

# The Establishment Investment Trust plc

## Performance Review

The share price fell 6.3% in December while the net asset value rose by 2.1%. In addition the shares went "ex" an interim dividend of 1.4p during the month (lifting the NAV total return to 2.9%). In consequence the shares have slipped to a 9.7% discount. For comparative purposes the MSCI World Index gained 2.5%, the MSCI Japan Index declined 0.3% and the MSCI Asia ex Japan Index rose 3.4% in sterling terms.

For calendar 2007 the share price rose 1.9% and the net asset value by 11.8%. Including dividends paid during the year, the total return rises to 4.0% and 13.7% respectively. The Company has thus enjoyed another calendar year of positive absolute returns. While the improvement in the net asset value falls a fair distance short of the 38.3% generated by the MSCI Asia ex Japan Index it appears reasonably competitive in comparison with other indices as the table below illustrates.

<u>Index</u>	<u>Total Return (%) in Sterling</u>
MSCI Asia ex Japan Index	38.3%
<i>EIT Net Asset Value</i>	<i>13.7%</i>
MSCI World Index	7.6%
MSCI UK Index	7.0%
FTSE APCIMS Balanced Index	5.6%
FTSE UK Bond Index	5.3%
<i>EIT Share Price</i>	<i>4.0%</i>
MSCI Japan Index	-5.5%

## Japan

The Japanese equity market ended 2007 as it ended 2006 – at the bottom of the performance table. The 12.2% decline in the Topix Index was disappointing and the performance of the Company has suffered as a result of continued double digit exposure to the market.

While the long term demographics remain a challenge and the global nature of Japan's more successful and larger companies means that a prolonged cyclical global slowdown will impact sales and profits, it is undeniable, in our opinion, that the root cause of the current malaise is incompetent bureaucratic bungling. The authorities have managed to create the aftermath of a credit bubble without ever having enjoyed the boom. The drastic shrinkage of the consumer finance industry following recent legislation has contributed to weak consumer spending while new construction regulations have resulted in a sharp decline in housing starts.

The good news is that, in aggregate, Japanese companies continue to perform well. Earnings growth should reach double digits once again in the year to March 2008 whilst valuations have fallen to levels last seen in 2003 and 2005. We await a trigger.

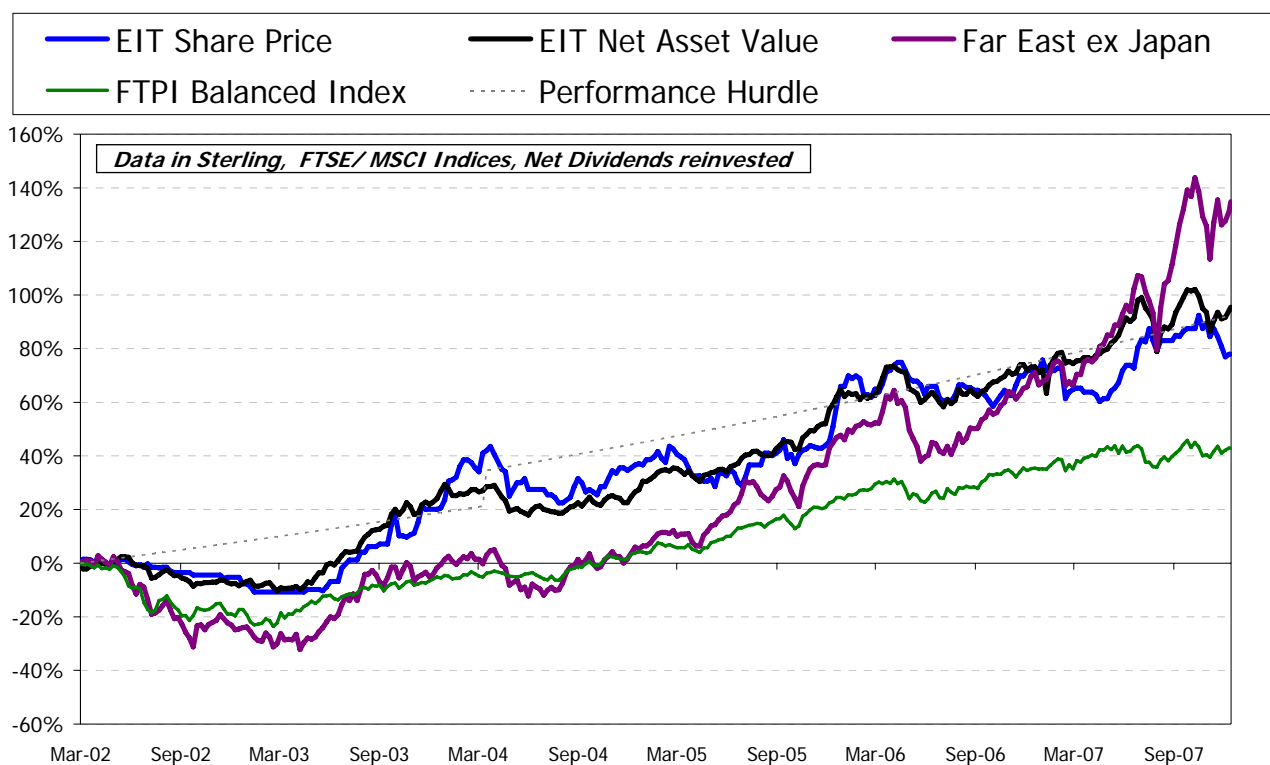
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## Key Data (as at 31<sup>st</sup> December 2007)

