

# THE ESTABLISHMENT INVESTMENT TRUST PLC

Report and Accounts  
For the year ended 31 March 2005



# THE ESTABLISHMENT INVESTMENT TRUST PLC

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# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Objective of the Company

The objective of the Company is to achieve long-term capital growth from a managed international portfolio of securities. The preservation of capital is of primary importance to the investment objective.

The Company aims to achieve absolute returns and is not managed by reference to any equity or bond index or benchmark.

## Highlights for the Year

### Performance comparisons 1 April 2004 - 31 March 2005

	31 March 2004	31 March 2005	Change
<b>Share price</b>	139.50p	<b>133.50p</b>	<b>-4.30%</b>
Net asset value	123.53p	<b>125.76p</b>	<b>+1.81%</b>
Performance Fee Hurdle #	134.59p**	<b>148.05p</b>	<b>+10.00%</b>
UK Equity *			+15.8%
World Equity *			+7.7%
Japan*			-4.3%
Asia ex Japan Equity *			+8.0%
UK Bond *			+5.0%
World Bond *			+2.5%

# As the share price (plus dividends paid) was below the Performance Fee Hurdle at the year end, no performance fee is payable.

The Performance Fee Hurdle for the year to 31 March 2006 is 162.85p.

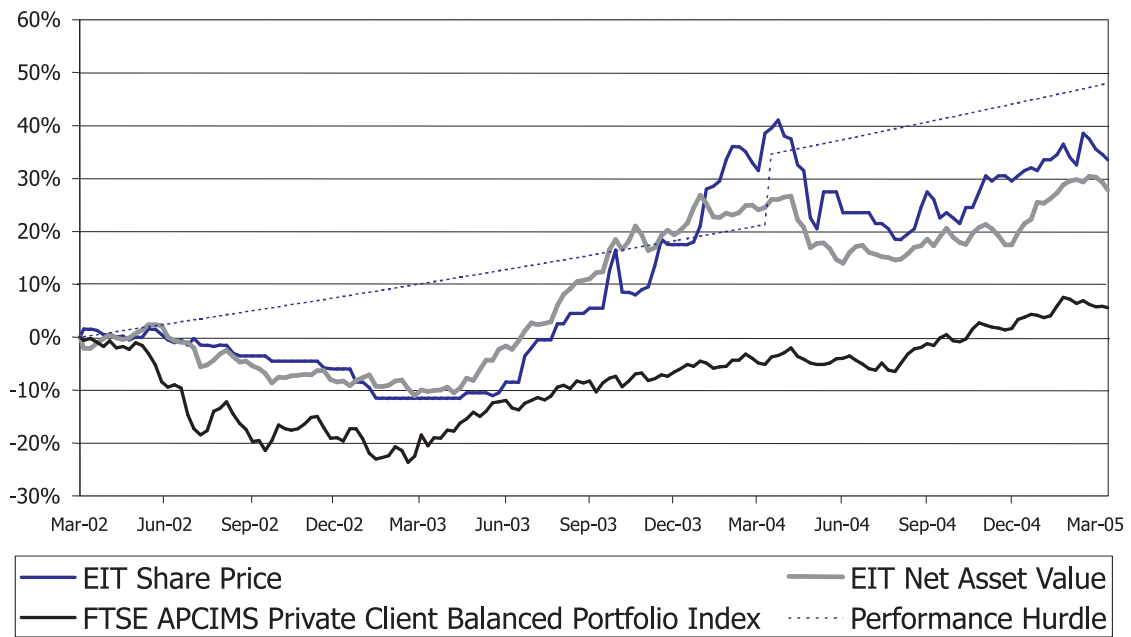
\* MSCI Indices converted into sterling. All total return indices.

\*\* As a Performance Fee was paid for the year ended 31 March 2004 the Performance Fee Hurdle was rebased to 134.59p. This has been calculated using the average of the mid market prices of an Ordinary Share on each business day during March 2004.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Performance

**Share price performance relative to the net asset value,  
Performance Hurdle and FTSE APCIMS Private Client Balanced Portfolio Index  
for the period 18 March 2002 to 31 March 2005**



# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Chairman's Statement

The second half of the financial year proved more rewarding with the share price and net asset value rising by 9.8% and 7.9% respectively. For the full financial year the share price declined by 4.3% while the net asset value rose by 1.8%. In addition dividends totalling 2.55p were paid to shareholders during the period. While the rise in the net asset value fulfilled the investment objective, that of generating absolute returns, it lagged the returns generated by the MSCI World Index +7.7% and the MSCI United Kingdom Index +15.8%. The investment returns generated by the Company over longer time horizons remain competitive. According to total return performance data published by the Association of Investment Trust Companies, the performance of the Company's share price ranked 5th out of 27 in the global growth sector returning 37.7% over the past three years compared to an average return of 3.7%. The Net Asset Value advanced 33.2% against an average return of 1.6%, ranking the company 4th out of 27 in the same sector.

This same survey also shows that the dividend yield of the Company is in line with that of the sector, and at the lower end of the range of the dividend yield of most major equity markets. In order to generate income, and to meet dividend expectations, the Board has specifically permitted dividend stripping. In normal circumstances the additional income generated by these transactions has, as a counterpart, an equivalent capital loss. The extent of these transactions is set out in Note 2 to the financial. This issue is discussed in more detail in the Report of the Investment Manager.

The robust recovery in global equity markets during the past two years owes much to the accommodative monetary policy of most central banks and the strong performance of the global economy, driven in particular by rapid growth in both the United States and the People's Republic of China. The rapid rise in oil and industrial commodity prices during this period have resulted in fears of rising inflationary pressures and the Federal Reserve in particular has lifted short term interest rates steadily of late. Inevitably this led to fears of weaker growth and possibly a return to "stagflation" with negative implications for the likely returns on financial assets. These issues are discussed in more detail in the Report of the Investment Manager but the Board is of the opinion that the absolute return investment mandate of the Company, and the broad investment remit that this implies, should enable the Investment Manager to generate competitive returns in most market conditions.

At the AGM this year we are asking shareholders to approve an increase on the limit for investment in BDT Invest fund products from 20% to 30%. The increasing range of BDT Invest fund products creates additional investment opportunities for the Company. The Company continues to play an important "seeding role" in the early days of new fund launches but, as products mature, any ongoing commitment is treated purely on its investment merits. For example, while the Company owned almost two-thirds of the BDT Invest Japan Fund at launch in March 2003, the Company's investment at 31 March 2005 accounted for less than 5% of net assets of this product as a result of the growth of this fund. The investment in the Sterling share class of the BDT Invest Japan Fund has compounded at a rate of 11.8% since purchase. Likewise the Company's purchase of the BDT Invest Japanese Smaller Companies Fund at launch provided useful seeding and generated excellent investment returns, a portion of which have been realised, with the remaining investment representing less than 2% of the product's net assets. As detailed in Note 3 to the financial statements the Investment Manager rebates to the Company any fees earned related to any investment by the Company in BDT Invest fund products.

