EVEREST BABCOCK & BROWN

EVEREST BABCOCK & BROWN
ALTERNATIVE INVESTMENT TRUST

ANNUAL REPORT

2007

TRUST PARTICULARS

Everest Babcock & Brown Alternative Investment Trust (EBI or the Trust) is a listed registered managed investment scheme. It is a consolidated entity and has exposure to a portfolio of international absolute return funds and select direct investments through two controlled sub-trusts.

RESPONSIBLE ENTITY OF THE TRUST	Everest Capital Investment Management Limited
TRUSTEE OF THE SUB-TRUSTS	Everest Capital Limited
DIRECTORS OF THE RESPONSIBLE ENTITY OF THE TRUST	Trevor Gerber, Non-Executive Chairman Marea Laszok, Independent Director Warick Leeming, Independent Director Peter Williams, Independent Director Jeremy Reid, Executive Director
COMPANY SECRETARIES	Brian O'Sullivan and Azra Popo
AUDITORS OF EBI, THE RESPONSIBLE ENTITY AND TRUSTEE	Ernst & Young
AUDITORS OF THE COMPLIANCE PLAN	Deloitte
COUNTRY OF INCORPORATION	Australia
REGISTERED OFFICE	Level 35 AMP Centre 50 Bridge Street SYDNEY NSW 2000
CONTACT DETAILS	Mail Address: Level 35 AMP Centre 50 Bridge Street SYDNEY NSW 2000 Telephone: +61 2 8001 9100 Fax: +61 2 8001 9200 Website: www.everest.com.au
REGISTRY	Link Market Services Limited Level 12 680 George Street SYDNEY NSW 2000 Telephone: 1800 336 109 If calling from overseas: +61 2 8280 7691
STOCK EXCHANGE	ASX Limited (ASX) The home exchange is Sydney ASX code: EBI
INVESTMENT MANAGER	Everest Capital Limited
CUSTODIAN	ANZ Custodian Services
LEGAL ADVISORS	Freehills
FINANCIAL ADVISOR	Babcock & Brown Australia Pty Limited

Everest Babcock & Brown Alternative Investment Trust ARSN 112 129 218 and controlled entities.
Annual Report for the year ended 31 December 2007.

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CHAIRMAN'S REPORT

I am pleased to present the 2007 Annual Report for Everest Babcock & Brown Alternative Trust's (EBI or the Trust).

EBI announced earnings of $42.6 million for the year ended 31 December 2007. After what was a particularly challenging second half for investment markets, the 2007 result represents earnings of 30.4 cents per unit on the weighted average number of units on issue for the year. Distributions to unitholders for the year were 23.8 cents per unit.

A significant event during the course of the year was the Capital Raising in May 2007, where EBI raised approximately $503 million. Participants in the Capital Raising were allotted one EBB share at no additional consideration for every 4.5 EBI units allotted. The Capital Raising allowed EBI to increase the diversity of its investments and to renegotiate its leverage facilities on more attractive terms.

The Board and management of EBI are dedicated to providing investors with access to a diversified portfolio comprising the leading international absolute return funds and quality direct investments, whilst constantly maintaining our strict and transparent investment criteria. This portfolio is designed to generate attractive risk adjusted returns over the medium-to-long term, while maintaining a constant focus on capital preservation. EBI has produced an annualised return of 10.3% since the Trust's inception in April 2005 as measured by growth in Net Tangible Assets (NTA) and distributions paid to unitholders.

Importantly in the current volatile market environment, EBI possesses the strategic advantage of its stable capital base. This allows it to commit with confidence to longer duration and emerging opportunities, whilst still providing investors with the liquidity of a listed security through the ASX.

The EBI Board is also seeking to address the substantial discount to Net Tangible Assets (NTA) at which EBI units currently trade on the ASX. In August 2007 the Board implemented a unit buy-back program to buy back units at an attractive discount to NTA. The buy-back has been an efficient use of EBI's capital.

Notwithstanding the Trust's solid underlying investment performance and the buy-back, a number of factors including the declining investment markets over recent months, have continued to put downward pressure on the EBI unit price. Many listed investment trusts and companies are also suffering significant trading discounts given the challenges posed by the negative sentiment across the broader investment market. Your Board is determined to take further steps designed to bring about a material reduction, if not elimination of the trading discount over the shortest possible time frame.

While the second half of 2007 and beginning of 2008 have provided extremely volatile market conditions, the current environment reinforces the importance of absolute return allocations within balanced investment portfolios. As we experience continued market uncertainty, we believe that we are providing our investors with access to, what we consider to be some of the smartest and most experienced global investment managers, including the co-investment deal flow provided by Babcock & Brown. The Board believe EBI is well positioned to take advantage of the investment opportunities that will flow from the current market conditions and deliver attractive risk-adjusted returns over the medium-to-long term.

I would like to thank my fellow Directors, Everest Babcock & Brown management and staff for their support and contribution during 2007.

Trevor Gerber
Chairman

DIRECTORS' REPORT

The Directors of Everest Capital Investment Management Limited (ECIML), the Responsible Entity of Everest Babcock & Brown Alternative Investment Trust (EBI), present their report together with the consolidated financial report of EBI and the entities it controlled during the year (the consolidated entity) for the year ended 31 December 2007.

RESPONSIBLE ENTITY

The Responsible Entity of Everest Babcock & Brown Alternative Investment Trust is Everest Capital Investment Management Limited (ABN 96 112 731 978 AFSL288360). The registered office and principal place of business of the Responsible Entity is Level 35, AMP Centre, 50 Bridge Street, Sydney, NSW 2000.

PRINCIPAL ACTIVITIES

The consolidated entity is a registered managed investment scheme domiciled in Australia.

The principal activities of the consolidated entity during the year were to achieve a combined exposure to:

- a diversified portfolio of leading international absolute return funds (Underlying Investment Portfolio); and
- direct investments in subordinated debt and equity co-investments which EBI invests in directly or through its 100% owned sub-trusts, EBI Income Fund and EBI Opportunities Fund.

The exposure to the Underlying Investment Portfolio and direct investments are together referred to as the Investment Portfolio.

The Responsible Entity uses leverage to enhance returns and increase diversification. Leverage is achieved notionally via a Leverage Facility and directly through the EBI Income Fund Loan Facility.

Overall, the Responsible Entity currently manages leverage by targeting an EBI total debt to asset ratio of approximately 50%.

CORPORATE INFORMATION

Investment approach

The Investment Portfolio comprises exposure to a mix of Investment Managers and investment strategies including long/short equity, distressed securities, multi-strategy, event driven, asset backed lending and direct investments.

Everest Capital Limited (the Manager) aims to generate attractive risk-adjusted returns over the medium-to-long term and in all market conditions, with a particular focus on capital preservation.

The Manager's process of selecting absolute return funds incorporates the utilisation of its worldwide industry network, extensive research, due diligence and face to face meetings with potential Investment Managers.

The Manager's strategy focuses on investing in absolute return funds which it believes are leading international absolute return funds based on quality, competence and motivation of their people, track record, strong risk management capabilities and business infrastructure. A further criterion is that the principals have a significant amount of their own net worth invested in their funds, therefore being motivated to maximise risk-adjusted performance, rather than merely increase assets under management.

When directly investing in assets, the Manager seeks to invest in quality assets with one or more of the following characteristics; a strong market position and demonstrated financial performance, solid asset value, opportunistic characteristics, and a quality and experienced management team.

Attractive asset class

Absolute return strategies involve flexible investment mandates that provide the potential, over the medium-to-long term, to generate attractive risk-adjusted returns in rising and falling markets, rather than returns relative to a market index that may result in either positive or negative performance. Absolute return strategies have historically exhibited low correlation to returns from traditional asset classes such as Australian and international shares, property and bonds and therefore can provide diversification benefits within a balanced portfolio.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

EBI Capital Raising

On 16 February 2007, EBI made a joint ASX announcement with Everest Babcock & Brown Limited (EBB or company) relating to a proposed Capital Raising by EBI (Capital Raising) whereby the successful applicants for EBI units under the Capital Raising would also be issued shares in EBB for no additional consideration (EBB Share Issue).

The Capital Raising comprised a:

- placement of EBI units to wholesale investors and to brokers for allocation to their clients (Placement); and
- significant underwritten pro rata nonrenounceable right issues of EBI units to EBI unitholders (Entitlement Offer).

The Capital Raising closed successfully on 8 May 2007 at which point the number of EBB shares issued to each successful applicant was 1 EBB share for every 4.5 EBI units subscribed for in the Capital Raising.

The total funds raised through the Capital Raising were $503,228,741 gross of costs associated with the Capital Raising. The Placement of EBI units raised $250,000,000 while the Entitlement Offer raised $253,228,741. Total additional units in EBI of 120,493,397 were issued through the Capital Raising.

Leverage and loan facilities

In addition, at the time of the Capital Raising the Responsible Entity:

(a) agreed to increase the size of its existing Leverage Facility to increase its exposure to the Underlying Investment Portfolio; and

(b) agreed to a new direct Loan Facility with the existing Leverage Provider (being Macquarie Group Limited) to provide debt funding primarily for the purpose of acquiring investments in subordinated debt within the EBI Income Fund.

These facilities contain representations, warranties, undertakings and events of default that the Responsible Entity considers consistent with terms usual for such facilities.

Buy-back

On 7 August 2007, EBI announced an on-market buy-back of units and that it had applied to the Australian Securities and Investments Commission (ASIC) for appropriate relief. ASIC relief was granted for EBI to buy back a maximum of 6,048,356 units and EBI intends to undertake a buy-back of units of up to this amount.

The buy-back was funded through the use of cash reserves and unused leverage capacity via EBI's existing facilities.

EBI believes that the current market price significantly undervalues the true worth of EBI and that an on-market buy-back is an efficient use of capital which will generate unitholder value.

As at 31 December 2007, EBI has bought back and cancelled 2,466,034 units for the total consideration of $7,908,889.

Subsequent to year end and up to 29 February 2008, EBI has bought back and cancelled 5,570,970 units. This brings total consideration paid for the units to $16,458,889.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial year.

REVIEW AND RESULTS OF OPERATIONS

During the year, the consolidated entity continued to engage in its principal activities, the results of which are disclosed in the attached financial statements.

The results of the consolidated entity and parent, as represented by the results of their operations, were as follows:

	Consolidated Year ended		Parent Year ended	
	31 December 2007 $'000	31 December 2006 $'000	**31 December 2007 $'000**	31 December 2006 $'000
Net operating profit from continuing operations	**42,616**	40,255	**42,515**	40,353

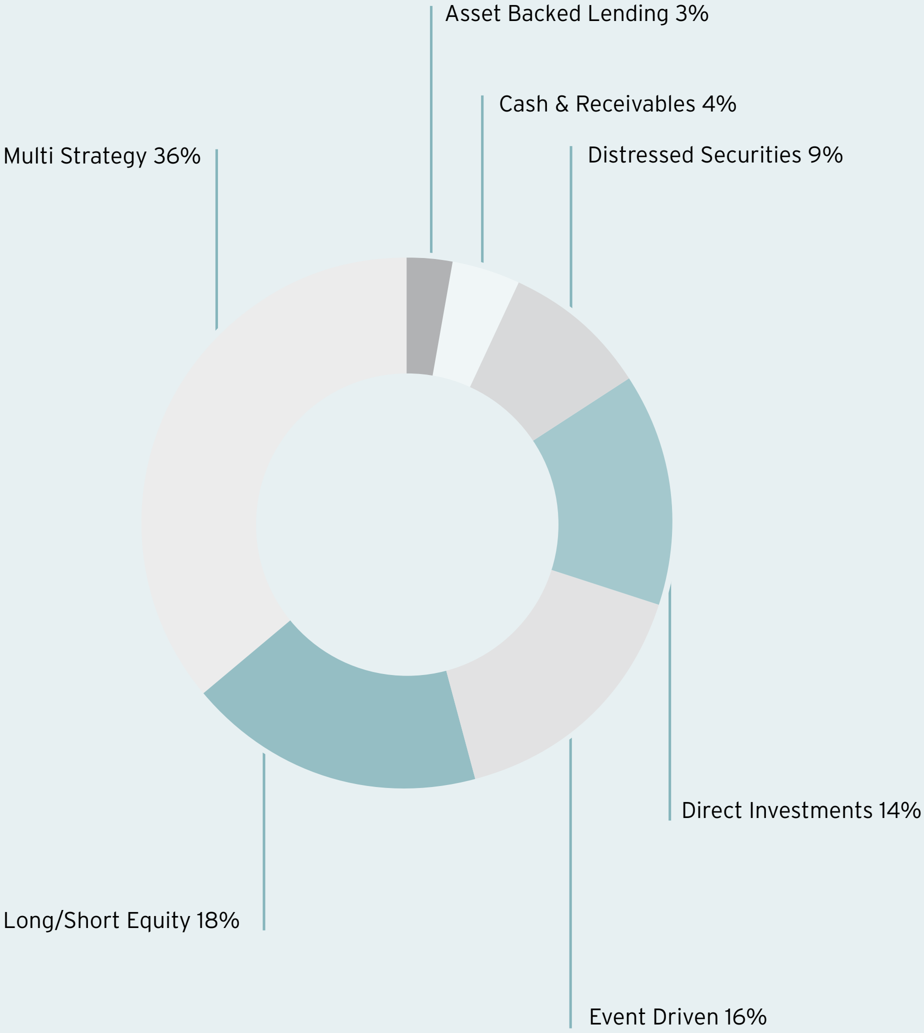
2007 net performance summary of consolidated entity

	Net Tangible Asset (NTA) backing per unit $	Distribution $	Monthly performance[1] %
31 December 2007	4.07	-	0.74
30 November 2007	4.04	-	(1.70)
31 October 2007	4.11	-	3.27
30 September 2007	3.98	-	1.27
31 August 2007	3.93	-	(3.44)
31 July 2007	4.07	-	0.00
30 June 2007	4.07	0.238	0.65
31 May 2007[2]	4.28	-	(4.89)
30 April 2007	4.50	-	2.51
31 March 2007	4.39	-	2.33
28 February 2007	4.29	0.434	(0.13)
31 January 2007	4.73	-	2.60
31 December 2006	4.61	-	-

1. Distributions paid are included in the calculation of monthly performance, and are rounded to 3 decimal places.
2. **Impact of the May 2007 Capital Raising on NTA Backing Per Unit.** On 8 May 2007 EBI successfully completed a Capital Raising which raised approximately $503 million. Due to offer costs and the issue of new units, the Capital Raising caused a dilution in the NTA backing per unit for May 2007. The NTA performance for May 2007 was +2.4% excluding the effect of the Capital Raising and -4.9% including the effect. In addition, on 8 May 2007, successful participants in the Capital Raising were allotted one EBB share at no additional consideration for every 4.5 EBI units allotted. Those EBI unitholders who participated in the Capital Raising therefore received the additional value attached to the EBB shares allotted. Please refer to the EBI Product Disclosure Statement and the EBB Offer Information Statement (both dated 2 April 2007) for further information about the Capital Raising.

