871)	(4,694,604)
Distribution of income to unitholders		
Investment income	(317,699)	(596,890)
Realized gains	-	(87,296)
Return of capital	-	-
Reinvested distributions	312,796	675,556
NET ASSETS, end of the year	41,889,091	32,042,452
SERIES F		
NET ASSETS, beginning of the year	140,098	-
Increase in net assets from operations	175,302	4,573
Proceeds from issue of units	1,679,997	135,525
Payments on redemption of units	(34,713)	-
Distribution of income to unitholders		
Investment income	(32,320)	(1,909)
Realized gains	-	(265)
Return of capital	-	-
Reinvested distributions	32,320	2,174
NET ASSETS, end of the year	1,960,684	140,098
TOTAL NET ASSETS, end of the year	$ 43,849,775	$ 32,182,550

CHOU ASIA FUND
STATEMENT OF INVESTMENTS
AS AT DECEMBER 31, 2006

	No. of Shares or Par Value	Cost	Market Value
SHARES*			
Aiful Corp.	12,200	$ 424,077	$ 400,073
Electrotech Investments Ltd.	647,000	231,496	233,469
Fuji Television Network Inc.	100	295,254	266,259
Glacier Ventures Int'l Corp.	946,579	2,556,000	2,839,737
Hanfeng Evergreen Inc.	1,331,250	3,174,276	5,631,188
Nippon Television Network Corp.	3,110	549,841	537,633
Sears Holdings Corp.	14,000	447,495	2,739,414
Telecom Corp. of New Zealand	80,000	1,823,300	2,509,380
UTStarcom Inc.	230,000	1,528,112	2,344,970
		11,029,851	17,502,123
BONDS			
UTStarcom Inc., 0.875% convert., Mar 1, 2008	1,000,000	759,196	1,083,848

* Common shares unless indicated otherwise

CHOU ASIA FUND
SCHEDULE OF DERIVATIVES
AS AT DECEMBER 31, 2006

Written Call Options	Expiry Date	Strike Price	Number	Cost	Market Value
Sears Holdings Corp.	Jan 2007	$ 190.00	140	$ (124,624)	$ (1,631)
UTStarcom Inc.	Jan 2008	12.50	454	(62,764)	(42,320)
				$ (187,388)	$ (43,951)
PORTFOLIO TOTAL				$ 11,601,659	$ 18,542,020

CHOU EUROPE FUND

March 2, 2007

Dear Unitholders of Chou Europe Fund,

After the distribution of $0.34, the net asset value (“NAVPU” or “NAV”) of a Series A unit of Chou Europe Fund at December 31, 2006 was $14.00 compared to $12.95 at December 31, 2005, an increase of 10.7%. The table below shows our results against the MSCI AC Europe Index (Morgan Stanley Capital Int’l All Country).

December 31, 2006 (Series A unit)	**2006**	**2005**	**2004**	**2003***
Chou Europe Fund	10.7%	11.4%	13.6%	4.6%
MSCI AC Europe (Total Return)($ Cdn)	34.8%	7.2%	12.8%	12.0%

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.

* From September 19, 2003

Major contributors to the Fund’s performance were Talk America, Sears Holdings and Level 3 Communications debts. We suffered declines in Hollinger Inc. and Ultraframe.

We are finding that bargains are hard to come by in Europe, however we are happy with the results we have achieved so far in spite of the high average month-end cash position of 35% of net assets. We encourage you to read the letter in Chou Associates Fund. It covers issues that should be of interest to you.

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 possible short-term performance.

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

As of March 2, 2007, the NAV of a Series A unit of the Fund was $14.18 and the cash position was 51% of net assets. The Fund is up 1.3% from the beginning of the year.

Yours truly,

Francis Chou

Francis Chou
Fund Manager

CHOU EUROPE FUND
STATEMENT OF NET ASSETS
AS AT DECEMBER 31, 2006

	2006	2005
ASSETS		
Cash and treasury bills	$ 7,917,690	$ 5,799,603
Accrued interest and dividend income	110,718	48,158
Receivable for units subscribed	99,107	20,000
Amount receivable for investment sold	-	276,405
Investments	9,314,217	6,642,818
	17,441,732	12,786,984
LIABILITIES		
Accrued expenses	21,166	22,108
Payable for units redeemed	18	-
Distributions payable	8,470	-
	29,654	22,108
NET ASSETS	$ 17,412,078	$ 12,764,876
NET ASSETS, BY SERIES		
Series A	$ 15,919,121	$ 12,702,271
Series F	1,492,957	62,605
	$ 17,412,078	$ 12,764,876
NUMBER OF UNITS OUTSTANDING (Note 3)		
Series A	1,137,019	980,743
Series F	107,261	4,833
NET ASSET VALUE PER UNIT		
Canadian dollars		
Series A	$ 14.00	$ 12.95
Series F	$ 13.92	$ 12.95
U.S. dollars		
Series A	$ 12.02	$ 11.11
Series F	$ 11.95	$ 11.11