At the financial year-end 18% of the Company's net assets were invested in BDT Invest fund products. BDT Invest plans new additional products and if the Board elects to participate in them at the launch stage the higher limit will avoid a forced, mechanical liquidation of existing, successful BDT Invest fund products simply to stay within what is a somewhat arbitrary limit. The Board does not envisage that

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Chairman's Statement continued

the Company's exposure to BDT Invest fund products will automatically climb to the new limit if the increase is approved and, the Manager believes that the overall construction of the Company's portfolio is likely to be broadly unaffected by the change.

Richard Thornton stepped down as Chairman at the end of the financial year and I would like to thank him, on behalf of the Board and Shareholders, for the leadership he has provided to the Company since launch. He remains a Director and the Company will, therefore, continue to benefit from his experience and wise counsel.

The Board has proposed a final dividend of 1.50p per ordinary share taking the total dividend for the financial year to 2.60p per ordinary share. This represents a 10.6% increase over the prior year and is consistent with the stated intent of the Board to grow dividends steadily over time.

**Dr. J A C King**

Chairman

\*\* May 2005

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Directors

**Dr James King** \* + ^, aged 66, took over as Chairman from 1 April 2005. He is chairman of the Bank of N.T. Butterfield and Sons Limited, The Argus Group of Companies, Keytech Limited, Mobility Limited and Logic Communications Limited.

**Sir David Cooksey** \* + ^ •, aged 65, has been involved in the venture capital business since 1981, when he founded Advent Venture Partners. He has been responsible for the development of the activities of Advent since that time and is currently chairman. He was the first chairman of the British Venture Capital Association in 1983/1984. His early career was in industrial engineering and general management in the De La Rue Company. He recently retired as a senior director of the Bank of England. Until the end of 1999, he was a governor of the Wellcome Trust. He holds an MA in Metallurgy from Oxford University.

**Rhoderick Swire** \* + ^, aged 54, is senior partner and founder of Pantheon Holdings Limited, and all its substantial subsidiaries, chairman of The Lindsell Train Investment Trust plc and Clyde Marine plc. He is a director of the China Navigation Company Limited, Pantheon International Participations plc and substantially all Guernsey based funds managed by the Pantheon Group. In 1981 he joined GT Management PLC to oversee and manage venture capital investments. Before joining GT Management PLC he was an executive at John Swire & Sons Limited for four years, working in Hong Kong, Sydney and London. He obtained a Bsc in engineering and Economics from Birmingham University, and qualified as a chartered accountant with Peat Marwick.

**Henry Thornton**, aged 41, was appointed a director on 31 March 2005. He is a founder member and Chief Executive Officer of the Investment Manager, BDT Investment Management Limited. He joined Thornton Management (Asia) in 1985. In 1989 he was appointed investment director of Royal Trust Asset Management (Asia), a position he retained during subsequent acquisitions by Credit Lyonnais International Asset Management and Nicholas Applegate Capital Management. In 1999 he was appointed head of emerging markets at Colonial First State First Investments, a position he retained until his resignation in April 2000.

**Richard Thornton**, Chairman to 31 March 2005, aged 73, has specialised in international investment management for some 40 years with the Thornton & Co. Group, GT Management plc and, prior to that, the Foreign and Colonial Management Group. He was co-founder of GT Management and was the founder of Thornton & Co Limited, of which he was chairman until June 1991.

**Harry Wells** \* +, aged 51, has over 30 years experience of investment markets, primarily specialising in Asia, based both in London and Hong Kong, latterly as a managing director of Salomon Smith Barney until retiring from stockbroking in 2001. He is also a director of Martin Currie Pacific Trust Plc and Bridge Securities, a listed Korean company. Mr Wells holds an MA degree from Cambridge University, is a fellow of the Securities Institute and a member of the Royal Institution of Chartered Surveyors.

All directors are non-executive

\* Independent

+ Audit Committee member

^ Management Engagement Committee member

• Senior Independent Director

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Portfolio Holdings at 31 March 2005

(All Ordinary Shares unless otherwise stated)

Holding	Company	Market value £'000	% of total assets
EUR3,000,000	Bundesanleihen 5.25% 04/01/2011	2,287	9.09
11,920	MPC Pilgrim Fund - Class 'C'	2,079	8.26
150,000	BDT Invest Japan Fund Distributor - Sterling	1,896	7.54
134,000	BDT Investment Management Limited *	1,173	4.66
200,000	BDT Invest Emerging Markets Focus 'B'	1,147	4.56
133,666	BDT Invest Japan Fund Distributor - Euro	1,128	4.48
2,100,000	Thoresen Thai Agencies NVDR's	1,066	4.24
£1,000,000	Treasury 7.75% 08/09/2006	1,043	4.14
£1,000,000	Treasury 8.5% 07/12/2005	1,026	4.08
750,000	SR Europe Investment Trust	954	3.79
3,000,000	GK Goh Holdings	914	3.63
6,500	The Lindsell Train Investment Trust	718	2.85
900,000	Top Glove Corp	582	2.31
4,000	Bedlam Asset Management UK Fund	575	2.29
150,000	Liontrust Asset Management	506	2.01
1,000,000	JCG Holdings	499	1.98
60,000	BDT Invest Japanese Smaller Companies Fund	443	1.76
570,860	Chinatrust Financial Holdings	341	1.36
135	NTT Urban Development Corp	331	1.32
700,000	Noble Group	326	1.30
11,600	Hyundai Heavy Industries	308	1.22
9,000	Petrochina ADR's	301	1.20
2,300	Samsung Electronics GDR's	301	1.20
5,000	Hoya Corp	292	1.16
1,600,000	Lenovo Holdings	288	1.15
125,000	ASM Pacific Technology	285	1.14
330,000	Taiwan Semiconductor	285	1.14
10,000	Canon	284	1.13
415,000	Siam Commercial Bank	284	1.13
20,000	Reliance Industries GDR	271	1.08
115,000	Hon Hai Precision	270	1.07
625,000	Kim Eng Holdings	265	1.05
50,000	Mitsui Trust Holdings	264	1.05
65,000	Komatsu	259	1.03
40,000	Sumitomo Realty & Development	256	1.02
1,350,000	Denway Motors	252	1.00
35,000	Marui	250	0.99
53,000	Cheung Kong	249	0.99
95,000	Sumitomo Chemical	249	0.99
2,000	Keyence Corp	246	0.98
4,500	Samsung SDI	245	0.97
70,000	Chiba Bank	240	0.96
1,250,000	Bank Central Asia	238	0.95
2,000,000	Land & House	235	0.93
1,200,000	China Insurance International	228	0.91
160,000	Tenaga Nasional	227	0.90
230,000	BOC Hong Kong Holdings	224	0.89
370,000	Astra International	217	0.86
15,000	Aoyama Trading	215	0.85
1,750,000	Central Pattana Public (Foreign)	206	0.82
400,000	Thoresen Thai Agencies (Foreign)	203	0.81
17,500	HCL - Credit Lyonnais Loan Stock 0% 11/11/2008	170	0.68
5,000	Fanuc	166	0.66
2,300	Nidec Corp	152	0.61
200,000	Taiwan Fertilizer	127	0.50
25	Mitsubishi Tokyo Financial	115	0.46
200,000	Bedlam Asset Management Plc*	50	0.20
1,246,000	SEEC Media Group	25	0.10
	Total investments	27,776	110.43
	Net current liabilities	(2,624)	(10.43)
	<b>Total assets</b>	<b>25,152</b>	<b>100.00</b>