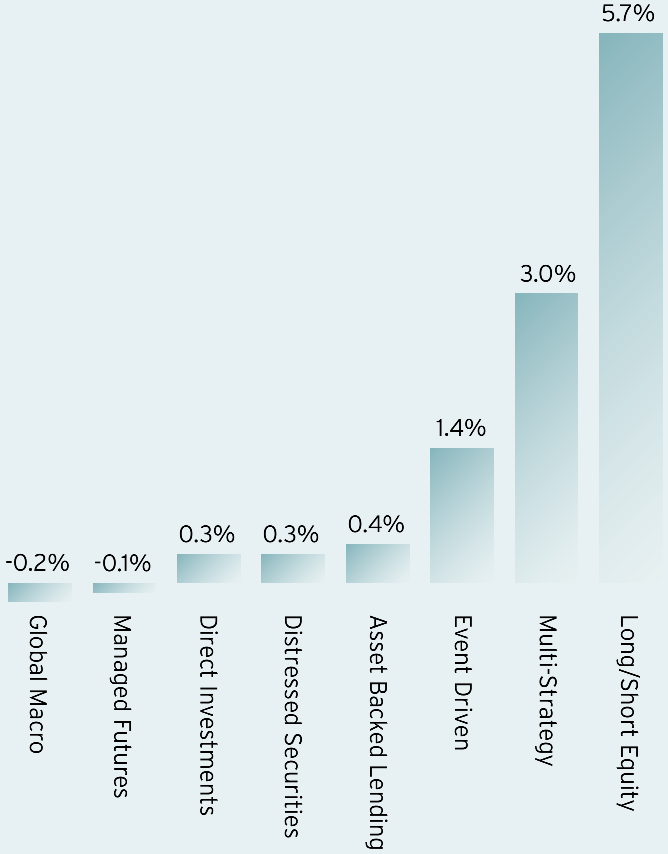
Investment Portfolio

The Investment Portfolio comprises exposure to a mix of Investment Managers and investment strategies including long/short equity, distressed securities, multi-strategy, event driven, asset backed lending and direct investments.



1 Estimated exposure to absolute return funds and direct investments as at 31 December 2007 based on final valuations and includes unsettled trades.
2 As at 31 December 2007, the Investment Portfolio had no exposure to strategies classified as 'Managed Futures' or 'Global Macro'.

Contribution to performance by strategy 1 January 2007 to 31 December 2007



	Global Macro	Managed Futures	Direct Investments	Distressed Securities	Asset Backed Lending	Event Driven	Multi-Strategy	Long/Short Equity
Average 2007 Strategy Exposure	**2%**	**1%**	**10%**	**13%**	**4%**	**16%**	**31%**	**22%**

1 Based on performance of the Investment Portfolio after leverage, hedging, fees and expenses. Attribution may not total exactly due to rounding.

For the 2007 calendar year, the Investment Portfolio returned +10.8%. The difference between the Investment Portfolio performance of +10.8% and the NTA performance of +2.9% for 2007 calendar year relates to the dilutionary effect of the Capital Raising which resulted in a May 2007 NTA performance of -4.9% compared to the performance of the Investment Portfolio of +2.4%.

The Investment Portfolio currently comprises exposure to a mix of six investment strategies including multi-strategy, long/short equity, event driven, distressed securities, asset backed lending and an allocation to direct investments. During the year EBI exited its exposure to the more volatile managed futures and global macro strategies.

The Investment Portfolio's largest allocation during the year was to multi-strategy Investment Managers. At year end this allocation comprised eight Investment Managers which in aggregate provided the second largest contribution to Investment Portfolio gains for the period.

In the first half of the year, multi-strategy Investment Managers posted gains with investments in merger arbitrage positions, pre-IPO transactions and international equity markets. In the second half of the year, multi-strategy Investment Managers reduced their net market exposures and were able to generate profits via short positions in sub-prime mortgage securities, corporate debt and selected equity sectors.

The Investment Portfolio's second largest allocation during the year was to long/short equity strategies. At year end this allocation comprised 11 Investment Managers which in aggregate provided the largest contribution to investment gains for the period.

Gains in the first half of the year were driven by investments in the technology, financial exchanges and resource sectors. While the second half of the year witnessed sharp declines in many stock markets, our Investment Managers were able to maintain positive performances by 'shorting' stocks in a number of areas which showed deteriorating fundamentals, such as the banking and retail sectors.

Portfolio construction and monitoring are ongoing processes, with the composition of the Investment Portfolio being continuously assessed by the Manager's investment and risk management teams. New Investment Managers are considered for addition to the Investment Portfolio and existing Investment Managers may be changed where the analysis indicates that this would improve the overall return and risk characteristics. During 2007 the Investment Portfolio redeemed its exposure to three Investment Managers which were involved in the global macro and managed futures strategies. As the global macro and managed futures strategies were the smallest exposures within the Investment Portfolio, these redemptions marked the complete exit from these strategies.

Direct investments now represent a 14% allocation in the Investment Portfolio. The direct investments have been a contributor to overall performance in recent months and provide a running yield of approximately 11%. The majority of these investments are in asset classes and markets which we consider to exhibit strong cashflow characteristics including railways, healthcare, hotels and port facilities. We anticipate that the relatively high income yields available from these investments will continue to provide attractive returns for EBI in the coming year.

For a detailed discussion of the Investment Portfolio's performances by calendar quarter, please refer to the EBI quarterly updates which are released to the ASX and are also available at www.everest.com.au.

EARNINGS PER UNIT

The basic and diluted earnings per unit is 30.4 cents [2006: 66.5 cents].

VALUE OF ASSETS AND UNITS ISSUED

The total asset value of EBI is $1,308,930,000 [2006: $551,640,000]. The total number of units issued as at 31 December 2007 is 182,550,857 [2006: 61,135,171].

DISTRIBUTION

2007 Interim

On 14 January 2008 EBI announced there will not be an interim distribution for the period ending 31 December 2007.

2007 Final

On 30 August 2007 a distribution of $43,523,594, which is equal to 23.8 cents per unit, was paid to EBI unitholders for the six month period to 30 June 2007.

Unitholders who elected to participate in the Dividend Reinvestment Plan (DRP) were issued units at an issue price of $3.45 which represented a 2% discount to the volume weighted average price of securities for the period of five trading days from and including the ex-date.

2006 Interim

On 21 March 2007 a distribution of $26,516,426 which is equal to 43.4 cents per unit was paid to EBI unitholders for the six month period to 31 December 2006.

Unitholders who elected to participate in the DRP were issued units at an issue price of $4.20 which represented a 2% discount to the volume weighted average price of securities for the period of 5 trading days from and including the ex date.

RISK MANAGEMENT

The Directors of the Responsible Entity are the principal decision makers for matters involving the risk management framework for EBI. The Audit & Risk Management Committee monitors the risks across EBI. This monitoring includes reviews of adherence to investment guidelines, legal obligations and compliance and operational risks. Management is primarily responsible for managing risk issues such as operational risk, disaster recovery, credit and counter-party risk. Management has established a system for identifying, assessing, monitoring and managing material risk throughout the organisation. This system includes EBI's internal compliance and control system.

The Manager is responsible for risk management procedures and policies across EBI and its investments. These procedures include in-depth due diligence analysis of underlying Investment Manager's or direct assets operational, compliance and risk management aspects, ongoing monitoring of performance, the adherence to disciplined research and portfolio construction policies and the measurement and maintenance of risk diversification across investment strategies, markets and managers.

The Manager is responsible for detailed due diligence relating to direct investments including business, industry, financial and credit analysis, comprehensive financial models and thorough review and negotiation of loan documentation, contracts and agreements. The Manager reviews the activities and information available for each investment on a regular basis.

Investment risks are regularly reviewed by the Manager's Risk Management Committee.

The Investment Committees of the Manager are the principal bodies for investment decisions and are responsible for dealing with issues arising from any investment risk. All investments must be approved by the relevant Investment Committee which includes the Manager's most senior and experienced executives. A submission is made to the Investment Committee only after the investment team has conducted a rigorous analysis and due diligence on both the underlying investment on the construction of the portfolio, or on the potential investment and on any other investment decisions.

Further, the Responsible Entity has appointed an External Compliance Committee which consists of two external members and one internal. All three members of the Committee are investment professionals with extensive investment and compliance experience in the relevant industry. The External Compliance Committee monitors to what extent the Responsible Entity and EBI comply with EBI's compliance plan, it evaluates the adequacy of the compliance plan and recommends changes where appropriate, reports breaches of the compliance plan, the Corporations Act or EBI's Constitution to the Board and to ASIC if necessary.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

On 14 February 2008 EBI announced its unaudited NTA backing per unit as at 31 January 2008 was $3.90. Including this return EBI has achieved a cumulative return of 25.54% based on the NTA since inception in April 2005.

We are unable to provide an earnings forecast for EBI as it is not possible to accurately forecast the returns of the Investment Portfolio. However, EBI has exposure to a diversified group of leading international absolute return funds and direct investments, which have flexible investment mandates that aim to generate attractive risk-adjusted returns over the medium-to-long term while maintaining a constant focus on capital preservation.

While the last six months of 2007 provided extremely volatile market conditions, the current environment plays to EBI's strengths and underlines the importance of an absolute return allocation in a balanced Investment Portfolio.

We believe that the current downturn will lead to significant market opportunities for those investors who have the discipline, experience and liquidity to take advantage of market events, particularly distressed selling.

We are confident that EBI's stable capital base and exposure to a diversified range of leading global Investment Managers, including our co-investments with Babcock & Brown Limited, will deliver attractive risk-adjusted returns for unitholders over the medium-to-long term.

DIRECTORS AND OFFICERS

The Directors and officers of the Responsible Entity during the year and until the date of this report are:

Name	Title
Trevor Gerber	Chairman
Marea Laszok	Independent Director
Warick Leeming	Independent Director
Peter Williams	Independent Director (appointed 11 May 2007)
Jeremy Reid	Executive Director
Azra Popo	Company Secretary and General Counsel
Brian O'Sullivan	Company Secretary and Chief Financial Officer

THE INFORMATION ON OFFICERS AS AT THE DATE OF THIS REPORT IS AS FOLLOWS:

Azra Popo, General Counsel and Company Secretary

Azra joined Everest in April 2005 as General Counsel and Company Secretary. Prior to joining EBB Azra worked for ten years in the corporate finance groups of leading international law firms in London and Sydney. In private practice Azra advised on mergers and acquisition, disposals and capital markets transactions as well as on general corporate and commercial law issues, with an industry focus on financial services. Azra is admitted as a solicitor in New South Wales and England and Wales. She is also an Associate of Finsia.

Brian O'Sullivan, Chief Financial Officer and Company Secretary

Brian has 18 years' experience in operations, funds management, investment banking and professional services. Prior to joining EBB as its Chief Financial Officer, he worked at Zurich Capital Markets Asia Limited as Senior Vice President and Product Manager in the Asset Management division. Brian's previous roles include eight years at BT Financial Group in various areas of its funds management business and three years in the audit division of PricewaterhouseCoopers.

Brian is a qualified Chartered Accountant, an Associate of Finsia and holds a Bachelor of Commerce (Accounting) from the University of New South Wales.

BOARD OF DIRECTORS

TREVOR GERBER
CHAIRMAN

Trevor previously worked with Westfield Holdings Limited for 14 years until 1999 as Group Treasurer and subsequently as Director of Funds Management responsible for the listed property trusts, Westfield Trust and Westfield America Trust. Trevor is currently a Director of Everest Babcock & Brown Limited, Macquarie Airports Group and Valad Property Group. He is also a former Director of Macquarie Prologis, Macquarie CountryWide Trust and Hamilton Island Limited. Trevor qualified as a Chartered Accountant in 1980 and is a member of The Institute of Chartered Accountants in Australia.

MAREA LASZOK
INDEPENDENT DIRECTOR

Marea is Executive Chairman of Advanced Management Planning Limited. She was formerly the Chief Executive Officer of Midland Bank Australia and Managing Director of HongKong Bank of Australia Limited where she spent 11 years as a senior executive. Marea has previously served on other company Boards including Australian Treasury Services Limited and Pacific Knowledge Networks Limited.

PETER WILLIAMS
INDEPENDENT DIRECTOR

Peter Williams is a Senior Advisor at Prescott Securities Limited, a stockbroking and wealth management company and a subsidiary of WHK Horwath. In 1984, Peter was a founding partner of the Sydney chartered accounting firm Williams Hatchman & Kean, now known as WHK Horwath. He is a Fellow of the Institute of Chartered Accountants, holds a Masters of Commerce Degree from UNSW, is a member of the Financial Planning Association and is a Certified Financial Planner. Peter has 35 years' experience in the financial services industry in the accounting, taxation and financial planning professions.

EBI has exposure to a diversified group of leading international absolute return funds and direct investments . . . that aim to generate attractive risk-adjusted returns over the medium-to-long term while maintaining a constant focus on capital preservation.

JEREMY REID
EXECUTIVE DIRECTOR

Jeremy is the Chief Executive Officer of Everest Babcock & Brown Limited and Executive Director of Everest Babcock & Brown Alternative Investment Trust. Under his strategic guidance and management, the Everest Babcock & Brown Group has launched a range of absolute return funds and assets under management have grown from approximately $5 million in February 2000 to its current level. Jeremy has been an active investor and participant in global financial markets and managed funds.

WARICK LEEMING
INDEPENDENT DIRECTOR

Warick is a Director of A E Smith and Son Pty Ltd and was appointed by the Administrators to the Board of Pasminco Limited and subsidiary companies. Warick has served on numerous Boards and Victorian Government Committees, was a senior Partner at Duesburys, Ernst & Whinney (now Ernst & Young) Chartered Accountants for 14 years and was a Director of Mooreland Hire Pty Ltd, an Executive Director of Wardley Australia Limited and the HongKong Bank of Australia Limited. Warick is a Fellow of the Institute of Chartered Accountants specialising in corporate finance and advisory work.

INTERESTS OF DIRECTORS

As at 31 December 2007, the interests of the Directors in the EBI units were:

	Units
Trevor Gerber	150,000
Marea Laszok	20,000
Warick Leeming	75,000
Peter Williams	96,750
Jeremy Reid	3,046,000

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Constitution of the Responsible Entity requires it to indemnify all current and former officers of the Responsible Entity against a liability incurred:

(a) in acting as an officer of the Responsible Entity;

(b) in acting as an officer of another company acting as such at the request of the Responsible Entity;

(c) for costs and expenses in defending an action for a liability incurred in acting as officer of the Responsible Entity or as an officer of another company acting as such at the request of the Responsible Entity.

The indemnification is provided other than in certain circumstances such as a liability owed to the Responsibility Entity or their related bodies corporate and conduct involving a lack of good faith.

During the financial year, insurance contracts were entered into to insure the Directors and officers against any liability incurred in their capacity as a Director or officer. The terms of the insurance contract restrict disclosure of the nature of the liability and the amount of the premium. EBI has not otherwise, during or since the financial year, indemnified or agreed to indemnity an officer or auditor of EBI or its related body corporate against a liability incurred.

Responsible Entity/Manager transactions

All transactions with related entities were made on normal commercial terms and conditions.