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

Francis Chou

Tracy Chou

CHOU EUROPE FUND

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
INVESTMENT INCOME		
Interest	$ 483,847	$ 247,351
Dividends	34,137	156,159
Income from derivatives	-	3,006
	517,984	406,516
EXPENSES		
Management fees (Note 5)	230,478	143,243
Custodian fees	17,630	11,237
Audit	11,200	5,510
Foreign withholding taxes	4,498	21,632
Filing fees	2,200	1,720
FundSERV fees	1,579	1,348
Legal	500	1,000
	268,085	185,690
NET INVESTMENT INCOME FOR THE YEAR	249,899	220,826
NET REALIZED AND UNREALIZED GAIN		
Net realized gain on sale of investments	432,118	321,992
Unrealized gain	850,866	304,592
	1,282,984	626,584
INCREASE IN NET ASSETS FROM OPERATIONS	$ 1,532,883	$ 847,410
INCREASE IN NET ASSETS FROM OPERATIONS		
Series A	$ 1,431,999	$ 844,801
Series F	100,884	2,609
	$ 1,532,883	$ 847,410
INCREASE IN NET ASSETS FROM OPERATIONS, PER UNIT		
Series A	$ 1.34	$ 0.86
Series F	$ 2.17	$ 0.54

CHOU EUROPE FUND

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
SERIES A		
NET ASSETS, beginning of the year	$ 12,702,271	$ 4,480,967
Increase in net assets from operations	1,431,999	844,801
Proceeds from issue of units	4,793,681	8,665,414
Payments on redemption of units	(3,000,282)	(1,284,798)
Distribution of income to unitholders		
Investment income	(216,112)	(216,855)
Realized gains	(156,042)	-
Return of capital	-	-
Reinvested distributions	363,606	212,742
NET ASSETS, end of the year	15,919,121	12,702,271
SERIES F		
NET ASSETS, beginning of the year	62,605	-
Increase in net assets from operations	100,884	2,609
Proceeds from issue of units	1,349,374	69,968
Payments on redemption of units	(19,906)	(9,972)
Distribution of income to unitholders		
Investment income	(34,617)	(965)
Realized gains	(14,533)	-
Return of capital	-	-
Reinvested distributions	49,150	965
NET ASSETS, end of the year	1,492,957	62,605
TOTAL NET ASSETS, end of the year	$ 17,412,078	$ 12,764,876

CHOU EUROPE FUND
STATEMENT OF INVESTMENTS
AS AT DECEMBER 31, 2006

	No. of Shares or Par Value	Cost	Market Value
SHARES*			
Clinton Cards PLC	650,000	$ 826,716	$ 897,565
Glacier Ventures Int'l Corp.	462,328	1,123,820	1,386,984
Hollinger Inc.	648,748	1,331,519	778,498
Royal Boskalis Westminster nv	4,800	149,734	553,514
Latium Holdings Ltd.	200,000	-	-
Natuzzi S.p.A.	52,000	544,146	515,625
Penn Treaty American Corp.	100,000	870,350	896,041
Sears Holdings Corp.	5,000	160,240	978,362
		5,006,525	6,006,589
BONDS			
Global Crossing (UK) Ltd., 10.75%, Dec 15, 2014	650,000	682,335	823,652
Global Crossing (UK) Ltd., 11.75%, Dec 15, 2014	180,000	420,378	450,894
Level 3 Comm. Inc., 6.0% convert., Sep 15, 2009	1,237,000	823,154	1,349,109
Tembec Industries Inc., 7.75%, Mar 15, 2012	1,000,000	654,074	684,556
		2,579,941	3,308,211

* Common shares unless indicated otherwise

CHOU EUROPE FUND
SCHEDULE OF DERIVATIVES
AS AT DECEMBER 31, 2006

Written Call Option	Expiry Date	Strike Price	Number	Cost	Market Value
Sears Holdings Corp.	Jan 2007	$ 190	50	$ (44,509)	$ (583)
PORTFOLIO TOTAL				$ 7,541,957	$ 9,314,217

CHOU BOND FUND

March 2, 2007

Dear Unitholders of Chou Bond Fund,

After the distribution of $0.40, the net asset value (“NAVPU” or “NAV”) of a Series A unit of Chou Bond Fund at December 31, 2006 was $12.21 compared to $10.34 at December 31, 2005, an increase of 22.0%.

Major contributors to the Fund’s performance were debts of Rewards Network, Adelphia Communications and Level 3 Communications.

Chou Bond Fund was opened to investors on September 16, 2005. The Fund has done quite well in 2006, but investors should continue to keep a balanced perspective and not expect the same performance levels year after year. The horse has bolted out of the gate, but ‘whoa’, it is still too early to make a judgment call on how we will do long-term. The jury is still out on this one, so let’s wait and see if we are a one-year wonder. Now that you have been properly forewarned, we feel comfortable saying that we remain optimistic that if we apply the same value principles we have used in the past in investing in equities, we have the potential to continue to do reasonably well in the future.