\* Unlisted investments

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Investment Portfolio at 31 March 2005

### Sector Analysis

	Market value £'000	% of total assets
Investment Companies	11,251	44.73
EuroBonds	2,287	9.09
UK Government Bonds	2,069	8.23
Speciality & Other Finance	2,004	7.97
Banks	1,705	6.78
Electronic & Electronic Equipment	1,666	6.62
Real Estate	1,277	5.08
Transport	1,269	5.04
Engineering & Machinery	1,104	4.39
Chemicals	647	2.57
General Retailers	464	1.84
Media and Photography	310	1.23
Oil & Gas	301	1.20
Health	292	1.16
Information Technology Hardware	288	1.15
Insurance	228	0.91
Electricity	227	0.90
Automobiles	217	0.86
US Bonds	170	0.68
Total investments	27,776	110.43
Net current liabilities	(2,624)	(10.43)
<b>Total assets</b>	<b>25,152</b>	<b>100.00</b>

### Geographical Analysis (based on listing or domicile)

	Market value £'000	% of total assets
United Kingdom	12,738	50.64
Japan	3,319	13.20
Continental Europe	2,287	9.09
Hong Kong	2,050	8.15
Thailand	1,993	7.92
Singapore	1,505	5.98
Taiwan	1,024	4.07
South Korea	854	3.40
Malaysia	809	3.22
United States	471	1.87
Indonesia	455	1.81
India	271	1.08
Total investments	27,776	110.43
Net current liabilities	(2,624)	(10.43)
<b>Total assets</b>	<b>25,152</b>	<b>100.00</b>

### Classification of Assets

	Market value £'000	% of total assets
Equities	23,250	92.44
Fixed interest securities	4,526	17.99
Net current liabilities	(2,624)	(10.43)
<b>Total assets</b>	<b>25,152</b>	<b>100.00</b>

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Investment Manager's Report

### **Performance review, market overview and portfolio construction**

The Chairman's statement notes the modest fall in the share price -4.3% and the improvement in the net asset value +1.8% of the Company during the past year. During the past twelve months the premium has declined from 12.9% to 6.1% which explains why the share price fell during the year under review although the net asset value continued to rise.

Performance is also shown graphically in the chart on page 2 that tracks the net asset value and share price against the FTSE APCIMS Private Client Balanced Portfolio Index since the formation of the Company. This chart also highlights the performance hurdle that more accurately reflects the long-term investment objective of the company to achieve absolute returns for our shareholders. During the past year returns from the United Kingdom equity market have outpaced those of international equities. Thus the MSCI United Kingdom total return index returned 15.8%, comfortably ahead of the MSCI World 7.7%, Japan -4.3% and Asia ex Japan 8.0% total return indices. The 3.9% total return achieved in the Company's net asset value (including dividends paid out to shareholders during the period) should be viewed in the context of these returns.

Global equity prices have recovered by approximately one third since March 2003 but it should be remembered that they had fallen precipitously during the prior three years losing approximately half their value. With monetary conditions in the United States now tightening, amidst rising inflationary concerns, and global economic growth slowing, it is entirely possible that the global bear market could resume. Recent results from any number of manufacturing companies illustrate that raw material price increases are impacting margins and profitability and, while we have retreated significantly from the heady valuations prevalent at the turn of the millennium, it is difficult to argue that current global equity valuations are desperately cheap.

We suspect, however, that the profoundly deflationary implications of China and India (among other emerging economies) continuing to integrate into the global economy are longer-term and far more powerful than any short-term, cyclically induced, inflationary pressures. Neither should one forget the potential deflationary consequences of any retrenchment by a highly indebted Western consumer. We expect, therefore, that the current round of monetary tightening will end sooner rather than later. The resilience of longer duration bonds in recent months lends weight to this viewpoint.

The bulk of the Company's equity investments continue to be in the Asia Pacific region. In the past these traditionally export-oriented economies have been heavily dependant upon global demand (especially from the United States) for growth. This remains the perception of the majority of investors. There is, however, growing hard evidence to substantiate the ever-present anecdotal evidence that domestic demand (and inter-regional trade) is becoming a more important driver of growth. For example, Greater China (China, Hong Kong and Taiwan) has displaced America as Japan's largest trading partner. While it is undoubtedly true that Asia would be impacted by any deceleration in the global economy, it is also evident that the continued development of the region's domestic economies provides an increasingly important counterbalance and that growth is likely to remain robust under most scenarios. Valuations across the region remain substantially more attractive than developed markets and the prospects for earnings growth, especially in domestically orientated sectors such as finance, property and consumption, remain promising. Whether these attractive relative valuations would prove sufficient to protect share prices should Wall Street decline is more than a moot point it is highly unlikely but on any reasonable time horizon we remain optimistic that regional equities remain very attractive.

The Company continues to invest heavily in Japan via direct equity holdings and also through BDT Invest fund products. There is little doubt in our mind that the long Japanese bear market ended in 2003. The financial sector has turned the corner, asset markets are clearing and in prime locations property prices are rising. Most important, however, has been the change in the attitude of management toward shareholders - this can be seen most clearly in rising payout ratios. In an economy where the five-year risk free rate is 0.5%, a dividend yield of 1.0% (several times covered and likely to rise) appears attractive. We note that domestic financial institutions have extremely low weightings to equities in comparison to historic norms. Needless to say Japan is also uniquely positioned to take advantage of the rapid development of the rest of Asia.

The underlying composition of the portfolio remains unchanged. A healthy exposure to Japanese and Asian equities, a combination of BDT Invest and third party fund products and holdings in United Kingdom and German Government bonds. During the year under review we also drew down US Dollar and Yen borrowings under our HBOS loan facility. At year-end the gross gearing stood at 12%.

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## Investment Manager's Report *continued*

### **Income and dividends**

As explained in the Chairman's report the Company has engaged in a number of transactions designed specifically to increase income at the expense of capital. As a rule of thumb these operations are not 'efficient' since transaction costs, taxation on dividends and potential adverse share price movements tend to result in a larger capital loss than net income gain. These transactions have been undertaken to enable the Company to generate sufficient income to pay a dividend that, in the eyes of the Board and the Investment Manager, is consistent with industry norms and consistent with expectations at the time of flotation.