Everest Capital Investment Management Limited (ECIML) was appointed the Responsible Entity of EBI on 24 June 2005. Responsible Entity fees are calculated at 1.25% per annum of EBI's assets.

As at 31 December 2007 the Responsible Entity has no interest in EBI [2006:nil].

Fees paid/payable to the Responsible Entity during the respective period were as follows:

	Consolidated		Parent	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Responsible entity fees	**14,156**	7,214	**14,156**	7,214

In addition, performance fees paid by EBI to the Manager during the financial year were nil [2006: $3,178,000].

Jeremy Reid is the CEO of Everest Babcock & Brown Limited, the ultimate parent entity of ECIML, the Responsible Entity. Reidco Pty Limited (an entity associated with Jeremy Reid) holds 17.9% of the issued shares of Everest Babcock & Brown Limited as at 31 December 2007.

OPTIONS

As at the date of this Report no options have been issued or granted over EBI units.

2006 RESTRUCTURE (FOR PRIOR YEAR COMPARATIVE)

Prior to 1 August 2006 EBI, along with EBB, comprised Everest Babcock & Brown Alternative Investments Group **(Stapled Group)**.

On 25 May 2006 the Stapled Group announced a restructure proposal whereby securityholder approval was sought for the unstapling of units in EBI from shares in EBB and for EBB to acquire all of the shares in Everest Capital Limited that it did not already own via a scrip for scrip transaction **(Restructure)**.

On 18 July 2006, securityholders approved the restructure.

The implementation date for the Restructure was 1 August 2006, at which point for every security held in the Stapled Group securityholders were issued 1 unit in EBI and 1 EBB share.

DIRECTOR MEETINGS

	No. eligible to attend	Attended
Trevor Gerber	10	10
Peter Williams	5	5
Jeremy Reid	10	8
Marea Laszok	10	10
Warick Leeming	10	9

AUDIT & RISK MANAGEMENT COMMITTEE MEETINGS

	No. eligible to attend	Attended
Warick Leeming, Chairman	2	2
Trevor Gerber	2	2
Marea Laszok	2	2

NOMINATION & GOVERNANCE COMMITTEE MEETINGS

	No. eligible to attend	Attended
Trevor Gerber, Chairman	1	1
Warick Leeming	1	1
Jeremy Reid	1	1

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to year end and up to 22 February 2008 EBI has bought back and cancelled a further 3,004,363 units for a consideration of $8,272,693.

No other matters or circumstances have arisen since 31 December 2007 that have significantly affected, or may significantly affect:

(i) the operations of the consolidated entity in future financial years, or

(ii) the results of those operations in future financial years, or

(iii) the state of affairs of the consolidated entity in future financial years.

ENVIRONMENTAL REGULATION

The operations of the consolidated entity are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

NON AUDIT SERVICES

Details of non audit services performed by the auditor may be found in note 18 of the Report.

The Directors have considered the position and, in accordance with advice received from the Audit & Risk Management Committee, are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the nature and scope of the non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reason:

- all non-audit services have been reviewed by the Audit & Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for EBI, or acting as advocate for EBI, or jointly sharing risks and rewards.

ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

The consolidated entity is an entity of the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

AUDITORS' INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 18.

Signed in accordance with a resolution of the directors.

On behalf of the Board.

Trevor Gerber
Non Executive Chairman

Sydney, 28 February 2008

ERNST & YOUNG

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Australia

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Sydney NSW 2001

■ Tel 61 2 9248 5555
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Auditor's Independence Declaration to the Directors of Everest Capital Investment Management Limited

In relation to our audit of the financial report of Everest Babcock & Brown Alternative Investment Trust for the financial year ended 31 December 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Mark O'Sullivan
Partner
28 February 2008

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

The Directors of the Responsible Entity (Board) are responsible for EBI's corporate governance.

The Board guides and monitors the business and affairs of EBI on behalf of the unitholders.

The format of the Corporate Governance Statement is consistent with the introduction of the Australian Stock Exchange Corporate Governance Council's (Council's) *Principles of Good Corporate Governance and Best Practice Recommendations* (Recommendations). In accordance with the Council's Recommendations, the Corporate Governance Statement must contain certain specific information and must disclose the extent to which EBI has followed the guidelines during the period. Where a Recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. EBI's Corporate Governance Statement is now structured with reference to the Council's Recommendations, which are as follows:

Principle 1: Lay Solid Foundations for Management and Oversight

Recognise and publish the respective roles and responsibilities of the Board and management.

The role of the Board is to set goals and policies for the operation of EBI, to oversee its external Investment Manager, Everest Capital Limited (Manager), to regularly review performance and to generally monitor EBI's affairs in the best interest of unitholders. This information is set out on the Everest Babcock & Brown website at www.everest.com.au. The Board is accountable to unitholders for these responsibilities.

The Board believes that EBI is in compliance with Principle 1.

Principle 2: Structure the Board to Add Value

Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

The details of each Director's skill, experience and expertise are set out in the Directors' Report. As at year end three Directors on the Board are considered to be Independent Directors - Marea Laszok, Warick Leeming and Peter Williams. The Chairman, Trevor Gerber is not considered an Independent Director as he is a Non-Executive Director of the Responsible Entity's ultimate parent company. The Board has therefore majority independent directors.

EBI has established an External Compliance Committee in accordance with section 601JA(1) of the Corporations Act. This Committee monitors the extent to which the Responsible Entity and EBI comply with the compliance plan; evaluates the adequacy of the compliance plan and recommends changes when appropriate; and reports breaches of the compliance plan and/or the Corporations Act by EBI to the Board and to ASIC if necessary.

The term in office held by each Director in office at the date of this report is as follows:

Name	Term in office
Trevor Gerber	33 months
Marea Laszok	14 months
Warick Leeming	14 months
Peter Williams	9 months
Jeremy Reid	34 months

For additional details regarding Board members' experience please refer to the Directors' Report on pages 12-13.

The Board has a Nomination & Governance Committee and a summary of its Charter is available on the Everest Babcock & Brown website. The Nomination & Governance Committee, amongst other duties, recommends suitable Directors for approval.

The Committee advises the Board on appropriate corporate governance standards and policies. In making recommendations to the Board regarding appointment of Directors, the Committee assesses the appropriate mix of skills, experience and expertise required on the Board and assesses the extent to which the required skill and experience are represented at the Board. The Committee may obtain information from, and consult with, external advisors, if it considers appropriate. The Committee comprises the following members: Trevor Gerber (Chairman), Warick Leeming and Jeremy Reid.

To assist Directors to fully meet their responsibilities to bring an independent viewpoint to matters coming before them, the Board has agreed to a procedure, in appropriate situations, for Directors to take independent professional advice at the expense of EBI after advising the Chairman of their intention to do so.

The Board believes that EBI is in compliance with Principle 2.

Principle 3: Promote Ethical and Responsible Decision-Making

Actively promote ethical and responsible decision-making.

EBI is committed to maintaining the highest standards of integrity and seeks to ensure all its activities are undertaken with efficiency, honesty and fairness. EBI also maintains a high level of transparency regarding its actions consistent with the need to maintain the confidentiality of commercial-in-confidence material and, where appropriate, to protect the unitholders' interests.

EBI has adopted a Continuous Disclosure Policy, a Unit Trading Policy and a Code of Conduct. The Unit Trading Policy covers dealing in EBI units by its officers and employees. The Code of Conduct includes the code of conduct for Directors and all employees, contractors and advisers of EBI. The documents are also summarised on the Everest Babcock & Brown website.

The Board believes that EBI is in compliance with Principle 3.

Principle 4: Safeguard Integrity in Financial Reporting

Have a structure to independently verify and safeguard the integrity of EBI's financial reporting.

EBI has established the Audit & Risk Management Committee to oversee the integrity of the financial reporting process which reports to the Board. Warick Leeming (Chairman), Marea Laszok and Trevor Gerber are members of the Committee. The Committee is structured so that it consists of majority of Independent Directors. The Chairman is not the Chairman of EBI. The Committee has a formal Charter which is summarised on the Everest Babcock & Brown website. The Charter sets out the role and responsibilities, composition and structure of the Committee. Qualifications of the Committee members, number of meetings and attendance are disclosed in the Directors' Report. The Committee is required to confirm the quality and reliability of the financial information prepared, working on behalf of the Board with the external auditor. The Committee reviews non-audit services provided by the external auditor to confirm that they are consistent with maintaining external audit independence. The Committee provides advice to the Board and reports on the status of the business risks of EBI via its risk management processes, aimed at ensuring risks are identified, assessed and properly managed.

The Board has obtained from the Manager's Chief Executive Officer and the Chief Financial Officer written affirmation that, to the best of their knowledge and belief, the financial reports present a true and fair view, in all material respects, of EBI's financial condition and operational results and are in accordance with relevant accounting standards.

EBI has put in place a process to ensure the independence and competence of EBI's external auditors including the Audit & Risk Management Committee reviewing any non-audit work to ensure that it does not conflict with audit independence. The Charter of the Audit & Risk Management Committee sets out procedures for appointment of auditors and establishing their independence.

The Board believes that EBI is in compliance with Principle 4.

Principle 5: Timely and Balanced Disclosure

Promote timely and balanced disclosure of all material matters concerning EBI.

As a listed entity, EBI has an obligation under the ASX Listing Rules to maintain an informed market with respect to its units. Accordingly, EBI keeps the market advised of all information required to be disclosed under the Rules which it believes would have material effect on the price or value of EBI units.

EBI has a written policy and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability for that compliance, and a summary of this policy is available on its website.

The Board believes that EBI is in compliance with Principle 5.

Principle 6: Respect the Rights of Unitholders

Respect the rights of unitholders and facilitate the effective exercise of those rights.

The Board's primary responsibility to the unitholders is to do its utmost to meet EBI's objectives and so increase EBI's value for all unitholders. EBI has designed a communications strategy in order to promote effective communication with unitholders. An internet website is maintained on which all ASX announcements, Half Year Reports, Annual Reports, details of corporate governance practices and related material are posted and available for unitholders and investors.

The Board believes that EBI is in compliance with Principle 6.

Principle 7: Recognise and Manage Risk

EBI has established and maintains a sound system of risk oversight, management and internal control. Since its inception, EBI has recognised and addressed material risks to the business, particularly investment risk.

The Manager's management has established a system for identifying, assessing, monitoring and managing material risk throughout the organisation. This system includes EBI's internal compliance and control system. More detail on general internal compliance and control systems is set out on page 9 under the Risk Management section of the Directors' Report.

The Investment Committees of the Manager are primarily responsible for dealing with issues arising from investment risk. By its nature, EBI will always carry investment risk because it invests its capital in securities which are not risk free. The Manager's Investment Committees are the principal bodies for investment decisions and are responsible for dealing with issues arising from any investment risk. All investments must be approved by the relevant Investment Committee which includes the Manager's most senior and experienced executives. A submission is made to the Investment Committee only after the investment team has conducted a rigorous analysis and due diligence on both the underlying investment on the construction of the Portfolio, or on the potential investment and on any other investment decisions. The Manager's Investment Committees' Charters detail protocols on how they operate and how decisions are made. The Manager's Risk Committee is responsible for other risk management decisions.

EBI's Directors and the Manager are primarily responsible for recognising and managing all other risk issues such as operational risk, disaster recovery, credit and counter-party risk.

The Board has obtained from the Manager's Chief Executive Officer and the Chief Financial Officer written affirmation that, to the best of their knowledge and belief, the integrity of financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that EBI's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Further, the Responsible Entity has appointed an External Compliance Committee which consists of two external members and one internal member. All three members of the Committee are investment professionals with extensive investment and compliance experience. The External Compliance Committee monitors the extent to which the Responsible Entity and EBI comply with the compliance plan, evaluates the adequacy of the compliance plan, the Corporations Act or the EBI Constitution to the Board and to ASIC if necessary.

The Board believes that EBI is in compliance with Principle 7.

Principle 8: Encourage Enhanced Performance

Fairly review and actively encourage enhanced board and management effectiveness.

The Board has established a Nomination & Governance Committee to assist in its responsibilities to review the performance of the Board and to deal with corporate governance compliance. The Committee reviews each Director's performance against measurable and qualitative indicators.

The Board believes that EBI is in compliance with Principle 8.

Principle 9: Remunerate fairly and responsibly

Ensure that the level and composition of remuneration of management is sufficient and reasonable and that its relationship to corporate and individual performance is defined.

EBI only pays the Chairman's and Directors' remuneration (see pages 57-59 of the Financial Report) and employs no management directly as it is managed externally by the Manager. Since EBI does not have employees it has not formed a Remuneration Committee.

The Board believes that EBI is in compliance with Principle 9.

Principle 10: Recognise the Legitimate Interests of Stakeholders

Recognise legal and other obligations to all legitimate stakeholders.

Because of EBI's operation as a listed registered managed investment scheme, its key stakeholders are its unitholders and employees of the Manager. As mentioned earlier, EBI has adopted a Code of Conduct which is intended to guide the activities of Directors and the Manager's employees and is designed to ensure that the legal requirements and other obligations to EBI stakeholders are complied with at all times. A summary of the Code is available on the Everest Babcock & Brown website.

EBI is committed to the highest standards of ethical behaviour and corporate governance.

The Board believes that EBI is in compliance with Principle 10.

FINANCIAL REPORT

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Consolidated Year ended		Parent Year ended	
		31 December 2007 $'000	31 December 2006 $'000	**31 December 2007 $'000**	31 December 2006 $'000
Continuing operations					
Investment income					
Net gains/(losses) on financial instruments held at fair value through profit or loss	4	**53,416**	50,848	**55,812**	51,012
Interest income		**11,968**	688	**1,740**	671
Foreign exchange gain/(loss) on loans and receivables		**(5,421)**	-	**-**	-
Other investment income/(expense)	3	**(1,627)**	49	**-**	-
Dividend/Distribution income		**488**	-	**-**	-
Total investment income/(loss)		**58,824**	51,585	**57,552**	51,683
Expenses					
Responsible entity fees	16	**14,156**	7,214	**14,156**	7,214
Performance fees	16	**-**	3,015	**-**	3,015
Other operating expenses	3	**892**	1,101	**881**	1,101
Total operating expenses		**15,048**	11,330	**15,037**	11,330
Operating profit from continuing operations		**43,776**	40,255	**42,515**	40,353
Discontinued operations					
Net results from discontinued operations after income tax	19	**-**	2,140	**-**	-
Financing costs					
Interest expense		**(1,160)**	-	**-**	-
Distributions to unitholders		**(70,040)**	(37,853)	**(70,040)**	(37,853)
Changes in net assets attributable to unitholders		**(27,424)**	2,402	**(27,525)**	2,500
Profit attributable to:					
Unitholders		**42,616**	40,255	**42,515**	40,353
Shareholders		**-**	2,140	**-**	-

	Consolidated Year ended	
	31 December 2007 $'000	31 December 2006 $'000
Continuing operations		
Basic and diluted earnings per unit in cents	**30.4**	66.5
Discontinued operations		
Basic and diluted earnings per share in cents	**N/A**	3.5
Basic and diluted earnings per stapled security in cents	**N/A**	70.0

The above income statement should be read in conjunction with the accompanying notes.