We did not charge the full management fee of 1.15% for the year 2006. We charged a fee only to cover the trailer fees paid to dealers and financial planners (0.15%). For the year 2007, the full management fee of 1.15% will be charged.

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 possible short-term performance.

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

As of March 2, 2007, the NAV of a Series A unit of the Fund was $12.68 and the cash position was 64% of net assets. The Fund is up 3.9% from the beginning of the year.

Yours truly,

Francis Chou

Francis Chou
Fund Manager

CHOU BOND FUND
STATEMENT OF NET ASSETS
AS AT DECEMBER 31, 2006

	2006	2005
ASSETS		
Cash and treasury bills	$ 14,375,820	$ 1,951,010
Receivable for units subscribed	1,851,266	63,500
Accrued interest income	446,523	7,989
Investments	19,743,098	934,987
	36,416,707	2,957,486
LIABILITIES		
Accrued expenses	15,308	1,758
Payable for units redeemed	12,337	-
Distributions payable	17,669	-
	45,314	1,758
NET ASSETS	$ 36,371,393	$ 2,955,728
NET ASSETS, BY SERIES		
Series A	$ 31,776,231	$ 2,933,119
Series F	4,595,162	22,609
	$ 36,371,393	$ 2,955,728
NUMBER OF UNITS OUTSTANDING (Note 3)		
Series A	2,602,344	283,682
Series F	376,179	2,186
NET ASSET VALUE PER UNIT		
Canadian dollars		
Series A	$ 12.21	$ 10.34
Series F	$ 12.22	$ 10.34
U.S. dollars		
Series A	$ 10.48	$ 8.87
Series F	$ 10.48	$ 8.87

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

Francis Chou

Tracy Chou

CHOU BOND FUND

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
INVESTMENT INCOME		
Interest	$ 1,042,464	$ 16,622
EXPENSES		
Management fees (Note 5)	178,015	6,409
Custodian fees	21,186	1,000
Audit	8,260	749
Filing fees	5,269	500
FundSERV fees	2,714	-
Legal	1,500	-
Total Expenses	216,944	8,658
Management fees waived by Manager (Note 5)	154,990	5,806
Net Expenses	61,944	2,852
NET INVESTMENT INCOME FOR THE YEAR	980,510	13,770
NET REALIZED AND UNREALIZED GAIN		
Net realized gain on sale of investments	250,062	-
Unrealized gain	1,572,441	74,307
	1,822,503	74,307
INCREASE IN NET ASSETS FROM OPERATIONS	$ 2,803,013	$ 88,077
INCREASE IN NET ASSETS FROM OPERATIONS		
Series A	$ 2,527,880	$ 87,216
Series F	275,133	861
	$ 2,803,013	$ 88,077
INCREASE IN NET ASSETS FROM OPERATIONS, PER UNIT		
Series A	$ 2.00	$ 0.31
Series F	$ 2.12	$ 0.39

CHOU BOND FUND

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
SERIES A		
NET ASSETS, beginning of the year	$ 2,933,119	$ -
Increase in net assets from operations	2,527,880	87,216
Proceeds from issue of units	27,805,521	2,845,903
Payments on redemption of units	(1,472,631)	-
Distribution of income to unitholders		
Investment income	(1,000,908)	(13,657)
Realized gains	-	-
Return of capital	-	-
Reinvested distributions	983,250	13,657
NET ASSETS, end of the year	31,776,231	2,933,119
SERIES F		
NET ASSETS, beginning of the year	22,609	-
Increase in net assets from operations	275,133	861
Proceeds from issue of units	4,363,530	21,748
Payments on redemption of units	(66,099)	-
Distribution of income to unitholders		
Investment income	(150,429)	(113)
Realized gains	-	-
Return of capital	-	-
Reinvested distributions	150,418	113
NET ASSETS, end of the year	4,595,162	22,609
TOTAL NET ASSETS, end of the year	$ 36,371,393	$ 2,955,728