As detailed on page 6, some 35% of the Company's assets are invested in other collective investment schemes. These generate very little income - indeed the historic yield on our current holdings is just 0.2%. It is also the case that our largest individual equity country exposure is to Japan where dividend yields in excess of 1% are rare, at least today. Thus approximately half the net assets of the Company are invested in securities that we expect to produce handsome total returns over time but minimal income. In theory it might be possible to invest the remainder of the portfolio in high yielding equities and bonds to offset this 'income deficiency' but it is your Investment Manager's strong opinion that this strategy would unduly fetter the discretion of the portfolio managers and in consequence lead to lower overall total returns.

### **BDT Investment Management Limited**

The Company owns 18.5% of the investment manager. This stake will be diluted to 16% over the next few years as the options granted to management and staff are exercised. BDT Invest has continued to grow with funds under management rising from £213mn to £310mn during the twelve months to 31 March 2005. For the financial year ended 31 December 2004 BDT Invest recorded a profit after tax of £377,671 on turnover of £2,841,375. A maiden dividend of 30p per share has been declared and this will contribute £40,000 to the Company's revenues in the current financial year. BDT Invest continues to invest in its investment resources and broaden its range of products.

BDT Invest remains a small company and future prospects are dependent upon a number of factors including the ever-changing regulatory landscape, the necessity to deliver solid investment performance, the capability to market effectively, the ability to attract and retain high quality individuals and competent financial management. BDT Invest is, of course, subject to the continued ebbs and flows of capital markets. BDT Invest is revalued each quarter by reference to the formula valuation. This valuation is an average of book value, 4% of funds under management and 4x annual management charges. This formula has tended to produce a valuation equivalent to 2-3% of funds under management.

### **Financial results**

The portfolio generated gross income of £1,093,000 during the year, an 18% increase. Excluding fees payable to the investment manager, expenses amounted to £297,000, compared to £197,000 recorded in the previous year. This was the result of an increase in Directors' fees, administration fees and legal expenses. The Company charges 80% of the annual management fee and 100% of any performance fee to capital. In consequence the Company recorded a return on ordinary activities after taxation of £561,000.

The total fees payable to the investment manager declined from £532,000 to £256,000. The decline is principally due to the fact that no performance fee was payable during the year under review.

The Board have approved a 10% increase in the total dividend for the year and £41,000 has been transferred to reserves. Your investment manager believes that establishing a healthy level of reserves may prove an important factor in sustaining, and growing, dividends to shareholders in future years.

### **BDT Investment Management limited**

Investment Manager

\*\* May 2005

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Report of the Directors

The directors submit their report together with the audited financial statements of the Company for the year ended 31 March 2005.

### **Activities and status**

The Company was incorporated and registered in England and Wales under the Companies Act 1985 as a public limited company on 17 January 2002 with registered number 4355437.

The principal activity of the Company is to carry on the business of an investment trust company. The Company is registered under section 266 of the Companies Act 1985 as an investment company.

The directors have conducted the affairs of the Company with a view to maintaining approval as an investment trust for the purposes of section 842 of the Income and Corporation Taxes Act 1988 in order to obtain exemption from United Kingdom taxation on capital gains. However, such approval is only given retrospectively in respect of each fiscal accounting period of the Company. Inland Revenue approval has been given for the year ended 31 March 2004 but does not preclude the Inland Revenue from opening a subsequent enquiry into the Company's tax return.

### **Duration of the Company**

The Company does not have a fixed life, but the Board considers it desirable that shareholders should have the opportunity to review the future of the Company at appropriate intervals. At the Annual General Meeting of the Company in 2007, the directors will propose an ordinary resolution for the continuation of the Company in its current form. If this resolution is passed, similar resolutions will be proposed at every third subsequent Annual General Meeting. In the event that the resolution is not passed, the directors will formulate proposals for the future of the Company for consideration by shareholders.

### **Review of the year**

The review of the year and commentary on the future outlook are presented further in the Chairman's Statement on page 3 and 4 and the Investment Manager's Report on pages 8 and 9.

### **Results and dividend**

An interim dividend of 1.10p per Ordinary Share was paid on 17 December 2004 to shareholders on the register at the close of business on 3 December 2004 (ex-dividend date 1 December 2004).

The revenue return for the financial year ended 31 March 2005 after taxation amounted to £561,000 (2004: £566,000). A final dividend of 1.50p (2004: 1.45p) is proposed in respect of the year ended 31 March 2005. The dividend will be paid on 15 July 2005 to shareholders whose names appear on the register at the close of business on 17 June 2005 (ex-dividend 15 June 2005).

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## Report of the Directors *continued*

### **Directors**

In order that the Company could comply with the requirements of the revised Listing Rules of the Financial Services Authority, which became effective from 1 April 2005, on 31 March 2005 Mr Richard Thornton resigned as Chairman, but remains as a non-executive director of the Company and, Dr James King was appointed Chairman. In March 2005 Mr Richard Thornton resigned from the Board of the Investment Manager, BDT Investment Management Limited.

On 1 April 2005 Mr Henry Thornton was appointed a director of the Company.

In accordance with the Company's Articles of Association, Mr Rhoderick Swire will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

Although the Company's Articles of Association do not require a director to vacate office on account of having reached any specified age, Mr Richard Thornton, who is 73, will retire at the forthcoming Annual General Meeting and offer himself for re-election. Special Notice has been given to the Company recommending that he be proposed for re-election.

Also, in accordance with the Articles of Association, Mr Henry Thornton, having been appointed a director since the last Annual General Meeting retires and, being eligible, offers himself for election.

### **Directors interests**

The beneficial interests of the directors in the Ordinary Shares of the Company as declared and recorded in accordance with the Companies Act 1985, are set out below.

	<b>Ordinary Shares of 25p each</b>	
	<b>31 March 2004</b>	<b>31 March 2005</b>
Richard Thornton	3,811,083	3,811,083
Richard Thornton*	1,744,728	1,744,728
Sir David Cooksey	50,000	50,000
Dr. James King	10,000	10,000
Rhoderick Swire	25,000	50,000
Harry Wells^	15,000	30,000

\* As a Trustee of the Thornton Foundation

^Includes 4,000 shares held in the Pauline Lamb Grandchildren's Trust of which Mr Wells is a Trustee.

Mr Henry Thornton, at the date of his appointment as a director on 1 April 2005, had an interest in 2,354,703 Ordinary shares, which included 2,344,703 held in the Rabbit Trust.

No changes in the above interests have been notified to the Company between 31 March 2005 and \_\_\_ May 2005. None of the directors has been granted or has exercised any rights to subscribe for Ordinary Shares of the Company.