AS AT 31 DECEMBER 2007

	Notes	Consolidated as at 31 December 2007 $'000	Consolidated as at 31 December 2006 $'000	Parent as at 31 December 2007 $'000	Parent as at 31 December 2006 $'000
Current Assets					
Cash and cash equivalents	9	**10,831**	22,187	**5,282**	22,121
Receivables	11	**2,442**	4,815	**435**	4,815
Financial assets held at fair value through profit or loss	7	**13,079**	17,364	**146,456**	17,528
Loans and receivables	6	**99,118**	-	**2,000**	-
Total current assets		**125,470**	44,366	**154,173**	44,464
Non-current assets					
Financial assets held at fair value through profit or loss	7	**1,114,256**	507,274	**1,114,256**	507,274
Loans and receivables	6	**69,204**	-	**-**	-
Total non-current assets		**1,183,460**	507,274	**1,114,256**	507,274
Total assets		**1,308,930**	551,640	**1,268,429**	551,738
Current liabilities					
Payables	12	**6,045**	2,491	**5,751**	2,491
Total current liabilities		**6,045**	2,491	**5,751**	2,491
Non-current liabilities					
Financial liabilities held at fair value through profit or loss	10	**559,916**	267,457	**519,712**	267,457
Total non-current liabilities		**559,916**	267,457	**519,712**	267,457
Total liabilities (excluding net assets attributable to unitholders)		**565,961**	269,948	**525,463**	269,948
Net assets attributable to unitholders	13	**742,969**	281,692	**742,966**	281,790
Represented by:					
Units on issue		**743,877**	255,176	**743,877**	255,176
Undistributed income		**(908)**	26,516	**(911)**	26,614
		742,969	281,692	**742,966**	281,790

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

FOR THE YEAR ENDED 31 DECEMBER 2007

	Consolidated		
	Units on issue $'000	Undistributed income $'000	Total $'000
At 1 January 2007	**255,176**	**26,516**	**281,692**
Issue of units	**12,501**	**-**	**12,501**
Proceeds from Capital Raising	**503,229**	**-**	**503,229**
Distributions paid/payable	**-**	**(70,040)**	**(70,040)**
Units cancelled through buyback	**(7,909)**	**-**	**(7,909)**
Profit/(loss) for the year attributable to unitholders	**-**	**42,616**	**42,616**
Transaction costs	**(19,120)**	**-**	**(19,120)**
as at 31 December 2007	**743,877**	**(908)**	**742,969**

	Parent		
	Units on issue $'000	Undistributed income $'000	Total $'000
At 1 January 2007	**255,176**	**26,614**	**281,790**
Issue of units	**12,501**	**-**	**12,501**
Proceeds from Capital Raising	**503,229**	**-**	**503,229**
Distributions paid/payable	**-**	**(70,040)**	**(70,040)**
Units cancelled through buy-back	**(7,909)**	**-**	**(7,909)**
Profit/(loss) for the year attributable to unitholders	**-**	**42,515**	**42,515**
Transaction costs	**(19,120)**	**-**	**(19,120)**
as at 31 December 2007	**743,877**	**(911)**	**742,966**

	Consolidated			
	Contributed Equity $'000	Units on issue $'000	Undistributed income $'000	Total $'000
At 1 January 2006	37,303	250,397	26,231	313,931
Issue of units	183	4,779	-	4,962
Distributions/dividends paid	(3,670)	-	(37,853)	(41,523)
Profit/(loss) for the year attributable to shareholders	-	-	2,140	2,140
Profit or loss for the year attributable to unitholders	-	-	40,255	40,255
Discontinued operations	(33,816)	-	(4,257)	(38,073)
as at 31 December 2006	-	255,176	26,516	281,692

The above statements of changes in net assets attributable to unitholders should be read in conjunction with the accompanying notes.

	Parent		
	Units on issue $'000	Undistributed income $'000	Total $'000
At 1 January 2006	250,397	24,114	274,511
Issue of units	4,779	-	4,779
Distributions paid	-	(37,853)	(37,853)
Profit or loss for the year attributable to unitholders	-	40,353	40,353
as at 31 December 2006	255,176	26,614	281,790

The above statement of changes in net assets attributable to unitholders should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Consolidated Year ended 31 December 2007 $'000	Consolidated Year ended 31 December 2006 $'000	Parent Year ended 31 December 2007 $'000	Parent Year ended 31 December 2006 $'000
Cash flows from operating activities					
Dividends received		**225**	1,860	**-**	-
Interest received		**10,258**	743	**1,774**	668
Other income received		**174**	-	**-**	-
Payment of Responsible Entity fees		**(12,301)**	(14,442)	**(12,291)**	(13,474)
Interest paid		**(577)**	-	**(6)**	-
GST (paid)/received		**(248)**	463	**(248)**	419
Net cash inflow/(outflow) from operating activities	8(a)	**(2,469)**	(11,376)	**(10,771)**	(12,387)
Cash flows from investing activities					
Proceeds from sale of investments		**143,145**	49,050	**99,853**	49,050
Purchase of investments		**(612,223)**	(7,310)	**(524,939)**	(7,310)
Net cash inflow/(outflow) from investing activities		**(469,078)**	41,740	**(425,086)**	41,740
Cash flows from financing activities					
Net proceeds from Capital Raising		**484,109**	-	**484,109**	-
Units cancelled through buy-back		**(7,592)**	-	**(7,592)**	-
Distributions paid		**(70,000)**	(41,523)	**(70,000)**	(37,853)
Proceeds from dividend/distribution reinvestment plan		**12,501**	7,032	**12,501**	4,779
Proceeds from borrowings		**83,373**	-	**-**	-
Repayments of borrowings		**(42,193)**	-	**-**	-
Net cash inflow/(outflow) from financing activities		**460,198**	(34,491)	**419,018**	(33,074)
Net increase/(decrease) in cash and cash equivalents		**(11,349)**	(4,127)	**(16,839)**	(3,721)
Cash and cash equivalents at beginning of the year		**22,187**	26,670	**22,121**	25,842
Effects of foreign currency exchange rate changes on cash and cash equivalents		**(7)**	-	**-**	-
Less cash of discontinued operations due to de-stapling		**-**	(356)	**-**	-
Cash and cash equivalents at the end of the year	8(b), 9	**10,831**	22,187	**5,282**	22,121

The above cash flow statement should be read in conjunction with the accompanying notes.

GENERAL INFORMATION

The consolidated entity consists of Everest Babcock & Brown Alternative Investment Trust (the Trust), an Australian registered managed investment scheme and its subsidiaries. EBI is listed on the ASX. The Trust was constituted on 7 April 2005.

The Responsible Entity of EBI is Everest Capital Investment Management Limited. The Responsible Entity's registered office is Level 35, 50 Bridge Street, Sydney, NSW 2000.

The financial statements were authorised for issue by the Directors on 28 February 2008.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the *Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001* in Australia.

The Financial Report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

Compliance with International Financial Reporting Standards (IFRS)
Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report of the consolidated entity, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the entities controlled by EBI at 31 December 2007, and the results of those controlled entities for the period then ended.

Subsidiaries are fully consolidated from the date on which control is obtained by EBI and cease to be consolidated from the date on which control is transferred.

The effects of all transactions between entities in the consolidated group are eliminated in full. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

(c) Foreign currency translation

The functional and presentation currency of EBI is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in a previous Financial Report, is recognised in profit or loss in the period in which they arise.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Revenue

Interest revenue is recognised on an accruals basis taking into account the interest rates applicable to the financial assets.

Dividends are recognised when the right to receive payment is established.

Equity-accounted income reflects the consolidated entity's share of the results of the discontinued operations of the associate.

(f) Payables

These amounts represent liabilities for goods and services provided to EBI prior to the end of the financial period. The amounts are carried at cost, unsecured and are usually paid within 30 days of recognition, except for the Responsible Entity fees (management fees), which are paid quarterly.

(g) Receivables

Receivables may include amounts for interest, dividends, and Goods and Services Tax (GST) recoverable from the Australian Taxation Office. Interest is accrued at the reporting date from the time of last payment. Dividends are accrued when the right to receive payment is established.

(h) Discontinued operations

The results of discontinued operations relating to the unstapling are presented separately on the face of the income statement. Further details can be found in Note 19.

(i) Prepayments

Prepayments include amounts paid for insurance for EBI, which is amortised over the period of insurance coverage.

(j) Contributed equity

Issued and paid up capital in relation to discontinued operations is recognised at the fair value of the consideration received by EBB.

(k) Net assets attributable to unitholders

Contributions from unitholders and the net profit attributable to the unitholders of EBI are recognised in the Balance Sheet as net assets attributable to unitholders.

Costs associated with establishing EBI and the subsequent capital raising have been offset against the amounts payable to unitholders of EBI.

Amounts payable to unitholders are classified as debt as EBI has a finite life. EBI has a life of 80 years, subject to earlier termination as outlined in the EBI Constitution.

Non-distributable income is included in net assets attributable to unitholders. The change in this amount each year represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

(l) Loans and receivables

Subordinated debt assets are classified as loans and receivables and are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable to determine whether there is objective evidence of impairment.

If any such indication of impairment exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the assets present value.

If, in a subsequent period, the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write down, the write down is reversed through the income statement.

(m) Investment in derivative financial instruments

Total return equity swap

The Responsible Entity, on behalf of EBI, has entered into a total return equity swap, referred to in this Report as the Leverage Facility. The Leverage Facility is denominated in US dollars and provides EBI with an exposure to a leveraged portfolio of leading international absolute return funds, foreign exchange contracts and cash (Underlying Investment Portfolio). Under the terms of the Leverage Facility, the provider of the Leverage Facility (Leverage Facility Provider) undertakes to pay EBI a return equal to what it would receive if it had invested in the specified Underlying Investment Portfolio, taking into account the leverage provided under the Leverage Facility.

Due to the nature of the Leverage Facility the Cash Flow Statement includes only those cash amounts invested in the Leverage Facility or cash received from reductions in the Leverage Facility. As a result the impact of leverage is excluded from the cash flows from financing activities.

Reflecting the substance of the Leverage Facility and consistent with the requirements of Australian Accounting Standards, the Balance Sheet separately shows the Underlying Investment Portfolio as a Financial Asset and the Swap Payable as a Financial Liability.

Refer to notes (n) and (o) for its measurement base.

Forward currency contracts

Forward currency contracts are primarily used by EBI to hedge against foreign currency exchange rate risks on its net financial assets. The Responsible Entity agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing market price at the reporting date. These instruments do not meet the criteria under accounting standards to be accounted for as hedges and are held for trading with gains or losses arising from changes in fair value taken directly to profit and loss.

EBI's policy is not to take material foreign exchange risk. Any gain or loss on valuation of forward currency contracts is materially offset with a gain or loss through the Investment Portfolio.

(n) Financial assets

Swap receivable (Underlying Investment Porfolio)

The financial assets of EBI comprise a receivable under the Leverage Facility which reflects the fair value of the Underlying Investment Portfolio upon which EBI's return will be based. Fair value is calculated with reference to the fair value of the Underlying Investment Portfolio at the reporting date. Gains or losses arising from changes in fair value are taken directly to profit and loss.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Listed equity

The fair value of listed securities that are actively traded in organised financial markets is determined by reference to stock exchange quoted markets bid prices at the close of business on the balance sheet date. Any resultant gain or loss is recognised in profit or loss.

Units in controlled entity

Investments in controlled entities are recorded at the unit price, which represents the fair value of the underlying investments. Movement in the fair value is recognised in the income statement.

(o) Financial liabilities

Swap payable (Leverage)

The Swap payable reflects the fair value of the leverage provided under the Leverage Facility. The economic cost of the Swap payable at the reporting date is recognised as a change in fair value. Gains or losses arising from changes in fair value are taken directly to profit and loss.

Loan Facility

The loan facility reflects the fair value of the leverage provided. Gains or losses arising from changes in fair value are taken directly to profit or loss.

The investments stated in notes 1(m)-(o) have been designated as at fair value through profit or loss as doing so results in more relevant information. These investments are part of the full group of financial assets which are managed and have their performance evaluated on a fair value basis in accordance with the documented risk management and investment strategies of EBI and the consolidated entity.

(p) Income tax

Under current legislation, EBI is not liable to pay income tax since under the terms of its Constitution the unitholders are presently entitled to the income of EBI.

(q) Other taxes

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO), it is recognised as part of the cost of acquistion of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified as operating cash flows.

(r) Distributions

In accordance with EBI's Constitution, EBI fully distributes its distributable income to unitholders by cash or reinvestment.

(s) Earning per security

Basic earnings per unit is profit attributable to unitholders in the trust divided by the weighted number of units on issue.

Basic earnings per stapled security is calculated as the aggregate of basic earnings per unit in EBI and basic earnings per share in the Company.

(t) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Current market prices are used to determine the recoverable amount.

(u) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2007 reporting periods. The Directors' assessment of the impact of these new standards (to the extent relevant to the consolidated entity and EBI) and interpretations is set out below:

(i) AASB 2007-1 *Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]. Amending standard issued as a consequence of AASB Interpretation 11 Interim Financial Reporting and Impairment.*

AASB 2007-1 is applicable to annual reporting periods beginning on or after 1 January 2008. This is consistent with the consolidated entity's existing accounting policies for share-based payments so will have no impact.

(ii) AASB 2007-3 *Variability of interest rates.*

AASB 2007-3 is applicable to annual reporting periods beginning on or after 1 January 2009. AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the new standard is expected to have an impact on the Group's segment disclosures as segment information based on management reports is likely to be more detailed than those currently reported under AASB 114.

(iii) AASB 2007-4 *Amendments to include options that currently exist in International Financial Reporting Standards in the Australian equivalents and that additional Australian disclosures should be eliminated.*

AASB 2007-4 is applicable to annual reporting periods beginning on or after 1 July 2007. Several options under International Financial Reporting Standards will become available to the Group. Any changes to accounting policy in relation to AASB 2007-4 will be subject to AASB 108(14)(b).

(iv) AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]. Amending standard issued as a consequence of amendment of AASB 123 Borrowing Costs.*

AASB 2007-6 is applicable to annual reporting periods beginning on or after 1 January 2009. This is consistent with the Group's existing accounting policies for borrowing costs so will have no impact.

(v) AASB 2007-7 *Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]. Amendments to include options that currently exist in International Financial Reporting Standards in the Australian equivalents and that additional Australian disclosures should be eliminated.*

AASB 2007-7 is applicable to annual reporting periods beginning on or after 1 July 2007. There will be no direct impact on the amounts included in the Group's financial statements.

(vi) AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101. Amending standard issued as a consequence of amendment of AASB 101 Presentation of Financial Statements.*

AASB 2007-8 is applicable to annual reporting periods beginning on or after 1 January 2009. There will be a consequential impact on the financial statements such as incorporating new AASB 101 terminology into other applicable standards to the Group.