CHOU BOND FUND
STATEMENT OF INVESTMENTS
AS AT DECEMBER 31, 2006

	No. of Units or Par Value	Cost	Market Value
SHARES*			
Arriscraft Int'l Income Fund, Trust Units	150,600	$ 656,678	$ 745,470
Blue Ocean Re Holdings Ltd., preferred	255	295,858	297,127
Menu Foods Income Fund, Trust Units	39,300	129,649	268,419
Rainmaker Income Fund, Trust Units	200,000	664,000	630,000
		1,746,185	1,941,016
BONDS			
Adelphia Comm Corp., 7.50%, Jan 15, 2004	605,000	$ 409,537	$ 650,314
Adelphia Comm. Corp., 9.375%, Nov 15, 2009	800,000	574,658	876,232
Doral Finance Corp., 6.204%, Jul 20, 2007	3,000,000	3,192,075	3,170,096
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	240,760
GMAC, 4.10%, Mar 15, 2009	95,000	89,354	105,362
GMAC, 5.10%, Aug 15, 2009	67,000	63,614	75,032
GMAC, 5.20%, Nov 15, 2009	100,000	94,300	112,046
GMAC, 5.25%, Aug 15, 2009	100,000	95,854	112,520
GMAC, 5.25%, Jun 15, 2009	78,000	74,855	87,859
Hollinger Inc., 11.875%, Mar 1, 2011	680,000	771,244	776,491
Hollinger Inc., 12.875%, Mar 1, 2011	866,000	988,767	1,019,157
Level 3 Comm. Inc., 11.50%, Mar 1, 2010	1,300,000	1,451,894	1,603,755
Level 3 Comm. Inc., 6.0%, Sep 15, 2009	150,000	91,673	163,594
Level 3 Financing Inc., 10.75%, Oct 15, 2011	20,000	19,225	25,453
Overstock.com Inc., 3.75%, Dec 1, 2011	1,125,000	936,100	996,248
Rewards Network Inc., 3.25%, Oct 15, 2023	3,750,000	3,386,602	3,725,007
Taiga Building Products Ltd., 14.0%, Sep 1, 2020	1,159,000	1,162,358	1,136,168
Tembec Industries Inc., 7.75%, Mar 15, 2012	1,000,000	654,074	684,556
Tembec Industries Inc., 8.50%, Feb 1, 2011	500,000	259,134	354,658
UTStarcom Inc., 0.875%, Mar 1, 2008	200,000	170,628	216,774
		16,355,818	17,802,082
PORTFOLIO TOTAL		$ 18,102,003	$ 19,743,098

* Common shares unless indicated otherwise

CHOU RRSP FUND

March 2, 2007

Dear Unitholders of Chou RRSP Fund,

After the distribution of $0.96, the net asset value ("NAVPU" or "NAV") of a Series A unit of Chou RRSP Fund at December 31, 2006 was $33.83 compared to $31.73 at December 31, 2005, an increase of 9.6%, while the S&P TSX Total Return Index returned 17.2%.

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

December 31, 2006 (Series A unit)	**Past Year**	**Past 3 Years**	**Past 5 Years**	**Past 10 Years**	**Past 15 Years**
Chou RRSP Fund($Cdn)	9.6%	12.9%	16.2%	17.0%	14.7%
S&P TSX ($Cdn)	17.2%	18.6%	13.1%	10.0%	11.3%

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.

Factors influencing the 2006 results
Major contributors to the Fund's performance were Royal Boskalis Westminster, Berkshire Hathaway and CanWest Global Communications. We suffered declines in Danier Leather, Torstar Corporation and Overstock.com.

General comments on the market
We continue to have problems finding compelling bargains in the marketplace. Not only are the P/E ratios and price-to-book values still high, and dividend yields low, relative to historic valuations, the number of companies that are underpriced is at an all time low. We would caution all investors that their chances of a large permanent loss of capital are high if they invest in today's market leaders at current prices.

Preservation of capital is being given almost zero consideration
The cardinal principle of investing is to think first about preserving capital before thinking about making money. In equities, we try to accomplish that by paying far less than what the company is worth, as measured by sustainable earning power and/or hard assets that are not depreciating in value. In other words, we want an adequate "Margin of Safety" and this is what distinguishes investment from speculation.

Although the methodologies may differ, the same cardinal principle applies when one is investing in other financial instruments. For example, the greater the probability of permanent loss of capital, the greater the spread should be between a particular debt instrument and risk-free treasuries. Currently the spreads between the higher risk securities and U.S. treasuries are at near historic lows. Other indicators also are showing that investors are in a euphoric mood and so are chasing yields and/or returns without giving due weight to the risk of potential market disruptions which could result in permanent loss of capital.

The following are some examples:

1) The spread between U.S. corporate high yield debt and 5 year U.S. treasuries is at a near historic low. The average spread between January 1991 and March 2007 was about 481 basis points (4.81%). Currently it is 270 basis points. At its widest, in November 2002, it was 1,094 basis points (source: Citigroup).

2) The spread between U.S. corporate high yield debt and U.S. investment grade bond is approaching the lowest we have ever seen. The average spread is about 436 basis points. Currently it is 187 basis points. At its widest, in November 2002, it was 845 basis points (source: Citigroup).

3) 1.6% of global junk-bond debt (by dollar amount) defaulted in 2006, the lowest default rate experienced by this group since 1981. The historical default rate for junk bonds is 4.9%. Junk bonds are debt offerings of companies rated Ba or lower (by Moody's) and involve investment risks which may include the loss of principal invested as a result of the failure of the company (source: Financial Times).

4) Consumer debt relative to GDP in the U.S. is the highest ever. Over the past 60 years, the ratio was less than 50%. Currently it is over 90% and trending higher.

5) Long term interest rates have been trending down since 1981. In September 1981, the interest rate on 10 year U.S. treasuries was 15.3%. Recently it was at 4.75%. This bull market is 26 years long! Contrarians would instinctively think the trend is due for a reversal.

6) Inflation in the U.S. has trended down from its high of 14.8% in 1980 to less than 2.1% currently. Again, this trend is 27 years long and contrarians would instinctively think it is due for a reversal.