### **Disclosure of interests**

Mr Henry Thornton is a shareholder and a director of the Investment Manager, BDT Investment Management Limited ("BDT"), which receives fees under the terms of the Investment Management Agreement as set out in note 6 to the financial statements. Mr Richard Thornton is also a shareholder of BDT.

All of the directors are non-executive and no director has at any time during the accounting period had a contract of service with the Company.

Save as disclosed above and in note 6 to the financial statements, no director was a party to, or had an interest in any contract or arrangement with the Company.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Report of the Directors *continued*

### **Substantial shareholdings**

In addition to the holdings of the directors listed on page 11, at \_\_\_ May 2005 the Company had been notified of the following holdings of 3% or more of the issued share capital of the Company in accordance with sections 198 to 208 of the Companies Act 1985.

	<b>No. of Ordinary Shares</b>	<b>% of Issued share capital</b>
Rysaffe Trustees Company (CI) Limited (for R C Thornton 1971 settlement)	1,600,623	8.00%
Argus Insurance Company Limited	1,568,509	7.84%
Rothschild Trust (Bermuda) Limited (as trustee of trust dated 26 March 1996)	1,416,178	7.08%
Reliance Mutual Insurance Society	700,000	3.50%

### **Investment management**

The directors, having evaluated the performance of the Investment Manager, have decided that BDT Investment Management Limited should continue as Investment Manager on the existing terms (as detailed in note 6 to the financial statements). The directors are satisfied that the Investment Manager has suitable skills and experience to manage the Company's investments and believe their continuing appointment is in the interests of all shareholders.

### **Share capital**

As at 31 March 2004 and at the year ended 31 March 2005, the authorised share capital was £7,500,000 divided into 30,000,000 Ordinary Shares of 25p each. The issued share capital was £5,000,000 divided into 20,000,00 Ordinary Shares of 25p each. There were no changes to the capital structure between 31 March 2005 and \_\_\_ May 2005.

### **Creditors' payment policy**

It is the Company's policy to obtain the best terms for all business including purchases of investments, and to abide by those agreed terms. As at 31 March 2005 the Company had no trade creditors (2004: nil).

### **Changes in accounting policy**

In order to comply with new accountancy standards which will apply to the Company from 1 April 2005, several accounting policies will be modified. None of these changes will present a fundamentally different picture of the Company. The most significant changes are as follows:

Investments will be valued at bid price, rather than middle market price; and  
Final dividends will not be accounted for until they become an obligation of the Company at the AGM.

These changes will be reflected in future announcements of NAV made by the Company.

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## Report of the Directors *continued*

### **Statement of directors' responsibilities for the annual report**

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the return of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- follow applicable United Kingdom law and accounting standards; and
- prepare the financial statements on a going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the Report of the Directors and other information included in the annual report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

### **Annual General Meeting**

As explained in the Chairman's statement the Company proposes seeking shareholder approval to increase the ceiling for investments in investment products of BDT Investment Management Limited ("BDT Products") from 20%, the aggregate ceiling indicated in the Prospectus at the Company's launch, to 30%. Accordingly as Special Business at the Annual General Meeting, an Ordinary Resolution will be proposed to authorise the increase.

### **Auditor**

RSM Robson Rhodes LLP, chartered accountants, has indicated its willingness to continue in office. In accordance with section 385 of the Companies Act 1985, a resolution will be proposed at the forthcoming Annual General Meeting re-appointing RSM Robson Rhodes LLP as auditor and authorising the directors to determine the auditor's remuneration for the ensuing year.

On behalf of the Board

### **Phoenix Administration Services Limited**

Secretary

\_\_\_ May 2005

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Corporate Governance Statement

The Board supports high standards of corporate governance. It has carried out a review of the principals for good governance and the Combined Code appended to the FSA Listing Rules, including the revisions to the Combined Code made in July 2003 (as revised the "Code") and, how these apply to the Company. Throughout the year to 31 March 2005 the Company has complied with the terms of the Code except where explained otherwise.

The Board confirms that arrangements are in place to enable it to comply with Section 1 of the Code and, further, confirms that it has complied with Section 1 of the Code throughout the year to 31 March 2005. This corporate governance statement sets out how the Company has complied with the Code and explains where it has not complied or does not feel that it is appropriate to do so.

### **Internal control**

There is an ongoing process for identifying, evaluating and managing those risks which are significant for the Company reflecting the guidance provided by the Turnbull Committee in September 1999. This process has been in place for the year ended 31 March 2005 and up to the date of approval of the annual report and financial statements and, is regularly reviewed by the Board.

The Board has ultimate responsibility for the system of internal control and for reviewing its effectiveness. The key elements of the system are the appointment of an independent custodian with responsibility for safeguarding the Company's assets and clearly defined responsibilities between the Board, the Custodian and the Investment Manager, which has detailed operating procedures in place. The internal controls operated by the Board include the authorisation of the investment strategy and regular reviews of the investment performance and financial results. The system is designed to manage rather than eliminate the risk of being unable to meet business objectives and can provide reasonable but not absolute assurance against material misstatements or loss, as explained by Turnbull. The Board has reviewed the operation and effectiveness of the Company's system of internal controls during the period through its ongoing assessment and management of the Company's key risks, including an annual review.

The Board has contractually delegated the management of the investment portfolio to the Investment Manager, BDT Investment Management Limited, the day to day administration and the company secretarial requirements to Phoenix Administration Services Limited and the custodial services, which include the safeguarding of the assets, to The Northern Trust Company. These contracts are only entered into after full consideration by the Board of the services undertaken. The Investment Manager, Administrator and the Custodian of the Company's assets all maintain their own systems of internal and financial controls.

The Investment Manager has established an internal control framework to provide reasonable assurance on the effectiveness of internal controls operated on behalf of its clients. The Investment Manager's compliance department assesses and reports to the Board on the effectiveness of the internal controls and the business risk exposure of the Investment Manager.

Since the Company's investment management, accounting and custodial activities are carried out by third party service providers, the Board does not consider it necessary to have a separate internal audit function.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Corporate Governance Statement continued

### Directors

Up to the 31 March 2005 the Board consisted of five members, all of whom are non-executive and four of whom are independent of the Investment Manager. Particulars of the directors are set out on page 5. The Board has appointed Sir David Cooksey as Senior Independent Director. From 1 April 2005 the Board comprises six directors who are all non-executive and four of whom are independent of the Investment Manager.

The directors normally meet as a Board on a quarterly basis. The Board lays down guidelines within which the Manager implements investment policy and has a schedule of matters reserved for the resolution of the directors. All Board members have access to the advice and services of the Company Secretary, the removal or replacement of whom is a matter of the Board as a whole. The directors also have the facility to take independent professional advice if necessary, at the Company's expense.

A full report on the investment holdings and performance is received from the Manager and discussed at Board meetings. The Manager also reports regularly to the Board on the Company's financial position.