Share Price	164.00p
Net Asset Value	181.58p
Premium/(Discount)	(9.7%)
Shares Outstanding	20m
Market Capitalisation	£32.8m
Historic Yield	1.9%
Listed	London Stock Exchange
Bloomberg Ticker	ET/ LN <Equity>
ISIN	GB0031336919
Website	www.bdtinvest.com
Manager	BDT Invest LLP 4 <sup>th</sup> Floor, 52 Jermyn St London, SW1Y 6LX +44 (020) 7659 1300 <a href="http://www.bdtinvest.com">www.bdtinvest.com</a>
Investor Relations Administrator	Ian Furtado (020) 7659 1305 Phoenix Administration Services
Sponsor	JPMorgan Cazenove
Directors	Dr James King (Chairman) Sir David Cooksey Henry Thornton Richard Thornton Harry Wells
Investment Objective	To achieve long-term capital growth from a managed international portfolio of securities. The preservation of capital will be of primary importance to the investment objective.
Management Fee	One per cent of the market capitalisation of the Company annually.
Performance Fee	10% of any gain in the market capitalisation of the company that exceeds the 10% performance hurdle annually.
Financial Year	31 <sup>st</sup> March
Net Asset Value	Calculated weekly on Friday's closing prices and published the following Monday or Tuesday.

Elsewhere the credit crisis in the West continues to roll onward. The unprecedented provision of liquidity by the Central Banks and the willingness of mega banks to accept dilutive and expensive funding are suggestive of deeper problems - CLSA's Chris Wood perhaps aptly describes the structured financial product debacle as a case of massive financial constipation. The short term outlook for developed economies is poor and it seems reasonable clear that lower interest rates lie ahead. The degree to which the slowdown in the West and cuts in rates impacts various individual economies and sectors in the East will vary considerably but we remain most comfortable with domestically orientated concerns.

# The Establishment Investment Trust plc



At the launch of the Company in March 2002 the Sterling/Dollar rate was circa \$1.45 and, for much of over the past six years, we have attempted to mitigate the impact of Sterling's strength against the Dollar (and certain Dollar proxy Asian currencies such as the pegged Hong Kong Dollar) via direct and indirect hedging. We no longer consider Sterling strength to be much of a risk and will be looking to limit exposure to Sterling to perhaps one quarter of the assets of the Company.

The BDT Invest Emerging Markets Focus Fund (6.4% of NAV) performed strongly last year gaining over 35% while the BDT Invest Asia Fund (11.4% of NAV) generated returns in the low double digits.

The limited exposure to two BDT Invest Japanese Funds (3.2% of NAV) remains - like the market - a frustrating experience. The net asset values of both SR Europe and Lindsell Train have performed well but, as has been the case with your Company, their shares have recently moved to larger discounts.

2008 is likely to throw up plenty of challenges and hopefully your managers, operating with an absolute return mandate, will be able to deliver another year of positive absolute returns for shareholders during 2008.

BDT Invest LLP  
3<sup>rd</sup> January 2008

Currency Exposure	Asset Type	Direct Equity by Country	Equity by Sector
Sterling 26.7%	Listed Equities 52.1%	Hong Kong 11.3%	Financials 13.0%
Hong Kong Dollar 11.3%	Absolute Return Vehicles 28.3%	Japan 10.2%	Industrial 10.4%
Taiwan Dollar 10.7%	Sovereign Bonds 19.1%	Korea 9.1%	Technology 7.1%
Korean Won 9.1%	Unlisted Equities 5.5%	Taiwan 6.9%	Consumer Discretionary 6.6%
Japanese Yen 8.5%	Gold Bullion 5.7%	UK 5.5%	Property 5.9%
Euro 8.1%	Cash 4.4%	Thailand 3.0%	Telecoms 4.0%
Thai Baht 3.0%	Derivatives 0.0%	Other Asian 9.6%	Materials 3.5%
Malaysian Ringgit 2.3%	Other 0.0%	Other non Asian 1.9%	Consumer Staple 1.8%
Other 20.3%	Loan -15.2%		Utilities 0.0%

Top Ten Equity Holdings	Top Bond & ARV Holdings	Performance
China Insurance 4.8%	BDT Invest Asia Fund \$ Dist 11.4%	18-Mar-02
BDT Investment Mgmt 4.1%	Treasury 5% 07/03/2008 8.3%	31-Dec-07 +/- %
Siam Steel Services 3.0%	Bundesobligation 3.5% 10/08 8.1%	EIT Share Price # 100.0
Samsung Fire & Marine 2.9%	BDT Invest EM Focus \$ 6.4%	EIT Net Asset Value # 100.0
Farglory Land 2.6%	SR European IT 4.7%	Premium/Discount -9.7%
Rexcapital 2.3%	Treasury 4% 07/03/2009 2.8%	UK Equity # 670.2
China Power 2.2%	BDT Invest Japan Fund E 2.3%	World Equity # 714.8
Hana Tour 2.1%	Bedlam AM UK Fund 1.7%	Asia Free ex Japan # 153.8
Taiwan Semiconductor 2.1%	BDT Invest Japan Small Cos 0.9%	
Hyundai Heavy Industries 2.0%	Lindsell Train Inv Trust 0.9%	

# excluding dividends  
all MSCI indices in Sterling terms

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