7) Business school graduates are gravitating in large numbers to hedge funds and private equity funds. Historically, they have been attracted to industries that are about to peak or have peaked.

From these examples, it appears obvious that investors are throwing caution to the wind. Risk is not priced into riskier securities at all. Whenever the majority of investors are purchasing securities at prices that implicitly assume that everything is perfect with the world, an economic dislocation or other shock always seems to appear out of the blue. And when that happens, investors learn, once again, that they ignore risk at their peril.

We continue to diligently look for undervalued stocks and will buy them only when they meet our price criteria – in other words - when they are priced for '**IMPERFECTION**'.

Derivatives and financial institutions

We remain a keen and interested observer of derivative instruments. Derivative instruments are financial instruments created by market participants so that they can trade and/or manage more easily the asset upon which these instruments are based. Derivatives are not asset classes unto themselves. Their values are derived solely from an underlying interest, which may be a commodity such as wheat or a financial product such as a bond or stock, a foreign currency, or an economic/stock index.

According to the Bank for International Settlements, contracts outstanding worldwide for derivatives at the end of June 30, 2006 rose to $370 *trillion*. We are alarmed by the exponential rise in the use of derivatives. No one knows how dangerous these instruments can be. They have not been stress tested. However we cannot remain complacent. We believe the risk embedded in derivative instruments is pervasive and most likely not limited or localized to a particular industry. Financial institutions are most vulnerable when (not if) surprises occur – and when they occur they are almost always negative.

As a result, we have not invested heavily in financial institutions although at times their stock prices have come down to buy levels. Some 30 years ago, when an investor looked at a bank, he or she knew what the items on the balance sheet meant. The investor understood what criteria the bankers used to loan out money, how to interpret the loss reserving history, and how to assess the quality and sustainability of revenue streams and expenses of the bank to generate reasonable earnings. In a nutshell, we were able to appraise how much the bank was worth based on how efficiently its bankers were utilizing the **3-6-3** rule.

The **3-6-3** rule works like this: The bank pays 3% on savings accounts, loans out money to businesses with solid financials at 6%, and then the banker leaves the office at 3pm to play golf.

That was 30 years ago and you can see how easy it was to evaluate a bank.

Now, when an investor examines a bank's financials, he or she is subjected to reams of information and numbers but has no way of ascertaining with a high degree of certainty how solid the assets are, or whether the liabilities are all disclosed, or even known, much less properly priced. As the investor digs deeper into the footnotes, instead of becoming enlightened, more doubts may surface about the true riskiness of the bank's liabilities. Those liabilities could be securitized, hidden in derivative instruments or morphed into any number of other instruments that barely resemble the original loans.

We wonder whether bankers are using a rule that is as difficult to understand as their derivative instruments. We call it the **1-12-11** rule, namely, the bank pays 1% on checking accounts, loans out money to businesses with weak financials at 12%, and the banker leaves the office at 11am to play golf with hedge fund and private equity managers where they discuss how to chop and/or bundle the loan portfolios into different tranches and create, out of thin air, new derivative products that are rated triple A (from products that originally were B rated). These products are then sold to institutions (who may be oblivious of the risk involved) that are reaching for yields.

The above example is written tongue-in-cheek and it is not meant to be entirely representative of what bankers do. It is meant to show just how creative participants have been in producing new derivative products, with little regard for a sound understanding of their leverage and true risk characteristics. We may be witnessing a ‘tragedy of the commons’ where the search for quick individual profits is causing a system-wide increase in risk and reckless behavior.

Credit default swaps (CDS)

In our semi-annual report dated August 11, 2005 we informed investors of our interest in CDS. By way of this letter, we are providing our unitholders with the 60 days notice required by securities authorities so that the Chou Funds may choose to invest in CDS commencing no earlier than May 31, 2007.

With that legal announcement out of the way, we can now continue to discuss the investment merits of CDS. Although they are derivatives, we are willing to look into them provided we find that there is sufficient and ample coverage against counterparty risk.

In terms of investment ideas in derivatives, we believe that CDS are selling at prices that are compelling. At recent prices, they offer the cheapest form of insurance against market disruptions. In CDS, one party sells credit protection and the other party buys credit protection. Put another way, one party is selling insurance and the counterparty is buying insurance against the default of the third party’s debt. The Chou Funds would be interested in buying this type of insurance.

To give you some sense of perspective, in October 2002, the 5 year CDS of General Electric Company was quoted at an annual price of 110 basis points. Recently, it was quoted at an annual price of less than 8 basis points.

To make money in CDS, you don’t need a default of the third party’s debt. If there is any hiccup in the economy, the CDS price will rise from these low levels. The negative aspect is that, like insurance, the premium paid for the protection erodes over time and may expire worthless.

Sub-prime mortgage lenders

Some of the greatest excesses of easy credit were committed by sub-prime mortgage lenders. Credit standards were so lax and liberal that homeowners didn’t even need to produce verification of income to be able to borrow up to 100% or more of the appraised value of their houses.