(vii) AASB 8 *Operating Segments. This new standard will replace AASB 114 Segment Reporting and adopts a management approach to segment reporting.*

AASB 8 is applicable to annual reporting periods beginning on or after 1 January 2009. Refer to AASB 2007-3 above.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(viii) AASB 101 *Presentation of Financial Statements. Amended standard following the revised version of IAS 1 by the IASB.*

AASB 101 (Revised) is applicable to annual reporting periods begining on or after 1 January 2009. The amended AASB 101 will change the presentation of the financial statements of the Group.

(ix) *Borrowing Costs. Amends the current AASB 123 to only allow capitalisation of borrowing costs directly attributable to the acquisition,construction or production of a qualifying asset.*

AASB 123 is applicable to annual reporting periods beginning on or after 1 January 2009. This is consistent with the Group's existing accounting policies for borrowing costs so will have no impact.

(x) ERR Erratum: *Proportionate Consolidation [AASB 101, AASB 107, AASB 121, AASB 127, Interpretation 113]. Inserts references to proportionate consolidation that were not added via AASB 2007-4 to other Standards.*

ERR is applicable to annual reporting periods beginning on or after 1 January 2008. Refer to AASB 2007-4 above for impact.

Since 1 January 2007 the Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 January 2007. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

- AASB 7 Financial Instruments: Disclosures
- AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, 101, 114, 117, 133, 139, 1, 4, 1023 and 1038]".

(v) Accounting assumptions

Variability of interest rates

The 40 basis points sensitivity is based on the volatility of change in the US cash interest rates over the last ten years.

Variability of equity price

The 20% sensitivity is based on the volatility of change in the NYSE composite index and Singapore Straits Times index over the last year.

2 SEGMENT INFORMATION

EBI operates in one business segment, being investment management. EBI also operates from one geographic location, being Australia, from where its investing activities are managed.

3 OTHER INCOME AND EXPENSE

	Consolidated Year ended		Parent Year ended	
	31 December 2007 $'000	31 December 2006 $'000	**31 December 2007 $'000**	31 December 2006 $'000
Other Operating Expenses				
Professional fees	**81**	684	**72**	684
Directors remuneration	**181**	129	**181**	129
Fund administration and custody expenses	**168**	59	**168**	59
Other general and adminstrative expenses	**337**	143	**335**	143
Auditors remuneration	**125**	86	**125**	86
Total Other Operating Expenses	**892**	1,101	**881**	1,101
Other Investment Income/(Expense)				
Provision for impairment	**(1,691)**	-	**-**	-
Other investment income	**64**	49	**-**	-
Total Income/(Expense)	**(1,627)**	49	**-**	-

4 NET GAINS/(LOSSES) ON FINANCIAL INSTRUMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	Consolidated Year ended		Parent Year ended	
	31 December 2007 $'000	31 December 2006 $'000	**31 December 2007 $'000**	31 December 2006 $'000
Financial instruments				
Fair value gains/(losses) on Leverage Facility	**32,698**	31,778	**32,698**	31,778
Net unrealised gains/(losses) on direct investments designated as at fair value through profit or loss	**(2,562)**	(164)	**-**	-
Fair value gains/(losses) on derivatives (Foreign currency contracts)	**22,071**	19,234	**18,204**	19,234
Foreign exchange gains/(losses) on translation of loan facility	**1,209**	-	**-**	-
Fair value gains/(losses) on units in controlled entities	**-**	-	**4,910**	-
Total net gains/(losses) on financial instruments designated at fair value through profit or loss	**53,416**	50,848	**55,812**	51,012

Forward currency contracts are used by EBI to hedge against foreign currency exchange risks.

5 EARNINGS PER UNIT/SHARE

Basic earnings per unit is profit attributable to unitholders in EBI divided by the number of units on issue.

Basic earnings per share is profit attributable to shareholders divided by the number of shares on issue.

	Consolidated as at	
	31 December 2007 $'000	31 December 2006 $'000
Continuing operations		
Profit attributable to unitholders	**42,616**	40,255
Basic and diluted earnings per unit in cents	**30.4**	66.5
Discontinued operations		
Profit attributable to shareholders	**-**	2,140
Basic and diluted earnings per share in cents	**-**	3.5
Weighted average number of units on issue ('000)	**140,278**	60,567

6 LOANS AND RECEIVABLES

Loans and receivables consist of subordinated debt assets.

	Consolidated as at		Parent as at	
	31 December 2007 $'000	31 December 2006 $'000	**31 December 2007 $'000**	31 December 2006 $'000
Subordinated debt				
Current loans and receivables	**99,118**	-	**2,000**	-
Non-current loans and receivables	**70,895**	-	**-**	-
Less provision for impairment	**(1,691)**	-	**-**	-
Total non-current loans and receivables	**69,204**	-	**-**	-
Total loans and receivables	**168,322**	-	**2,000**	-

7 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	Consolidated as at		**Parent as at**	
	31 December 2007 Fair value $'000	31 December 2006 Fair value $'000	**31 December 2007 Fair value $'000**	31 December 2006 Fair value $'000
Current				
Derivatives (foreign currency contracts)	**1,834**	12,651	**-**	12,651
Listed equities	**11,245**	4,713	**-**	-
Units in controlled entities		-	**146,456**	4,877
Total current financial assets held at fair value through profit or loss	**13,079**	17,364	**146,456**	17,528
Non-current				
Underlying Investment Portfolio	**1,114,256**	507,274	**1,114,256**	507,274

Foreign currency contracts are used by EBI to hedge against foreign currency exchange risks.

8 RECONCILIATION OF PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	Consolidated as at		**Parent as at**	
	31 December 2007 $'000	31 December 2006 $'000	**31 December 2007 $'000**	31 December 2006 $'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities				
Profit for the year	**42,616**	42,395	**42,515**	**40,353**
Discontinued operations	**-**	(1,142)	**-**	**-**
(Gain)/loss on derivatives (Foreign currency contracts)	**(22,071)**	(19,234)	**(18,204)**	**(19,234)**
Fair value gain on Leverage Facility	**(32,698)**	(31,778)	**(32,698)**	**(31,778)**
Fair value loss on direct financial assets	**2,562**	164	**-**	**-**
Foreign exchange gain/(loss) on loans and receivables	**5,421**	-	**-**	**-**
Foreign exchange gains/(losses) on translation of loan facility	**(1,209)**	-	**-**	**-**
Fair value (gain)/loss on units in controlled entity	**-**	-	**(4,910)**	**-**
(Increase)/decrease in receivables	**(530)**	(6)	**(213)**	**(6)**
(Decrease)/increase in payables	**3,440**	(1,775)	**2,739**	**(1,722)**
Net cash inflow/(outflow) from operating activities	**(2,469)**	(11,376)	**(10,771)**	**(12,387)**
(b) Components of cash and cash equivalents				
Cash as at the end of the financial year as shown in the cash flow statement is reconciled to the balance sheet as follows:				
Cash and cash equivalents	**10,831**	22,187	**5,282**	**22,121**
	10,831	22,187	**5,282**	**22,121**

9 CASH AND CASH EQUIVALENTS

	Consolidated as at		Parent as at	
	31 December 2007 $'000	31 December 2006 $'000	**31 December 2007 $'000**	31 December 2006 $'000
Domestic cash at bank	**8,558**	22,121	**5,282**	22,121
Foreign currency holdings	**2,273**	66	**-**	-
Total cash and cash equivalents	**10,831**	22,187	**5,282**	22,121

10 FINANCIAL LIABILITIES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

		Consolidated as at		Parent as at	
	Note	**31 December 2007 Fair value $'000**	31 December 2006 Fair value $'000	**31 December 2007 Fair value $'000**	31 December 2006 Fair value $'000
Current liabilities					
Interest rate swap		**404**	-	-	-
Non-current liabilities					
Swap payable (Leverage)		**519,712**	267,457	519,712	267,457
Loan facility	14	**39,800**	-	-	-
Total non-current liabilities		**559,512**	267,457	519,712	267,457
Total financial liabilities held at fair value through profit or loss		**559,916**	267,457	519,712	267,457

11 RECEIVABLES

	Consolidated as at		Parent as at	
	31 December 2007 $'000	31 December 2006 $'000	**31 December 2007 $'000**	31 December 2006 $'000
Outstanding settlement	**-**	4,594	**-**	4,594
Interest receivable	**1,793**	83	**49**	83
Dividend receivable	**263**	-	**-**	-
GST recoverable	**386**	138	**386**	138
Total receivables	**2,442**	4,815	**435**	4,815

No loss has been recognised in respect of impaired receivables during the year ended 31 December 2007 [2006:nil]. Based on past experience the credit quality of receivables is high.

12 PAYABLES

	Consolidated as at		Parent as at	
	31 December 2007 $'000	31 December 2006 $'000	**31 December 2007 $'000**	31 December 2006 $'000
Amounts owing to Responsible Entity	**4,606**	1,862	**4,606**	1,862
Fund administration and custody expenses	**202**	42	**202**	42
Other payable	**1,237**	587	**943**	587
Total payables	**6,045**	2,491	**5,751**	2,491

13 UNITS ON ISSUE

Movements in number of units and net assets attributable to unitholders during the year were as follows:

	Consolidated as at			
	31 December 2007 No.	31 December 2006 No.	**31 December 2007 $'000**	31 December 2006 $'000
Opening balance	**61,135,171**	60,000,000	**281,692**	313,931
Units issued upon reinvestment of distributions	**3,388,323**	1,135,171	**12,501**	4,962
Units issued from Capital Raising	**120,493,397**	-	**503,229**	-
Units cancelled through buy-back	**(2,466,034)**	-	**(7,909)**	-
Change in net assets attributable to unitholders	**-**	-	**(27,424)**	40,255
Transaction costs	**-**	-	**(19,120)**	(39,383)
Discontinued operations	**-**	-	**-**	(38,073)
Closing balance	**182,550,857**	61,135,171	**742,969**	281,692

	Parent as at			
	31 December 2007 No.	31 December 2006 No.	**31 December 2007 $'000**	31 December 2006 $'000
Opening balance	**61,135,171**	60,000,000	**281,790**	274,511
Units issued upon reinvestment of distributions	**3,388,323**	1,135,171	**12,501**	4,779
Units issued from Capital Raising	**120,493,397**	-	**503,229**	-
Units cancelled through buy-back	**(2,466,034)**	-	**(7,909)**	-
Change in net assets attributable to unitholders	**-**	-	**(27,525)**	40,353
Transaction costs	**-**	-	**(19,120)**	-
Discontinued operations	**-**	-	**-**	(37,853)
Closing balance	**182,550,857**	61,135,171	**742,966**	281,790

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES

The purpose of the Investment Portfolio is to meet EBI's investment objective of attractive risk adjusted, absolute returns over the medium-to-long term and in all market conditions. The strategy for achieving this objective focuses on obtaining exposure to a portfolio of leading international absolute return funds (Underlying Investment Portfolio) and select subordinated debt and equity co-investments. The Manager is responsible for the process of sourcing investments and conducting analysis and due diligence using the Manager's selection criteria and the ongoing monitoring of the Investment Portfolio. The Investment Portfolio must also comply with agreed guidelines.

Risks arising from holding financial instruments are inherent in EBI's activities, and are managed through a process of ongoing identification, measurement and monitoring.

Financial instruments of EBI comprise investment in financial assets for the purpose of generating a return on the investment made by unitholders, in addition to derivatives, cash and cash equivalents, net assets attributable to unitholders, and other financial assets such as trade debtors and creditors, which arise directly from its operations.

The Responsible Entity enters into derivative transactions, principally a total return equity swap denominated in US dollars and forward currency contracts.

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

The consolidated entity is exposed to credit risk, foreign exchange risk, interest rate risk, market price risk and liquidity risk arising from the financial instruments it holds. The risk management policies employed by the consolidated entity to manage these risks are discussed below.

(a) Credit risk

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract and cause the consolidated entity to incur a financial loss.

In relation to derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. This risk is minimised by:

- ensuring counterparties, together with the respective credit limits, are appproved;
- ensuring that transactions are undertaken with a large number of counterparties; and
- ensuring that the majority of transactions are undertaken on recognised exchanges.

(i) Leverage Facility

The financial instruments of EBI are not transacted on recognised exchanges with the Leverage Facility transacted with a single counterparty (being Macquarie Group Limited). EBI therefore has concentration of credit risk to the counterparty to the Leverage Facility which matures on 31 December 2010. However, EBI mitigates this credit risk through the negotiation and structuring of the Leverage Facility. EBI has been granted first-ranking charges over the Underlying Investment Portfolio that is held by the nominee and independent third party sub-custodian to hedge the obligations of the counterparty under the Leverage Facility.

EBI has credit exposure to the Leverage Facility to the amount of the intrinsic value of the Leverage Facility of $594,544,000 [2006: $238,817,000], being the Underlying Investment Portfolio of $1,114,256,000 [2006: $507,274,000] less the Leverage of $519,712,000 [2006: $267,457,000]. This credit risk is mitigated by the fact that assets with a total value of $962,880,103 [2006: $446,805,377] are held by third party custodians and subject to first-ranking charges in favour of the Responsible Entity.

(ii) Direct assets

The Responsible Entity allocates capital to high yielding, income producing investments and securities which may be complemented by capital appreciation. These investments comprise the provision of subordinated debt which is exposed to risk of default in the event that the borrower is unable to make payments of either income and/or principal. In order to assess the degree of credit risk in these investments, the Responsible Entity undertakes an analysis of the underlying business, industry and financial risks associated with the borrower to determine whether it has the ability to service its debt obligations during the life of the investment. This assessment may include the review of due diligence materials, review of financial information including historical financial accounts and financial projections. This assessment is presented to the Responsible Entity's Investment Committee which is responsible for the investment decisions.

The investment approach is to seek to construct a portfolio diversified by asset type, industry and geography. The current range of allocation to the subordinated debt portfolio is 0% to 20% of the Investment Portfolio. Leverage is applied against this portfolio. This facility contains certain Investment Guidelines governing the composition of the portfolio of subordinated debt investments.

The Responsible Entity undertakes an intensive and regular review of each of the direct assets in the Investment Portfolio. Each asset is formally reviewed against an impairment testing check list and presented to the Investment Committee and independent Pricing Committee, who are represented by risk and operations personnel not on the Investment Committee, on a semi-annual basis.

In addition to this formal process, the Responsible Entity monitors financial and operational performance more regularly to the extent that issuers are required to provide more regular reporting. The reporting and covenant compliance requirements are managed via models which have been designed to track these ongoing performance requirements.

Performance of the direct assets is typically measured by:

- the comparison of the latest actual financial performance (e.g. provided in management accounts, unaudited accounts or audited accounts) against the original base case financial model or budget;
- compliance with financial covenants (to the extent they are contained in transaction structures); and
- other key operational milestones (e.g. construction progress against budget and original construction schedule).

EBI has credit exposure to the counterparty of its foreign currency contracts to the amount of $1,834,000.

Risk concentrations of credit risk exposure
Concentration of credit risk is managed by counterparty, by geographical region and by industry sector.