The Board as a whole fulfils the function of a Nomination Committee. The Company's Articles of Association require newly appointed directors to submit themselves for election by shareholders at the next Annual General Meeting. Thereafter, in compliance with the provision contained in the Combined Code, all directors are required to submit themselves for re-election at least every three years. Under the revised Listing Rules a director who is associated with the Investment Manager is required to submit themselves for re-election annually.

The Nomination Committee considers appointments to the Board and makes recommendations to the Board on such appointments. The directors have many years collective experience within the industry between them and a broad knowledge of individuals who would have the necessary skills to promote and develop the Company. Accordingly the Nomination Committee does not consider it necessary to engage the services of third party search consultants unless no such suitably skilled individuals can be identified by the members of the Committee.

The number of meetings of the Board and Committees is given below, together with individual Director's attendance at those meetings:

<b>Number of meetings</b>	<b>Board (4)</b>	<b>Audit Committee (2)</b>	<b>Management Engagement (1)</b>
Sir David Cooksey	4	2	1
Dr. James King	4	2	1
Rhoderick Swire	4	2	1
Richard Thornton	3	N/A	N/A
Harry Wells	4	2	N/A

Subsequent to the year end the Board conducted an evaluation of the performance of the Board, Committees, individual Directors and third party service providers. The evaluation was led by Dr James King, other than in respect of appraisal of his own performance which was led by Sir David Cooksey, using structured questionnaires and interviews. The Board are satisfied from the results of the appraisals that the Board, its Committees and its third party providers function effectively collectively and individually and, that the Board contains an appropriate balance of skills and experience for the effective management of the Company.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Corporate Governance Statement continued

### **Accountability and audit**

The Company's Audit Committee, which comprises Sir David Cooksey (as Chairman), Dr James King, Mr Rhoderick Swire and Mr Harry Wells (all independent) meets at least twice per year with representatives of the Manager who report on the proper conduct of business in accordance with the regulatory environment in which both the Company and the Manager operate. Minutes of meetings are formally recorded and reported to the Board by the Audit Committee Chairman. The Company's external auditor also attends Committee meetings at request, at least once a year, and reports on its work procedures, the quality and effectiveness of the Company's accounting procedures and its findings in relation to the Company's statutory audit. The responsibilities of the Audit Committee includes review of internal controls, accounting policies, financial statements, the auditor's appointment and remuneration and the carrying value of any unquoted investments. The Audit Committee also agrees any non-audit work carried out by the external auditor and the fees payable for such work. The directors are satisfied that all members of the Audit Committee have recent and relevant experience.

### **Manager's and Administrator's remuneration**

Mr Rhoderick Swire (as Chairman), Sir David Cooksey and Dr James King comprise the Management Engagement Committee, which agreed the terms, fees and other remuneration payable to BDT Investment Management Limited and Phoenix Administration Services Limited, (set out in note 6 to the financial statements).

### **Social, Economic and Environmental Matters**

As an investment trust the Company has no direct impact on social, economic and environmental issues. The Company's investments are predominantly in a range of overseas countries having differing economic and environmental issues. However, as most of the corporations the Company invests in have high standing within the countries they are located, the Board believes it is likely that they will have reasonable regard for the welfare of their employees and matters of an environmental nature.

### **Voting Policy**

The Company has authorised the Investment Manager to vote on shares held in investee companies at its discretion having regard to the best interests of the Company on ordinary business proposed by investee companies but, the Investment Manager is required to consult with the Chairman before voting on any special business.

### **Shareholder relations**

The Company, through the Manager, has regular contact with its institutional shareholders. The Board supports the principle that the Annual General Meeting be used to communicate with private investors and has implemented the provisions of the Combined Code in this report for the forthcoming Annual General Meeting.

### **Going concern**

After considering the Company's current financial resources, and as the majority of the net assets of the Company are securities which are traded on recognised stock exchanges, the directors are satisfied that its resources are adequate for continuing in business for the foreseeable future and that it is appropriate to prepare the financial statements on a going concern basis.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Directors' Remuneration Report

The Company has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put to shareholders at the Annual General Meeting.

The law requires a Company's auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in the report of the independent Auditor on pages 19 and 20.

### **Remuneration Committee**

All directors are non-executive and the Board as a whole fulfils the function of a Remuneration Committee.

The Committee conducted a review of the fees paid to directors in comparison with other investment trusts of a similar size and investment policy which indicated that the fees paid by the Company were below those of comparable investment trusts. As a result of the review, the Board, on the recommendation of the Remuneration Committee, determined that with effect from the current year the basic fee payable to the Chairman should increase to £15,000 (2003/04: £7,500) and that for directors be increased to £10,000 (2003/04: £5,000). In addition, the Chairman of the Audit Committee is to receive an additional £2,500 because of the additional duties required for the role.

### **Policy on directors' fees**

The Board's policy is that the remuneration of non-executive directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure, and have a similar investment objective. It is intended that this policy will continue for the year ending 31 March 2006 and subsequent years.

The maximum aggregate directors' fees (see note 5 to the financial statements) according to the Company's Articles of Association is £150,000 per financial year. The remuneration terms are reviewed annually by the independent directors. No director may vote on his own remuneration. Subject to the maximum aggregate directors' fees shown above, each director is entitled to a pro rata share of any performance fee, which shall be equal to 1% of the amount by which the increase in the Adjusted Market Capitalisation per Ordinary Share exceeds that of the Performance Hurdle. Directors are not eligible for pension entitlements, share options, long-term incentive schemes or other benefits.

### **Directors' service contracts**

It is the Board's policy that none of the directors has a service contract. The terms of their appointment provide that a director shall retire and be subject to election at the first Annual General Meeting after their appointment, and at least every three years after that. The terms also provide that a director may be removed without notice and that compensation will not be due on leaving office.

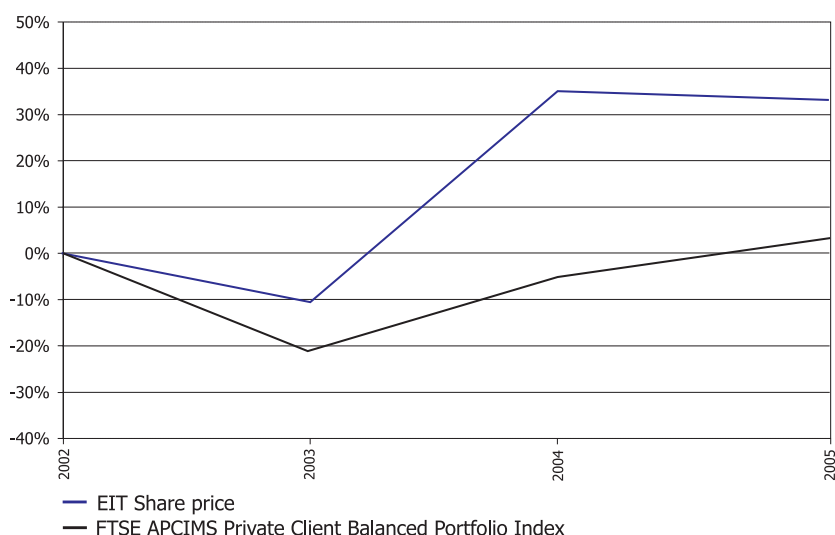
### **Your Company's performance**

The graph on page 18 compares the total return (assuming all dividends are reinvested) to shareholders compared to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE APCIMS Private Client Balanced Portfolio Index is calculated. This index was chosen for comparison purposes, as it is more appropriate than a pure equity index to measure investment performance.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Director's Remuneration Report *continued*