Companies with the most liberal lending practices have started to report serious, even crippling, financial problems. Some optimists believe that the worst is over. However, they may be in for a surprise. Instead of it being the darkest hour before the dawn, it could be the darkest hour before pitch black. It will take a while (and maybe a long while) for the excesses to wring themselves out of the system.

Other matters

Fee Based Series ("F") units: Due to repeated requests from financial planners and dealers, we introduced a new class of units called Series F units in September 2005. In this class the dealers will not receive any trailer fees but they can charge any fee with the consent of their client.

Foreign Currency Hedging: Several currency hedges existed during the year but none existed as at December 31, 2006.

$US Dollar Valuation: Any investor who wishes to purchase the Chou Funds in $US will now be able to do so.

New Service Providers: Effective November 6, 2006, Citigroup Fund Services Canada, Inc. (CFSC) and its affiliates are the new service providers of fund operation to the Chou Funds.

Concentra Financial is providing the Chou Funds with trustee services for registered products such as administering plans for RRSPs, RRIFs, LRIFs and LIFs.

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

As of March 2, 2007, the NAV of a Series A unit of the Fund was $34.73 and the cash position was 9.5% of net assets. The Fund is up 2.7% from the beginning of the year.

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

Francis Chou
Fund Manager

CHOU RRSP FUND
STATEMENT OF NET ASSETS
AS AT DECEMBER 31, 2006

	2006	2005
ASSETS		
Cash and treasury bills	$ 16,856,792	$ 53,871,227
Accrued interest and dividend income	2,329,326	1,046,650
Receivable for units subscribed	550,528	285,662
Unrealized gain on foreign exchange forward contract	-	1,799,487
Investments	315,449,136	242,405,583
	335,185,782	299,408,609
LIABILITIES		
Accrued expenses	500,713	494,595
Payable for units redeemed	833,116	151,135
Distributions payable	108,779	-
	1,442,608	645,730
NET ASSETS	$ 333,743,174	$ 298,762,879
NET ASSETS, BY SERIES		
Series A	$ 317,282,443	$ 294,865,823
Series F	16,460,731	3,897,056
	$ 333,743,174	$ 298,762,879
NUMBER OF UNITS OUTSTANDING (Note 3)		
Series A	9,379,824	9,293,546
Series F	488,221	122,827
NET ASSET VALUE PER UNIT		
Canadian dollars		
Series A	$ 33.83	$ 31.73
Series F	$ 33.72	$ 31.73
U.S. dollars		
Series A	$ 29.03	$ 27.22
Series F	$ 28.94	$ 27.22

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

Francis Chou

Tracy Chou

CHOU RRSP FUND

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
INVESTMENT INCOME		
Interest	$ 7,145,547	$ 3,451,930
Dividends	6,820,578	7,087,397
Interest from securities lending	1,277,830	-
Income from derivatives	810,954	257,674
	16,054,909	10,797,001
EXPENSES		
Management fees (Note 5)	5,006,494	3,964,230
Custodian fees	377,043	285,600
Foreign withholding taxes	262,529	753,453
Filing fees	28,133	31,000
FundSERV fees	21,090	21,790
Audit	20,655	17,087
Legal	15,102	16,100
	5,731,046	5,089,260
NET INVESTMENT INCOME FOR THE YEAR	10,323,863	5,707,741
NET REALIZED AND UNREALIZED GAIN		
Net realized gain on sale of investments	8,524,946	4,813,889
Unrealized gain	9,640,200	26,186,104
	18,165,146	30,999,993
INCREASE IN NET ASSETS FROM OPERATIONS	$ 28,489,009	$ 36,707,734
INCREASE IN NET ASSETS FROM OPERATIONS		
Series A	$ 27,182,294	$ 36,588,005
Series F	1,306,715	119,729
	$ 28,489,009	$ 36,707,734
INCREASE IN NET ASSETS FROM OPERATIONS, PER UNIT		
Series A	$ 2.86	$ 3.94
Series F	$ 3.40	$ 0.97

CHOU RRSP FUND

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
SERIES A		
NET ASSETS, beginning of the year	$ 294,865,823	$ 172,034,214
Increase in net assets from operations	27,182,294	36,588,005
Proceeds from issue of units	51,607,847	106,352,368
Payments on redemption of units	(56,268,202)	(20,002,882)
Distribution of income to unitholders		
Investment income	(8,720,694)	(5,375,247)
Realized gains	-	(3,910,223)
Return of capital	-	-
Reinvested distributions	8,615,375	9,179,588
NET ASSETS, end of the year	317,282,443	294,865,823
SERIES F		
NET ASSETS, beginning of the year	3,897,056	-
Increase in net assets from operations	1,306,715	119,729
Proceeds from issue of units	13,466,641	3,782,157
Payments on redemption of units	(2,206,221)	(4,500)
Distribution of income to unitholders		
Investment income	(571,681)	(74,820)
Realized gains	-	(50,827)
Return of capital	-	-
Reinvested distributions	568,221	125,317
NET ASSETS, end of the year	16,460,731	3,897,056
TOTAL NET ASSETS, end of the year	$ 333,743,174	$ 298,762,879