EBI's and the consolidated entity's financial assets can be analysed by the following geographic regions:

2007 Consolidated	Australia A$'000	US A$'000	Other A$'000	Total $'000
Cash and cash equivalents	**8,558**	**2,043**	**230**	**10,831**
Receivables	**1,476**	**702**	**264**	**2,442**
Financial assets held at fair value through profit or loss	**594,544**	**8,967**	**4,112**	**607,623**
Loans and receivables	**98,010**	**54,957**	**15,355**	**168,322**
Total	**702,588**	**66,669**	**19,961**	**789,218**

The credit exposure of the financial assets held at fair value through profit or loss in Australia represents the intrinsic value of the Leverage Facility of $594,544,000 [2006: $238,817,000], being the Underlying Investment Portfolio of $1,114,256,000 [2006: $507,274,000] less the Leverage of $519,712,000 [2006: $267,457,000]. This credit risk is mitigated by the fact that assets with a total value of $962,880,103 [2006: $446,805,377] are held by third party custodians and subject to first-ranking charges in favour of the Responsible Entity.

2007 Parent – All EBI's financial assets are exposed to the Australian geographic region.

2006	Australia A$'000	US A$'000	Other A$'000	Total $'000
Cash and cash equivalents	22,187	-	-	22,187
Receivables	4,815	-	-	4,815
Financial assets held at fair value through profit or loss	257,181	-	-	257,181
Total	284,183	-	-	284,183

2006 Parent – All EBI's financial assets are exposed to the Australian geographic region.

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

An industry sector analysis of the consolidated entity's direct assets is as follows:

	2007 A$'000	2006 A$'000
Financial Services	**16,496**	44,366
Rail	**31,492**	-
Ports	**15,355**	-
Property	**59,779**	-
Structured finance	**8,879**	-
Healthcare	**27,011**	-
Renewable energy	**10,613**	-
Oil and gas	**17,776**	-
Leasing	**7,273**	-
Total	**194,674**	44,366

In addition EBI has further credit exposure to the financial services sector via the Leverage Facility to the amount of the intrinsic value of the Leverage Facility of $594,544,000 [2006: $238,817,000], being the Underlying Investment Portfolio of $1,114,256,000 [2006: $507,274,000] less the Leverage of $519,712,000 [2006: $267,457,000]. This credit risk is mitigated by the fact that assets with a total value of $962,880,103 [2006: $446,805,377] are held by third party custodians and subject to first ranking charges in favour of the Responsible Entity.

The parent entity does not have different industry sector exposures outside of financial services.

(b) Liquidity and cash flow risk

Liquidity risk is the risk that the consolidated entity will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate.

To control liquidity and cash flow risk the consolidated entity invests in accordance with agreed Investment Portfolio guidelines and leverage ratios to ensure there is no concentration of risk. It also implements its foreign exchange hedging program in a manner that facilitates effective cash flow management.

The following table analyses the consolidated entity's financial liabilities and net settled derivative financial liabilities into relevant maturity groupings based on the remaining period from 31 December 2007 to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due equal their carrying balances, as the impact of discounting is not significant.

(b) Liquidity and cash flow risk (continued)

Consolidated	Less than 1 month $'000	1-3 months $'000	3-6 months $'000	6-12 months $'000	Greater than 12 months $'000	Total $'000
31 December 2007						
Financial liabilities at fair value through profit or loss	**-**	**-**	**-**	**-**	**559,916**	**559,916**
Accrued expenses	**6,045**	**-**	**-**	**-**	**-**	**6,045**
Total financial liabilities	**6,045**	**-**	**-**	**-**	**559,916**	**565,961**
31 December 2006						
Financial liabilities at fair value through profit or loss	-	-	-	-	267,457	267,457
Accrued expenses	-	2,491	-	-	-	2,491
Total financial liabilities	-	2,491	-	-	267,457	269,948

Parent	Less than 1 month $'000	1-3 months $'000	3-6 months $'000	6-12 months $'000	Greater than 12 months $'000	Total $'000
31 December 2007						
Financial liabilities at fair value through profit or loss	**-**	**-**	**-**	**-**	**519,712**	**519,712**
Accrued expenses	**5,751**	**-**	**-**	**-**	**-**	**5,751**
Total financial liabilities	**5,751**	**-**	**-**	**-**	**519,712**	**525,463**
31 December 2006						
Financial liabilities at fair value through profit or loss	-	-	-	-	267,457	267,457
Accrued expenses	2,491	-	-	-	-	2,491
Total financial liabilities	2,491	-	-	-	267,457	269,948

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(c) Market price risk

Market price risk is the risk that the value of the consolidated entity's investment portfolio will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates, and equity prices. This risk is managed by ensuring that firstly all activities are transacted in accordance with investment and leverage guidelines outlined in this Note 14 and secondly that any direct investments and absolute return funds meet the Manager's selection, analysis and due diligence criteria. Market price risk analysis is conducted regularly on a total portfolio basis which includes the effect of derivatives.

Foreign exchange risk

The consolidated entity is exposed to foreign exchange risk as a result of investments in financial instruments denominated in foreign currencies. The consolidated entity has exposure to foreign currency risk implicit in the value of portfolio securities denominated in a foreign currency, and transactional exposure arising from purchases or sales of securities.

In addition to the notional exposure to foreign exchange contracts embedded in the Underlying Investment Portfolio, the consolidated entity manages this risk by directly entering into foreign exchange forward contracts to hedge the risks arising from these transactions and balances. The terms and conditions of these contracts are typically three to nine month forward contracts. EBI's policy is not to take material foreign exchange risk. Any gain or loss on foreign exchange valuation is materially offset with a gain or loss through its investments.

The following table indicates the currencies to which EBI had significant exposure at 31 December 2007 on its monetary assets and liabilities with the corresponding foreign exchange forward contracts highlighting the consolidated entity's net exposure to foreign exchange risk.

Foreign exchange risk **(continued)**

Consolidated	Australian Dollars A$'000	US Dollars A$'000	Other currencies A$'000	Total A$'000
31 December 2007				
Assets				
Cash and cash equivalents	8,558	2,043	230	10,831
Receivables	1,476	614	352	2,442
Financial assets held at fair value through profit or loss	27,440	1,095,783	4,112	1,127,335
Loans and receivables	120,647	47,675	-	168,322
Total assets	158,121	1,146,115	4,694	1,308,930
Liabilities				
Payables	6,045	-	-	6,045
Financial liabilities held at fair value through profit or loss	10,000	549,916	-	559,916
Total liabilities (excluding net assets attributable to unitholders)	16,045	549,916	-	565,961
Net assets attributable to unitholders	142,076	596,199	4,694	742,969
Total foreign currency exposure	-	596,199	4,694	600,893
Total forward exchange contracts (notional and direct)	-	(599,518)	(4,039)	(603,557)
Net foreign currency exposure	-	(3,319)	655	(2,664)

Parent	Australian Dollars A$'000	US Dollars A$'000	Other currencies A$'000	Total A$'000
31 December 2007				
Assets				
Cash and cash equivalents	5,282	-	-	5,282
Receivables	435	-	-	435
Financial assets held at fair value through profit or loss	173,896	1,086,816	-	1,260,712
Loans and receivables	2,000	-	-	2,000
Total assets	181,613	1,086,816	-	1,268,429
Liabilities				
Payables	5,751	-	-	5,751
Financial liabilities held at fair value through profit or loss	-	519,712	-	519,712
Total liabilities (excluding net assets attributable to unitholders)	5,751	519,712	-	525,463
Net assets attributable to unitholders	175,862	567,104	-	742,966
Total foreign currency exposure	-	567,104	-	567,104
Total forward exchange contracts (notional and direct)	-	560,827	-	560,827
Net foreign currency exposure	-	6,277	-	6,277

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

Foreign exchange risk **(continued)**

Consolidated	**Australian Dollars A$'000**	**US Dollars A$'000**	**Other currencies A$'000**	**Total A$'000**
31 December 2006				
Assets				
Cash and cash equivalents	22,187	-	-	22,187
Receivables	4,815	-	-	4,815
Financial assets held at fair value through profit or loss	12,651	507,274	4,713	524,638
Total assets	39,653	507,274	4,713	551,640
Liabilities				
Payables	2,421	70	-	2,491
Financial liabilities held at fair value through profit or loss	-	267,457	-	267,457
Total liabilities (excluding net assets attributable to unitholders)	2,421	267,527	-	269,948
Net assets attributable to unitholders	37,232	239,747	4,713	281,692
Total foreign currency exposure	-	239,747	4,713	244,460
Total forward exchange contracts (notional and direct)	-	(239,832)	(4,814)	(244,646)
Net foreign currency exposure	-	(85)	(101)	(186)

Parent	**Australian Dollars A$'000**	**US Dollars A$'000**	**Other currencies A$'000**	**Total A$'000**
31 December 2006				
Assets				
Cash and cash equivalents	22,121	-	-	22,121
Receivables	4,815	-	-	4,815
Financial assets held at fair value through profit or loss	12,651	507,274	4,877	524,802
Total assets	39,587	507,274	4,877	551,738
Liabilities				
Payables	2,421	70	-	2,491
Financial liabilities held at fair value through profit or loss	-	267,457	-	267,457
Total liabilities (excluding net assets attributable to unitholders)	2,421	267,527	-	269,948
Net assets attributable to unitholders	37,166	239,747	4,877	281,790
Total foreign currency exposure	-	239,747	4,877	244,624
Total forward exchange contracts (notional and direct)	-	(239,832)	(4,814)	(244,646)
Net foreign currency exposure	-	(85)	63	(22)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The consolidated entity has notional exposure to interest rate risk with respect of the payable under the Leverage Facility. The interest rate is determined as the US dollar base rate for the relevant interest period plus a margin that is agreed with the counterparty from time to time.

The consolidated entity also has direct exposure to interest rate risk with respect of the payable under the Loan Facility. The interest rate is determined on a base rate at the beginning of the relevant interest period plus a margin that is agreed with the counterparty from time to time.

The Manager is responsible, through its Investment and Risk Management Committees, for managing direct interest rate risk with respect to the Leverage and Loan Facilities and investment in fixed interest securities, and reporting any issues to the Board.

The consolidated entity's exposure to interest rate risk and the weighted average effective interest rate is set out in the following table:

			Fixed interest rate					
Consolidated 31 December 2007	**Weighted average interest rate (% pa)**	**Floating interest rate $'000**	**1-3 months $'000**	**3-6 months $'000**	**6-12 months $'000**	**Greater than 12 months $'000**	**Non-interest bearing $'000**	**Total $'000**
Assets								
Cash and cash equivalents	**5.70**	**10,831**	**-**	**-**	**-**	**-**	**-**	**10,831**
Receivables	**-**	**-**	**-**	**-**	**-**	**-**	**2,442**	**2,442**
Financial assets held at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**1,127,335**	**1,127,335**
Loans and receivables	**10.29**	**-**	**-**	**70,701**	**28,418**	**69,203**	**-**	**168,322**
Total assets		**10,831**	**-**	**70,701**	**28,418**	**69,203**	**1,129,777**	**1,308,930**
Liabilities								
Payables	**-**	**-**	**-**	**-**	**-**	**-**	**6,045**	**6,045**
Financial liabilities held at fair value through profit or loss	**6.20**	**-**	**559,916**	**-**	**-**	**-**	**-**	**559,916**
Total liabilities (excluding net assets attributable to unitholders)		**-**	**-**	**-**	**-**	**-**	**6,045**	**565,961**
Net exposure		**10,831**	**(559,916)**	**70,701**	**28,418**	**69,203**	**1,123,732**	**742,969**

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

Parent 31 December 2007	Weighted average interest rate (% pa)	Floating interest rate $'000	Fixed interest rate 1-3 months $'000	Fixed interest rate 3-6 months $'000	Fixed interest rate 6-12 months $'000	Fixed interest rate Greater than 12 months $'000	Non-interest bearing $'000	Total $'000
Assets								
Cash and cash equivalents	**6.03**	**5,282**	**-**	**-**	**-**	**-**	**-**	**5,282**
Receivables	**-**	**-**	**-**	**-**	**-**	**-**	**435**	**435**
Financial assets held at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**1,260,712**	**1,260,712**
Loans and receivables	**7.27**	**-**	**-**	**2,000**	**-**	**-**	**-**	**2,000**
Total assets		**5,282**	**-**	**2,000**	**-**	**-**	**1,261,147**	**1,268,429**
Liabilities								
Payables	**-**	**-**	**-**	**-**	**-**	**-**	**5,751**	**5,751**
Financial liabilities held at fair value through profit or loss	**6.18**	**-**	**519,712**	**-**	**-**	**-**	**-**	**519,712**
Total liabilities (excluding net assets attributable to unitholders)		**-**	**519,712**	**-**	**-**	**-**	**5,751**	**525,463**
Net exposure		**5,282**	**(519,712)**	**2,000**	**-**	**-**	**1,255,396**	**742,966**

Consolidated 31 December 2006	Weighted average interest rate (% pa)	Floating interest rate $'000	Fixed interest rate 1-3 months $'000	Fixed interest rate 3-6 months $'000	Fixed interest rate 6-12 months $'000	Fixed interest rate Greater than 12 months $'000	Non-interest bearing $'000	Total $'000
Assets								
Cash and cash equivalents	5.28	22,187	-	-	-	-	-	22,187
Receivables	5.20	83	-	-	-	-	4,732	4,815
Financial assets held at fair value through profit or loss	-	-	-	-	-	-	524,638	524,638
Total assets		22,270	-	-	-	-	529,370	551,640
Liabilities								
Payables	-	-	-	-	-	-	2,491	2,491
Financial liabilities held at fair value through profit or loss	5.97	-	267,457	-	-	-	-	267,457
Total liabilities (excluding net assets attributable to unitholders)		-	267,457	-	-	-	2,491	269,948
Net exposure		**22,270**	**(267,457)**	**-**	**-**	**-**	**526,879**	**281,692**

Parent 31 December 2006	Weighted average interest rate (% pa)	Floating interest rate $'000	Fixed interest rate				Non-interest bearing $'000	Total $'000
			1-3 months $'000	3-6 months $'000	6-12 months $'000	Greater than 12 months $'000		
Assets								
Cash and cash equivalents	5.28	22,121	-	-	-	-	-	22,121
Receivables	5.20	83	-	-	-	-	4,732	4,815
Financial assets held at fair value through profit or loss	-	-	-	-	-	-	524,802	524,802
Total assets		22,204	-	-	-	-	529,534	551,738
Liabilities								
Payables	-	-	-	-	-	-	2,491	2,491
Financial liabilities held at fair value through profit or loss	5.97	-	267,457	-	-	-	-	267,457
Total liabilities (excluding net assets attributable to unitholders)		-	267,457	-	-	-	2,491	269,948
Net exposure		22,204	(267,457)	-	-	-	527,043	281,790

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

The following table demonstrates the sensitivity of EBI's income statement to a reasonable possible change in interest rates, with all other variables held constant.

The 40 basis points sensitivity is based on the volatility of change in the US cash interest rates over the last ten years.

The sensitivity on the income statement is the effect of the assumed changes in interest rates on:

- the interest expense for one year, based on the floating rate financial liabilities held at 31 December 2007; and
- changes in the fair value of the Leverage Facility for the year.