CHOU RRSP FUND

STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2006

	No. of Shares or Par Value	Cost	Market Value
SHARES*			
Berkshire Hathaway Inc., Class A	180	$ 18,417,665	$ 23,068,910
Biovail Corp.	1,157,100	21,984,714	28,464,660
BMTC Group Inc., Class A	678,956	6,584,918	11,956,415
BT Group PLC	1,150,000	4,660,963	7,913,747
CanWest Global Comm. Corp.	2,176,600	20,549,319	24,051,430
Consolidated-Tomoka Land Company	41,700	2,381,689	3,517,839
Corus Entertainment Inc., Class B	96,700	2,276,339	4,013,050
Danier Leather Inc.	969,800	9,215,066	5,430,880
Flagstone Reinsurance Holdings Ltd.	1,300,000	15,197,000	16,995,642
Fraser Papers Inc.	435,200	3,638,409	2,693,888
Int'l Forest Products Ltd., Class A	590,600	2,945,568	4,246,414
Interstate Bakeries Corp.	420,000	2,217,531	1,174,524
Isotechnika Inc.	939,700	1,774,242	1,559,902
King Pharmaceuticals Inc.	1,000,000	10,499,384	18,550,022
Royal Boskalis Westminster nv	250,000	7,948,015	28,828,856
Liquidation World Inc.	1,155,000	5,100,958	6,583,500
Magna Int'l Inc., Class A	50,000	3,949,309	4,693,500
MRRM Inc.	47,400	238,185	343,650
Overstock.com Inc.	715,500	14,904,829	13,172,497
Rainmaker Income Fund, Trust Units	2,345,800	7,690,157	7,389,270
Ridley Canada Ltd.	37,800	358,599	286,146
Symetra Financial Corp.	20,000	2,673,000	3,056,326
Taiga Building Products Ltd.	1,272,400	1,692,292	2,493,904
Torstar Corp., Class B	1,246,900	27,336,373	24,451,709
Tri-White Corp.	345,000	1,920,379	3,156,750
TVA Group Inc., Class B	792,000	11,839,119	11,800,800
Wescast Industries Inc., Class A	101,900	3,315,785	1,156,565
		211,309,807	261,050,796
BONDS			
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	1,655,753
Hollinger Inc., 12.875%, Mar 1, 2011	12,568,000	14,169,351	14,790,706
Level 3 Comm. Inc., 11.50%, Mar 1, 2010	4,300,000	4,802,419	5,304,730
Level 3 Comm. Inc., 12.875%, Mar 15, 2010	7,111,000	6,850,012	8,575,756
Level 3 Financing Inc., 10.75%, Oct 15, 2011	5,670,000	5,533,030	7,215,901
Taiga Building Products Ltd., 14.0% Sept 1, 2020	6,769,168	6,769,168	6,635,815
		50,090,998	54,508,661

* Common shares unless indicated otherwise

CHOU RRSP FUND
SCHEDULE OF DERIVATIVES
AS AT DECEMBER 31, 2006

Written Call Options	Maturity	Strike Price	Number	Cost	Market Value
Biovail Corp.	Jan 2007	$ 25	1,725	$ (683,034)	$ (10,050)
Biovail Corp.	Jan 2008	25	548	(96,914)	(79,816)
Biovail Corp.	Jan 2007	30	26	(6,053)	(151)
King Pharmaceuticals Inc.	Jan 2007	17.50	3,485	(441,281)	(20,304)
				$ (1,227,282)	$ (110,321)
PORTFOLIO TOTAL				$ 260,173,523	$ 315,449,136

1. FORMATION OF CHOU FUNDS

The individual funds comprising the family of Chou Funds (the Chou 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

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian generally accepted accounting principles and conform in all material respects with Section 1100 of the CICA handbook and with National Instrument 81-106 on continuous disclosure standards for investment funds. The following is a summary of significant accounting policies followed by the Funds.

(a) Valuation of Investments

Investments in securities are recorded at market values based on the year-end closing sale price or, if the security did not trade, the average of the closing bid and ask price or the latest available sale price will be used. Securities not listed on any exchange are valued in the same manner as above, based upon any available public quotation in common use or at a price estimated to be the true value thereof on such basis and in such manner as may be approved by the Manager.

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

(b) 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.

2. SIGNIFICANT ACCOUNTING POLICIES continued

(c) 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.

(d) 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.

2. SIGNIFICANT ACCOUNTING POLICIES continued

(e) 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.

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

(f) 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.

(g) 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.

(h) 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.

2. SIGNIFICANT ACCOUNTING POLICIES continued

(i) Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires the Manager to make estimates and assumptions that affect the amounts recorded in the financial statements. These estimates are based on the Manager's best knowledge of current events and actions that the Funds may undertake in the future. Actual results may differ from these estimates.

3. 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	
	2006	**2005**	**2006**	**2005**
CHOU ASSOCIATES FUND				
Units outstanding, beginning of the year	4,376,444	2,380,689	44,689	-
Add: Units issued during the year	3,346,335	2,095,757	352,722	43,902
Deduct: Units redeemed during the year	(1,111,277)	(174,068)	(9,639)	-
Units outstanding before income distribution	6,611,502	4,302,378	387,772	43,902
Add: Units issued on reinvested income	88,634	74,066	7,636	787
Units outstanding, end of the year	6,700,136	4,376,444	395,408	44,689
CHOU ASIA FUND				
Units outstanding, beginning of the year	2,528,888	1,348,857	11,057	-
Add: Units issued during the year	680,666	1,510,336	125,352	10,885
Deduct: Units redeemed during the year	(338,191)	(383,639)	(2,580)	-
Units outstanding before income distribution	2,871,363	2,475,554	133,829	10,885
Add: Units issued on reinvested income	21,603	53,334	2,243	172
Units outstanding, end of the year	2,892,966	2,528,888	136,072	11,057

3. UNITS OF THE FUND continued

	Series A		Series F	
	2006	**2005**	**2006**	**2005**
CHOU EUROPE FUND				
Units outstanding, beginning of the year	980,743	378,650	4,833	-
Add: Units issued during the year	356,347	687,574	100,381	5,537
Deduct: Units redeemed during the year	(226,041)	(101,905)	(1,490)	(778)
Units outstanding before income distribution	1,111,049	964,319	103,724	4,759
Add: Units issued on reinvested income	25,970	16,424	3,537	74
Units outstanding, end of the year	1,137,019	980,743	107,261	4,833
CHOU BOND FUND				
Units outstanding, beginning of the year	283,682	-	2,186	-
Add: Units issued during the year	2,366,625	282,362	367,407	2,175
Deduct: Units redeemed during the year	(128,487)	-	(5,728)	-
Units outstanding before income distribution	2,521,820	282,362	363,865	2,175
Add: Units issued on reinvested income	80,524	1,320	12,314	11
Units outstanding, end of the year	2,602,344	283,682	376,179	2,186
CHOU RRSP FUND				
Units outstanding, beginning of the year	9,293,546	6,075,893	122,827	-
Add: Units issued during the year	1,592,697	3,592,782	417,553	119,019
Deduct: Units redeemed during the year	(1,761,115)	(664,472)	(69,012)	(142)
Units outstanding before income distribution	9,125,128	9,004,203	471,368	118,877
Add: Units issued on reinvested income	254,696	289,343	16,853	3,950
Units outstanding, end of the year	9,379,824	9,293,546	488,221	122,827

4. 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:

	2006	2005
Chou Associates Fund	$ 886,641	$ 463,152
Chou Asia Fund	62,146	40,669
Chou Europe Fund	17,101	17,435
Chou Bond Fund	4,217	258
Chou RRSP Fund	431,985	398,595

5. 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.

The amount of the investment management fee is discretionary and is subject to the limits above. The investment management fee charged to Chou Bond Fund by the Manager was less than the maximum amount permitted.

6. BROKERS' COMMISSIONS

Total commissions paid to brokers in connection with portfolio transactions for the years ended December 31, 2006 and 2005, and the period from August 10, 2005 to December 31, 2005 for Chou Bond Fund are as follows:

	2006	2005
Chou Associates Fund	$ 132,040	$ 297,750
Chou Asia Fund	19,896	33,805
Chou Europe Fund	12,563	12,979
Chou Bond Fund	5,799	1,329
Chou RRSP Fund	261,242	374,137

7. 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 comprise 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 December 31, 2006 are as follows:

Fund	Market value of securities on loan	Market value of collateral received
Chou Associates Fund	$ 18,704,761	$ 22,138,845
Chou RRSP Fund	$ 9,472,047	$ 12,817,226

8. 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.

9. FUTURE ACCOUNTING STANDARDS

On April 1, 2005, the Canadian Institute of Chartered Accountants (“CICA”) issued CICA Handbook section 3855, “Financial Instruments – Recognition and Measurement”, which establishes Canadian GAAP for financial instruments. This section applies to fiscal years beginning on or after October 1, 2006.

Pursuant to National Instrument 81-106 Investment Fund Continuous Disclosure (“NI 81-106), investment funds are required to calculate their net asset value in accordance with Canadian GAAP, which has been modified by section 3855.

9. FUTURE ACCOUNTING STANDARDS continued

The Canadian Securities Administrators ("CSA") have granted relief on an interim basis from the requirement of NI 81-106 that investment funds calculate their net asset values in accordance with Canadian GAAP, with the exception of financial reporting purposes, for a period of one year ending September 30, 2007. This allows for further review of alternatives to calculating the net asset value in accordance with Canadian GAAP. Depending upon the outcome of such a review, the method for calculating the net asset value may result in a change to the trading net asset value per unit of an investment fund.

In accordance with the relief granted by the CSA, a reconciliation of the net asset value between the trading net asset value and the net asset value calculated in accordance with section 3855 of an investment fund will be required to be disclosed in the notes to the financial statements for financial reporting periods for fiscal years beginning on or after October 1, 2006.

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, 2005	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**

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.

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