2007

Country	**Change in basis points Increase/decrease**	**Sensitivity of interest expense Increase/decrease $'000**	**Sensitivity of changes in fair value of financial liabilities Increase/ decrease $'000**
US interest rate	**+40bp/-40bp**	**40/(40)**	**1,821/(1,821)**

2006

Country	**Change in basis points Increase/decrease**	**Sensitivity of interest income $ Increase/ decrease $'000**	**Sensitivity of changes in fair value of financial liabilities Increase/ decrease $'000**
US interest rate	+40bp/-40bp	55/(55)	844/(844)

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in market prices, whether those changes are caused by factors specific to the individual stock or factors affecting all instruments in the market. Equity price risk exposure arises from EBI's direct investments in listed equity.

The effect on the income statement due to a reasonably possible change in market factors, as represented by the equity indices, with all other variables held constant is indicated in the table below.

The 20% sensitivity is based on the volatility of change of the relevant stock indices during the financial year.

	2007		2006	
Index	**Change in equity price**	**Effect on net profit attributable to unitholders $'000**	Change in equity price	Effect on net profit attributable to unitholders $'000
NYSE	**-20%/20%**	**(1,455)/1,455**	-	-
SGX	**-20%/20%**	**(794)/794**	-20%/20%	(943)/943

All financial assets and financial liabilities included in the balance sheet are carried at fair value.

The carrying amounts of all the consolidated entity's financial assets and financial liabilities at the balance sheet date approximated their fair values as all financial assets and liabilities not fair valued are short-term in nature.

Investment & leverage guidelines

Leverage Facility

Facility Limit – US$725,000,000 less the amount of any principal and accrued interest outstanding under the Loan Facility (discussed below).

The Leverage Facility contains certain investment guidelines governing the composition of the Underlying Investment Portfolio. The Responsible Entity may only alter the Underlying Investment Portfolio outside these guidelines with the consent of the Leverage Facility Provider. Key benchmarks and guidelines include:

- the Underlying Investment Portfolio must be diversified across at least 20 permitted absolute return funds, with minimum and maximum limits set as to the exposure to single investment strategies;
- the Underlying Investment Portfolio must not have more than 10% of its value comprised of any one absolute return fund, more than 15% of its value comprised of funds managed by the same absolute return fund manager or more than 40% of its value comprised of the largest five permitted absolute return funds (by value);
- no more than 15% of the value of the Underlying Investment Portfolio may be comprised by funds whose fund managers have less than 24 months' track record; and
- the Underlying Investment Portfolio must meet minimum liquidity requirements by, amongst other things, maintaining at least 20% of the Underlying Investment Portfolio in permitted funds which have liquidity terms equal to or better than monthly redemptions with a notice period of 60 days.

EBI currently targets a leverage ratio of 50%, however, under the Leverage Facility the leverage ratio must not exceed 60% at any time. If this occurs, EBI must rebalance the leverage ratio to 55% by reducing part of the Investment Portfolio and/or paying an amount to the Leverage Facility Provider to bring the ratio within 55%.

These benchmarks and guidelines have been met during the financial year.

Loan Facility

Facility Limit – $140,000,000

During the period the Responsible Entity has agreed to a Loan Facility with the Leverage Provider (Macquarie Group Limited) to provide debt funding, primarily for the purpose of acquiring investments in Subordinated Debt within the EBI Income Fund.

Drawings and payments of interest may be in currencies other than Australian Dollars. It is the intent of the Responsible Entity that drawings will generally be denominated in the same currency as investments.

The Loan Facility is for a term of three years and secured by EBI's interest in EBI Income Fund.

The Loan Facility contains certain investment guidelines governing the use of the Loan Facility. Key guidelines include:

- no more than $25,000,000 invested in a single permitted investment (other than cash);
- no more than $25,000,000 invested in permitted investments with a single issuer;

The Leverage Provider allows EBI Income Fund to invest in deals larger than the amount permitted in the guidelines on the basis that no leverage is applied above the $25,000,000 limit.

Under the Loan Facility the leverage ratio of the EBI Income Fund must remain at 50% or less.

These guidelines have been met by during the financial year.

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

Investment strategy

The current Allocation ranges followed as part of EBI's investment strategy are:

- a diversified portfolio of absolute return funds will make up 75%-100% of the Investment Portfolio;
- subordinated debt investments will make up 0%-20% of the Investment portfolio; and
- equity co-investments will make up 0%-5% of the Investment Portfolio.

Capital management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

15 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business the consolidated entity enters into transactions in various derivative financial instruments with certain risks. The carrying value of these investments is disclosed in notes 7 and 10. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. Typically, derivative instruments are used for a number of purposes including:

- a substitution for trading of physical securities;
- hedging to protect an asset or liability of the consolidated entity against a fluctuation in market values or to reduce volatility;
- Increasing or adjusting asset exposures within the parameters set in the investment strategy, (for example adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios).

(a) Swaps

(i) Total return equity swap

Terms and conditions

The Responsible Entity has entered into a total return equity swap maturing 31 December 2010, referred to in this Report as the Leverage Facility.

In summary, the current terms of the Leverage Facility are:

- The Leverage Facility provides a synthetic exposure to a diversified portfolio of leading international absolute return funds, foreign exchange contracts and cash (Underlying Investment Portfolio) which comply with investment guidelines agreed with the provider of the Leverage Facility.
- The Leverage Facility is denominated in US dollars, however, it is translated to $A at the prevailing exchange rate for presentation in the accounts.
- The Leverage Facility Provider provides notional leverage and undertakes to pay EBI a return equal to what it would receive if it had invested in the specified Underlying Investment Portfolio taking into account the leverage provided during the term of the Leverage Facility, which is for three years.
- There is an ability to increase or reduce the amount of leverage. Leverage notionally accrues and capitalises interest, which has the impact of increasing leverage over time.
- The interest rate is determined as US LIBOR for the relevant interest period plus a margin that is agreed with the counterparty from time to time.
- The interest period in respect of any portion of the leverage may be between one day and five years.
- There is an ability to change the composition of the Underlying Investment Portfolio, with the consent of the Leverage Facility Provider.
- There is an ability to increase or decrease the Underlying Investment Portfolio, for example, through additional contributions to the Leverage Facility or a request for additional leverage, with the consent of the Leverage Facility Provider.
- Each portion of leverage is a 'Strike' and the total amount of such leverage is the 'Aggregate Strike'. The fair value of the Leverage Facility at any particular time is calculated as the value of the Underlying Investment Portfolio less the Aggregate Strike and is defined as the 'Intrinsic Value'.
- The fair value of the Underlying Investment Portfolio is determined by the calculation agent (an entity associated with the Leverage Facility Provider) who must use the value advised to it by the administrators of the underlying absolute return funds or, where available, other reliable independent third party administrators as agreed with the Responsible Entity.
- The Leverage Facility has a maturity date of 31 December 2010.
- At maturity date or early termination (as these terms are defined in the Leverage Facility) the Responsible Entity is entitled to payment of the Intrinsic Value but may elect for cash or physical settlement to a nominated third party.
- There are various terms and conditions covering termination events, market disruption and events of default. Some of these terms are market standard and others are additional terms negotiated as part of the transaction.

(ii) Interest rate swap

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The interest rate swap expires on 29 November 2010 and is used to hedge against interest rate fluctuations by swapping fixed rate obligations for floating rate obligations.

15 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair values

Financial assets, financial liabilities and derivatives are carried at fair value. For other assets and liabilities their carrying amount approximates their fair value due to their short-term nature.

(c) Foreign exchange

In addition to the notional exposure to foreign exchange contracts embedded in the Underlying Investment Portfolio, EBI has directly entered into foreign exchange contracts.

Forward currency contracts are primarily used by the consolidated entity to hedge against foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The consolidated entity agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the reporting date. The consolidated entity recognises a gain or loss equal to the change in fair value at the reporting date.

These foreign exchange contracts are being used to reduce the exposure to foreign exchange risk.

In addition to the notional exposure to foreign exchange contracts embedded in the Underlying Investment Portfolio, EBI has directly entered into the following foreign exchange contracts. The terms of these contracts are as follows:

Consolidated 31 December 2007	Maturity	Exchange rate	AUD Revaluation $'000
Sell US$ / Buy A$			
US12,000,000	15 January 2008	A$/US0.7975	**1,326**
US8,000,000	28 February 2008	A$/US0.8745	**(25)**
US6,000,000	28 February 2008	A$/US0.8720	**1**
US12,000,000	28 February 2008	A$/US0.8706	**23**
US5,000,000	5 March 2008	A$/US0.8157	**394**
Buy US$ / Sell A$			
US12,000,000	15 January 2008	A$/US0.8730	**(24)**
US650,000	5 March 2008	A$/US0.8711	**(1)**
Buy SGD$ / Sell AUD$			
SGD5,100,000	15 January 2008	SGD$/US$0.7931	**14**
Sell SGD$ / Buy AUD$			
SGD5,100,000	15 January 2008	SGD$/US$0.8243	**145**
SGD5,100,000	28 February 2008	SGD$/US$0.7969	**(19)**
Fair value gain on derivatives (Foreign exchange hedging)			**1,834**

Parent 31 December 2007

No direct exposure to foreign exchange contracts.

Consolidated 31 December 2006	Maturity	Exchange rate	AUD Revaluation $'000
Sell US$ / Buy A$			
US$112,500,000	7 March 2007	A$US0.74439	8,249
US$2,200,000	7 March 2007	A$US0.76460	84
US$6,000,000	7 March 2007	A$US0.76403	235
US$77,500,000	1 June 2007	A$/US0.74704	4,986
US$4,500,000	1 June 2007	A$US0.74144	334
US$5,800,000	1 June 2007	A$US0.74740	173
US$7,300,000	1 June 2007	A$US0.78646	(7)
Buy US$ / Sell A$			
US$6,000,000	7 March 2007	A$/US0.72686	(632)
US$4,500,000	7 March 2007	A$/US0.74439	(330)
US$4,000,000	7 March 2007	A$/US0.74946	(193)
US$1,000,000	7 March 2007	A$/US0.76995	(29)
US$4,000,000	7 March 2007	A$/US0.76420	(156)
US$15,000,000	7 March 2007	A$/US0.78663	(31)
Buy US$ / Sell SGD$			
US$3,800,000	7 March 2007	SGD$/US$0.6495	(32)
Fair value gain on derivatives (Foreign exchange hedging)			12,651

15 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The parent's derivative financial instruments at year-end are detailed below:

Parent 31 December 2006	Maturity	Exchange rate	AUD Revaluation $'000
Sell US$ / Buy A$			
US$112,500,000	7 March 2007	A$/US0.74439	8,249
US$2,200,000	7 March 2007	A$/US0.76460	84
US$6,000,000	7 March 2007	A$/US0.76403	235
US$77,500,000	1 June 2007	A$/US0.74704	4,986
US$4,500,000	1 June 2007	A$/US0.74144	334
US$5,800,000	1 June 2007	A$/US0.76740	173
US$7,300,000	1 June 2007	A$/US0.78646	(7)
Buy US$ / Sell A$			
US$6,000,000	7 March 2007	A$/US0.72686	(632)
US$4,500,000	7 March 2007	A$/US0.74439	(330)
US$4,000,000	7 March 2007	A$/US0.74946	(193)
US$1,000,000	7 March 2007	A$/US0.76995	(29)
US$4,000,000	7 March 2007	A$/US0.76420	(156)
US$15,000,000	7 March 2007	A$/US0.78663	(31)
Buy US$ / Sell SGD$			
US$3,800,000	7 March 2007	SGD$/US$0.6495	(32)
Fair value gain on derivatives (Foreign exchange hedging)			12,651

16 RELATED PARTY TRANSACTIONS

Responsible Entity

The Responsible Entity of Everest Babcock & Brown Alternative Investment Trust is Everest Capital Investment Management Limited.

Key management personnel

(a) Directors

Key management personnel includes persons who were Directors of Everest Capital Investment Management Limited at any time during the financial year and until the date of this report as follows:

Trevor Gerber (Non-Executive Chairman)
Marea Laszok (Independent Director)
Warick Leeming (Independent Director)
Peter Williams (Independent Director) (appointed 11 May 2007)
Jeremy Reid (Executive Director)

(b) Other personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly during the financial year as follows:

Azra Popo (Company Secretary and General Counsel)
Brian O'Sullivan (Company Secretary and CFO)
John Peterson (Chief Risk Officer)
Steve McKenna (Portfolio Manager – Absolute Return Funds)
Will Peterson (Portfolio Manager – Direct Investments)

The Responsible Entity is also considered to be key management personnel with the authority for the strategic direction and management of EBI.

Remuneration of key management personnel

Fees and payments to Independent Directors reflect the demands and the responsibilities placed on the Independent Directors and cover all Board activities and membership of committees. In order to meet its objectives for unitholders it is essential that EBI is able to secure and maintain the services of professional, competent and highly motivated Independent Directors, executives and staff.

For the 2007 financial year the Non-Executive Chairman's remuneration was set at $60,000 per annum (inclusive of superannuation). Independent Directors' remuneration was set at $40,000 per annum (exclusive of superannuation). Independent Directors do not receive bonuses nor are they issued options on EBI units. The independent Directors' remuneration is not linked to the performance of EBI.

All of the Directors of the Responsible Entity are considered to be the Key Management Personnel (KMP) of EBI. The following is remuneration received by KMP for the year ended 31 December 2007:

16 RELATED PARTY TRANSACTIONS (CONTINUED)

		Short-Term Incentives			Post Employment Benefits	Long-Term Incentives		
							Share Based Payment Compensation	
Name	**Position**	**Salary & Fees $**	**Cash bonus $**	**Non-monetary benefits $**	**Super-annuation $**	**Retention Bonus $**	**Options $**	**Total $**
2007								
Directors								
Marea Laszok	Independent Director	-	-		43,600	-	-	43,600
Peter Williams	Independent Director	-	-		27,942	-	-	27,942
Jeremy Reid[1]	Director	26,316	33,711		679	-	-	61,617
Executives								
Brian O'Sullivan[1]	Chief Financial Officer	13,296	12,895		679	5,567	18,623	51,840
John Peterson[1]	Chief Risk Officer	15,028	3,684		679	4,386	6,208	29,985
Steve McKenna[1]	Portfolio Manager							
	Absolute Return Funds	11,579	8,289		679	5,633	12,415	38,595
Will Peterson[1]	Portfolio Manager-Direct							
	Investments	12,218	8,289		679	2,345	3,686	27,217
Total		119,721	66,868		137,253	17,931	40,932	384,396

1 Remuneration of Jeremy Reid and other KMPs is paid directly by the Manager and they do not receive any remuneration directly from EBI. Options granted are options over ordinary shares in Everest Babcock & Brown Limited.

		Short-Term Incentives			Post Employment Benefits	Long Term - Incentives		
							Share Based Payment Compensation	
Name	Position	Salary & Fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retention Bonus $	Options $	Total $
2006								
Directors								
Trevor Gerber	Non-Executive Chairman	69,208	-	-	43,292	-	-	112,500
Keith Ince	Independent Director	-	-	-	52,326	-	-	52,326
Kerry Roxburgh	Independent Director	45,317	-	-	4,079	-	-	49,396
Warick Leeming	Independent Director	-	-	-	1,553	-	-	1,553
Marea Laszok	Independent Director	-	-	-	1,553	-	-	1,553
David Kent[1]	Director	17,043	41,933	205	828	-	19,961	79,970
Jeremy Reid[1]	Director	35,136	55,267	972	828	-	-	92,203
David Fuchs	Director	-	-	-	-	-	-	-
Phillip Green	Director	-	-	-	-	-	-	-
Executives								
Brian O'Sullivan[1]	Chief Financial Officer	16,034	22,000	305	828	3,521	10,406	53,094
John Peterson[1]	Chief Risk Officer	18,322	7,000	55	828	2,705	3,469	32,379
Steve McKenna[1]	Portfolio Manager							
	Absolute Return Funds	10,624	8,167	334	1,272	3,475	6,937	30,809
Total		211,684	134,367	1,871	107,387	9,701	40,773	505,783

1 Remuneration of David Kent, Jeremy Reid and other KMPs is paid directly by the Manager and they do not receive any remuneration directly from EBI. Options granted are options over ordinary shares in Everest Babcock & Brown Limited.

EBI does not have any employees. Remuneration to KMPs and employees is paid directly by the Manager. The remuneration of KMP disclosed has been allocated based on each KMP's cost of remuneration applicable to EBI. In relation to David Kent, Jeremy Reid and Executives, the total cost of their remuneration has been allocated to each such fund/ scheme managed by the Manager. Their remuneration cost has been allocated evenly across all funds/schemes.

16 RELATED PARTY TRANSACTIONS (CONTINUED)

Key management personnel loan disclosures

The consolidated entity has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

Other transactions within the consolidated entity

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

(c) Responsible Entity's/Manager's fees and Performance fees

In accordance with EBI's Constitution, the Responsible Entity receives a total fee of 1.25% (exclusive of GST, net of tax credits available to the consolidated entity) per annum on EBI's assets.

The Responsible Entity is also entitled to receive an annual performance fee equal to 20% of the amount by which the actual total securityholder return exceeds a notional 10% pa compounded pre-tax total securityholder return, less the aggregate of any performance fees previously received by the Responsible Entity. Total securityholder return is calculated in accordance with a formula in the Trust Constitution.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the consolidated entity and the Responsible Entity were as follows:

	Consolidated as at		Parent as at	
	31 December 2007 $'000	31 December 2006 $'000	**31 December 2007 $'000**	31 December 2006 $'000
Management fees for the year ended to the Responsible Entity	**14,156**	7,214	**14,156**	7,214

Performance fees paid by EBI to the Manager during the financial year were nil [2006: $3,178,000].

(d) Other related party transaction

EBI has entered into a preferred advisor agreement until 30 June 2011 with Babcock & Brown Australia Pty Limited (Babcock & Brown Australia). Under the agreement Babcock & Brown Australia acts as financial advisor and provides investment banking services to EBI. EBI has agreed to consult first with Babcock & Brown Australia in connection with the provision of financial advisory and investment banking services to EBI.

As part of the Capital Raising discussed earlier in the report, EBI paid Babcock & Brown Australia Pty Limited (Babcock & Brown) a financial advisory fee of $2,767,600 (incl. GST) to act as financial adviser to EBI in connection with the Capital Raising. The fee paid to Babcock & Brown was equal to 0.5% of the proceeds of the Capital Raising for general financial and strategic advice in connection with the arrangement and execution of the Capital Raising including:

- the structure of the Capital Raising;
- negotiations with and syndication of broking firms;
- offering documentation;
- the due diligence process, and
- strategic approach to marketing the Capital Raising and review of the marketing materials.

Related party unitholdings in EBB

Jeremy Reid is the CEO of Everest Babcock & Brown Limited (EBB), the ultimate parent entity of ECIML, the Responsible Entity of the Investment Portfolio. Reidco Pty Limited (an entity associated with Jeremy Reid) holds 17.9% of the issued shares of EBB as at 31 December 2007.

17 SUBSIDIARIES

Sudsidiaries:	EBI Income Fund
Country of incorporation:	Australia
Acquistion date:	6 December 2006
Percentage owned:	100%

Sudsidiaries:	EBI Opportunities Fund
Acquistion date:	6 December 2006
Country of incorporation:	Australia
Percentage owned:	100%

18 AUDITOR'S REMUNERATION

During the year the following fees were paid or payable for services provided by the auditor:

	Consolidated Year ended		**Parent Year ended**	
	31 December 2007 $'000	31 December 2006 $'000	**31 December 2007 $'000**	31 December 2006 $'000
During the year the auditor earned the following remuneration:				
Ernst & Young				
Audit and review of financial statements	**105**	62	**105**	62
Assurance services	**20**	24	**20**	24
Total remuneration	**125**	86	**125**	86

EBI's Audit & Risk Management Committee oversees the relationship with the external auditors. The Audit & Risk Management Committee reviews the scope of the audit and the proposed fees. Other non-audit services would not normally be provided by the external audit firm. However, if for special reasons such services were to be proposed, the Audit & Risk Management Committee would review the proposal to also ensure they did not affect the independence of the external audit function.

19 DISCONTINUED OPERATIONS

(a) Details of discontinued operations

On 25 May 2006 Everest Babcock & Brown Alternative Investments Group announced a restructure proposal whereby securityholder approval was sought for the unstapling of units in EBI from shares in EBB, and for EBB to acquire all of the shares in the Manager that it did not already own via a scrip-for-scrip transaction (Restructure).

On 18 July 2006, securityholders approved the Restructure.

The implementation date for the Restructure was 1 August 2006, at which point for every security held in Everest Babcock & Brown Alternative Investment Group securityholders were issued 1 EBI unit and 1 EBB share.

19 DISCONTINUED OPERATIONS (CONTINUED)

(b) Financial performance of operations

	Year ended 31 December 2006 $'000
Interest revenue	21
Share of profit from associate	2,304
Expenses	(185)
Profit before tax	2,140
Tax	-
Net result for the year from discontinued operation	2,140

(c) Assets and liabilities

	Company 2006 $'000
Assets	
Cash	356
Prepayments	90
Receivable	12
Investments in associate	42,214
	42,672
Liabilities	
Trade and other payables	57
Dividend payables	1,570
	1,627
Net assets attributable to discontinued operations	41,045

The net cash flows of the Company are as follows

	Company 2006 $'000
Net operating activities	946
Net financing activities	(1,417)
Net cash flow	(471)

20 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

No significant events have occurred since balance date which would impact on the financial position of the consolidated entity disclosed in the balance sheet as at 31 December 2007 or on the results and cash flows of the consolidated entity for the year ended on that date.

21 CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

As at 31 December 2007, Everest Capital Limited, as trustee of the EBI Income Fund, has committed $13,621,000 into further investments in subordinated debt which for the purposes of classification on the balance sheet will be classed as loans and receivables.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Everest Capital Investment Management Limited, I state that:

1. In the opinion of the Directors:

(a) the financial statements and notes of EBI and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true view of the Trust's and the consolidated entity's financial position as at 31 December 2007 and of their performance, for the year ended on that date.

(ii) comply with Accounting Standard and *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the consolidated entity and EBI will be able to pay their debts as and when they become due and payable.

2. This declaration is made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2007.

On behalf of the Board,
Trevor Gerber
Non-Executive Chairman
Sydney, 28 February 2008

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Independent auditor's report to the unitholders of Everest Babcock & Brown Alternative Investment Trust

We have audited the accompanying financial report of Everest Babcock & Brown Alternative Investment Trust (the 'Trust'), which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in net assets attributable to unitholders and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the Trust and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state that the financial report, comprising the consolidated financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is attached to the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Everest Babcock & Brown Alternative Investment Trust is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the financial position of Everest Babcock & Brown Alternative Investment Trust and the consolidated entity at 31 December 2007 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the consolidated financial statements and notes or financial report also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Ernst & Young

Mark O'Sullivan
Partner
Sydney
28 February 2008

Additional information required by the ASX and not shown elsewhere in this report is as follows.

The information is current at 29 February 2008.

As at 29 February 2008, a total of 179,496,494 units of EBI were on issue.

DISTRIBUTION OF UNITS

The number of unitholders of EBI by size of holding is:

Size of holding	Number of unitholders	Units	% of issued capital
1 to 1,000	514	291,595	0.16
1,001 to 5,000	1,423	4,165,863	2.32
5,001 to 10,000	777	6,005,984	3.35
10,001 to 100,000	963	26,143,390	14.56
100,001 and Over	115	142,889,662	79.61
Total	**3,792**	**179,496,494**	**100.00**

The number of unitholders of EBI holding less than a marketable parcel of securities is 88 and they hold 6,426 securities.

TWENTY LARGEST UNITHOLDERS

The names of the 20 largest holders of units of EBI are:

Number	Investor	Current balance	% of issued capital
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	18,660,724	10.40%
2	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	13,616,036	7.59%
3	CITICORP NOMINEES PTY LIMITED	9,054,357	5.04%
4	CREDIT SUISSE SECURITIES (EUROPE) LTD	8,720,000	4.86%
5	ANZ NOMINEES LIMITED	7,883,101	4.39%
6	ECKO INVESTMENTS PTY LTD	7,189,372	4.01%
7	NATIONAL NOMINEES LIMITED	6,358,617	3.54%
8	AGSO PROPERTY PTY LTD	6,238,604	3.48%
9	EVEREST CAPITAL LIMITED	5,622,668	3.13%
10	COGENT NOMINEES PTY LIMITED	5,155,888	2.87%
11	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	3,633,199	2.02%
12	ASG HOLDINGS PTY LTD	3,538,975	1.97%
13	DOBEDO PTY LIMITED	3,508,204	1.95%
14	B&B PRIME SECURITIES NO 1 PTY LTD	3,000,000	1.67%
15	REIDCO PTY LIMITED	2,700,000	1.50%
16	HARSIT HOLDINGS PTY LTD	2,316,825	1.29%
17	14 PORTLAND STREET PTY LTD	2,100,000	1.17%
18	L J K NOMINEES PTY LTD	1,900,000	1.06%
19	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,674,712	0.93%
20	BLANN INVESTMENTS PTY LIMITED	1,635,318	0.91%
	Total	**114,506,600**	**63.79%**

NUMBER OF UNITS THAT ARE RESTRICTED OR SUBJECT TO VOLUNTARY ESCROW

There are no units that are restricted or subject to voluntary escrow.

SUBSTANTIAL UNITHOLDERS

The names of substantial unitholders (which includes their associates) who have notified EBI in accordance with section 671B of the *Corporations Act 2001* are:

Holder	Number of units	% of issued capital
Laxey Partners Limited	17,907,234	9.85%
Babcock & Brown Group	17,188,604	9.46%
Harsit Holdings Pty Ltd	13,553,175	7.33%

VOTING RIGHTS

At a general meeting of EBI, every unitholder entitled to vote may vote in person or by proxy, attorney or representative and has:

- on a show of hands, one vote; and
- on a poll, one vote for every dollar they have invested in EBI.

OTHER INFORMATION

No EBI units were issued to the Responsible Entity in lieu of cash base fees or performance fees for the year ended 31 December 2007.

AFSL Australian Financial Services Licence

AIFRS Australian equivalents to International Financial Reporting Standards

Arbitrage The Investment Managers take hedged positions in financial instruments that are closely related, with the objective of profiting from deviations from normal or forecast pricing relationships

ASIC Australian Securities & Investment Commission

Asset Backed Lending The Investment Managers invest in the bonds, bank debt and other debt securities of corporate borrowers. Often the investment manager will seek to originate and directly negotiate the terms of a loan with the corporate borrower. Target borrowers include asset rich but illiquid companies, restructuring entities and companies seeking quick access to funds in order to exploit an opportunity

ASX Australian Stock Exchange Limited ABN 98 008 624 691 or the stock market conducted by Australian Stock Exchange Limited, as the context requires

Capital Raising The issue of EBI units as described in the Information Memorandum dated 16 March 2007, comprising the Rights Offer and the Placement

Company Everest Babcock & Brown Limited ABN 42 112 480 145

Consolidated Group EBI and its 100% owned sub-trusts, EBI Income Fund and EBI Opportunities Fund

Directors Directors of the Responsible Entity as disclosed in this report

Distressed securities The Investment Managers invest in distressed situations. Examples include re-organisations, bankruptcies and distressed asset sales

DRP Distribution Reinvestment Plan

EBB Everest Babcock & Brown Limited ABN 42 112 480 145

EBB Share Issue The issue of shares in EBB that is to accompany the issue of EBI units under the Capital Raising

EBI Everest Babcock & Brown Alternative Investment Trust ARSN 112 129 218

ECIML Everest Capital Investment Management Limited ABN 96 112 731 978 and AFSL 288 360

Event driven The Investment Managers seek to profit from valuation anomalies arising from announced corporate events such as mergers, acquisitions, restructurings and bankruptcies. Implementation requires intensive research to analyse the prospects and consequences of the relevant event

Global macro The Investment Managers take a view on broad economic and financial themes worldwide and implement investment positions using a wide variety of financial instruments/securities

Group The stapled entity in existence prior to 1 August 2006, which previously comprised Everest Babcock & Brown Limited and Everest Babcock & Brown Alternative Investment Trust

GST Goods and services tax

Investment Portfolio A diversified portfolio of leading international absolute return funds

Investment Manager A manager of an absolute return fund

KMP Key management personnel

Leverage Facility A total return equity swap

Leverage Facility Provider Macquarie Bank Limited ABN 46 008 583 542

LIBOR London inter bank offered rate

GLOSSARY

Long/short equity The Investment Managers invest in equities on both the long side and short side of the market. Market views are expressed by varying net exposure (ie long exposure minus short exposure).

Manager Everest Capital Limited ABN 86 092 753 252 and AFSL 225 102

Managed Futures investment managers use advanced computer trading programs to identify and profit from directional price movements in global markets.

Multi-strategy The Investment Managers typically invest across a broad cross-section of opportunities, including long/short equity, arbitrage, distressed securities and special situations. Although the relative weighting of the chosen strategies will vary over time, each strategy typically represents a meaningful component of the investment portfolio.

NPAT Net profit after tax

NPBT Net profit before tax

NTA Net tangible asset

Recommendations ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practise Recommendations

Report The Annual Report for EBI for the year ended 31 December 2007

Responsible Entity Everest Capital Investment Management Limited, as the responsible entity of the Trust ABN 96 112 731 978 and AFSL 288 360

Restructure The unstapling of units in EBI from the shares in EBB, and for EBB to acquire all of the shares in Everest Capital Limited that it did not already own, via a scrip-for-scrip transaction implemented on 1 August 2006

Stapled Group A stapled entity in existence prior to 1 August 2006, which previously comprised Everest Babcock & Brown Limited and Everest Babcock & Brown Alternative Investment Trust

Trust Everest Babcock & Brown Alternative Investment Trust ARSN 112 129 218

VWAP Volume weighted average price

EVEREST BABCOCK & BROWN