### Share price performance relative to the FTSE APCIMS Private Client Balanced Portfolio Index for the period 18 March 2002 to 31 March 2005 (total return)



### Directors' emoluments and benefits for the year ended 31 March 2005 (audited)

	<b>Directors' fees 2005</b>	Directors' fees 2004
	<b>£</b>	£
Richard Thornton (Chairman of the Board)	<b>15,000</b>	7,500
Sir David Cooksey (Chairman of the Audit Committee)	<b>12,500</b>	5,000
Dr James King	<b>10,000</b>	5,000
Harry Wells	<b>10,000</b>	5,000
Rhoderick Swire	<b>10,000</b>	—

	<b>Performance fees 2005</b>	Performance fees 2004
	<b>£</b>	£
Richard Thornton (Chairman of the Board)	—	6,298
Sir David Cooksey (Chairman of the Audit Committee)	—	6,298
Dr James King	—	6,298
Harry Wells	—	6,298
Rhoderick Swire	—	—

### Sums paid to third parties for directors' services (audited)

For the year to 31 March 2004 a sum of £5,875 (inclusive of VAT) was paid to Pantheon Ventures Ltd for the services of Rhoderick Swire to act as a director of the Company, together with a performance fee of £7,400 (inclusive of VAT).

On behalf of the Board

### Phoenix Administration Services Limited

Secretary

\*\* May 2005

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Report of the Independent Auditor

### **Independent auditor's report to the shareholders of The Establishment Investment Trust plc**

We have audited the financial statements on pages 21 to 40. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's shareholders, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and the auditor**

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report, and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Director's Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority. We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors' is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2003 specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises the Report of the Directors, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Manager's Report, the Corporate Governance Statement and the Highlights for the Year. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any information.

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Report of the Independent Auditor *continued*

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2005 and of its net revenue, total return and cashflow for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

### **RSM Robson Rhodes LLP**

Chartered Accountants and Registered Auditor

London, England

\*\* May 2005

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Statement of Total Return incorporating the revenue account for the year ended 31 March 2005

		2005			2004		
	Notes	Revenue*	Capital	Total	Revenue*	Capital	Total
					£'000		
Gains on investments	11	—	<b>308</b>	<b>308</b>	—	7,203	7,203
Exchange differences		—	<b>42</b>	<b>42</b>	—	(100)	(100)
Gains on forward currency contracts		—	<b>179</b>	<b>179</b>	—	338	338
Income	2	<b>1,093</b>	—	<b>1,093</b>	923	—	923
Investment management fees	3	<b>(43)</b>	<b>(113)</b>	<b>(156)</b>	(42)	(446)	(488)
Other expenses	4	<b>(289)</b>	<b>(8)</b>	<b>(297)</b>	(191)	(6)	(197)
<b>Net return before finance costs and taxation</b>		<b>761</b>	<b>408</b>	<b>1,169</b>	690	6,989	7,679
Interest payable and similar charges	7	<b>(6)</b>	<b>(23)</b>	<b>(29)</b>	—	—	—
<b>Return on ordinary activities before tax</b>		<b>755</b>	<b>385</b>	<b>1,140</b>	690	6,989	7,679
Tax on ordinary activities	8	<b>(194)</b>	<b>20</b>	<b>(174)</b>	(124)	(1)	(125)
<b>Return on ordinary activities after tax for the financial year</b>		<b>561</b>	<b>405</b>	<b>966</b>	566	6,988	7,554
Dividends in respect of equity shares	9	<b>(520)</b>	—	<b>(520)</b>	(470)	—	(470)
Transfer to reserves		<b>41</b>	<b>405</b>	<b>446</b>	96	6,988	7,084
<b>Return per Ordinary Share</b>	10	<b>2.80p</b>	<b>2.03p</b>	<b>4.83p</b>	2.83p	34.94p	37.77p

All revenue and capital items in the above statement derive from continuing operations.

\*The revenue account in this statement represents the profit and loss account of the Company for the financial year.

The notes on pages 25 to 41 form part of these financial statements.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Balance Sheet as at 31 March 2005

		2005		2004	
	Notes	£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Investments	11		<b>27,776</b>		24,224
<b>Current assets</b>					
Debtors	12	<b>2,142</b>		4,380	
Cash at bank		<b>895</b>		1,039	
		<b>3,037</b>		5,419	
Creditors: amounts falling due within one year	13	<b>(5,661)</b>		(4,937)	
<b>Net current (liabilities)/assets</b>			<b>(2,624)</b>		482
<b>Total assets</b>			<b>25,152</b>		24,706
 <b>Capital and reserves</b>					
Called up share capital	14		<b>5,000</b>		5,000
Share premium account			<b>14,701</b>		14,701
			<b>19,701</b>		19,701
Capital reserve – realised	15		<b>328</b>		566
Capital reserve – unrealised	15		<b>4,979</b>		4,336
Revenue reserve	16		<b>144</b>		103
Equity shareholders' funds	17		<b>25,152</b>		24,706
<b>Net asset value per Ordinary Share</b>	18		<b>125.76p</b>		123.53p

The financial statements on pages 21 to 40 were approved by the Board on \*\* May 2005 and were signed on its behalf by:

**Dr. J A C King**  
Chairman

The notes on pages 25 to 41 form part of these financial statements.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Cash Flow Statement for the year ended 31 March 2005

	Notes	2005 £'000	2004 £'000
Net cash inflow from operating activities	19a	404	441
Returns on investment and servicing of finance	19b	(15)	—
Financial investment	19b	(3,102)	(105)
		<u>(2,713)</u>	<u>336</u>
Equity dividends paid		(510)	(360)
		<u>(3,223)</u>	<u>(24)</u>
Financing	19b	3,153	—
Decrease in cash		<u>(70)</u>	<u>(24)</u>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Decrease in cash in the year		(70)	(24)
Cash inflow from movement in net debt		(3,153)	—
Change in net cash resulting from cash flows		<u>(3,223)</u>	<u>(24)</u>
Exchange movements		42	(100)
Opening net cash		<u>1,039</u>	<u>1,163</u>
<b>Closing net (debt)/cash</b>	19c	<u>(2,142)</u>	<u>1,039</u>

The notes on pages 25 to 41 form part of these financial statements.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements

### 1 Accounting policies

A summary of the principal accounting policies, all of which have been consistently applied throughout the period, is set out below:

- (i) The Company prepares its annual accounts under the historical cost accounting convention, as modified by the revaluation of investments, in compliance with the requirements of the Companies Act 1985, and in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" issued by the Association of Investment Trust Companies in January 2003.
- (ii) Dividend income from investments is taken into account by reference to the date the security becomes ex-dividend. Interest from short-term deposits and fixed interest investments is accounted for on an accruals basis, as are interest payable and other expenses. In accordance with Financial Reporting Standard (FRS) 16 "Current Tax" dividends received from UK companies are not grossed up by the imputed tax credit, but instead recorded at the amount receivable. Overseas dividends and other income that is subject to withholding tax continue to be grossed up.
- (iii) Realised and unrealised capital surpluses and deficits on revaluations of investments are taken direct to capital reserves.
- (iv) Listed investments are stated at closing middle market prices on recognised stock exchanges.
- (v) Unlisted investments are valued by the directors at fair value using market valuation techniques.

The investment in BDT Investment Management Limited (representing 20% of that company) is held as part of the investment portfolio. Accordingly, the shares are accounted for and disclosed in the same way as other investments in the portfolio. The valuation of the Company's investment in the Manager, BDT Investment Management Limited, is calculated at the end of each quarter on the basis of fair value as determined by the directors of the Company. The valuation process is based on the average of book value of BDT Investment Management Limited, 4% of the value of funds under its management and four times its annual management charges.
- (vi) The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by FRS 19.
- (vii) Transactions in a foreign currency, whether of a revenue or capital nature, are translated into sterling at the rates of exchange ruling on the dates of such transactions. Revenue items accrued and other foreign currency assets and liabilities at the balance sheet date are translated into sterling at the rates of exchange ruling on that date. Any profits or losses on foreign currency held, whether realised or unrealised, are taken direct to capital reserves.
- (viii) The value of investments in foreign currencies is expressed in sterling at the rates of exchange prevailing at the balance sheet date. Surpluses and deficits arising from conversion at this rate of exchange are taken directly to capital reserves.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements continued

### 1 Accounting policies continued

- (ix) All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:
- the investment management fee has been allocated 80% to capital reserve - realised and 20% to the revenue account reflecting the Board's expected long-term split of returns in the form of capital gains and income respectively from the investment portfolio.
  - the investment performance fee has been allocated 100% to capital reserve - realised.
  - expenses which are incidental to the purchase or disposal of an investment are added to the cost of investment or deducted from the disposal proceeds.
  - any other expenses incurred in connection with the acquisition/disposal of an investment are charged to capital reserve.
- (x) Finance costs are accounted for on an accruals basis, and in accordance with the provisions of Financial Reporting Standard 4 "Capital Instruments". Finance costs of debt in so far as they relate to the financing of the Company's investments have been allocated 80% to the capital reserve - realised and 20% to the revenue account. This allocation is in line with the Board's expected long-term split of returns in the form of capital gains and income respectively from the investment portfolio.

### 2 Income

	<b>2005</b>	2004
	<b>£'000</b>	£'000
<b>Income from investments</b>		
Overseas dividends	<b>674</b>	536
Overseas fixed interest income	<b>112</b>	174
UK dividends	<b>75</b>	94
UK fixed interest income	<b>200</b>	100
	<b><u>1,061</u></b>	<u>904</u>
<b>Other income</b>		
Deposit interest	<b>32</b>	19
	<b><u>32</u></b>	<u>19</u>
<b>Total income comprises:</b>		
Dividends	<b>749</b>	630
Interest	<b>344</b>	293
	<b><u>1,093</u></b>	<u>923</u>

During the period the Company purchased and sold the following investments within or just over one month. This increased the Company's income by £204,824 at the expense of capital by £302,666, details are as follows:

<b>Investment</b>	<b>Income received</b>	<b>Loss to capital</b>
1,000,000 Singapore Airport Terminals	104,948	142,271
2,000,000 Land & House	19,364	75,044
150,000 United Utilities	44,820	43,947
120,000 President Chain Store	5,238	25,460
500,000 China Steel	24,637	13,756
355,000 Singapore Food Industries	5,817	2,188
	<b><u>204,824</u></b>	<b><u>302,666</u></b>

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements continued

### 3 Investment management fees

	<b>2005</b>			2004		
	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	Revenue	Capital	Total
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	£'000	£'000	£'000
Investment management fee	51	205	256	43	174	217
Rebate of investment management fee (see below)	(8)	(30)	(38)	(1)	(7)	(8)
Manager's performance fee	—	—	—	—	315	315
Rebate of investment performance fees (see below)	—	(62)	(62)	—	(36)	(36)
	<b>43</b>	<b>113</b>	<b>156</b>	<b>42</b>	<b>446</b>	<b>488</b>

For the avoidance of double charging management fees, the Investment Manager has agreed to rebate any periodic management fee that it receives from the Company by the amount of fees receivable by it from BDT Investment Management fund products in respect of the Company's investments in those funds. The Investment Manager has agreed that any performance fees that it earns from BDT Investment Management fund products in respect of the Company's investment in those funds will be rebated to the Company.

As at 31 March 2005 the Company had investments in the following BDT Investment Management fund products:

283,666 shares in BDT Invest Japan Fund Distributor at a total cost of £2,541,300;

60,000 shares in BDT Invest Japanese Smaller Companies Fund at a total cost of £311,381;

200,000 shares in BDT Invest Emerging Markets Focus 'B' at a total cost of £1,122,334.

The amounts rebated on the investment management fee are shown above, of which £28,616 (2004: £6,697) relates to the Company's investment in BDT Invest Japan Fund, £5,354 (2004: £912) relates to the Company's investment in BDT Invest Japanese Smaller Companies Fund and £4,184 (2004: nil) relates to the Company's investment in BDT Invest Emerging Markets Focus 'B' Fund. The amount of £61,866 (2004: £36,260) rebated on the performance fee earned by the Investment Manager shown above relates to the Company's investment in BDT Invest Japan Fund. Details of the investment management agreement are disclosed in note 6.

### 4 Other expenses

	<b>2005</b>	2004
	<b>£'000</b>	£'000
Administration fee	60	55
Directors' emoluments (see note 5)	58	28
Auditor's remuneration for:		
– audit	14	12
– other services to the Company	7	4
Custodian fees	39	31
London Stock Exchange and FSA fees	11	12
Other	<b>100</b>	<b>49</b>
	<b>289</b>	<b>191</b>
Directors' bonus - capital (see note 5)	—	31
Transaction charges – capital	8	5
Final liquidation proceeds from The Establishment Trust	—	(30)
	<b>297</b>	<b>197</b>

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements continued

### 5 Directors' emoluments

	<b>2005</b>	2004
	<b>£'000</b>	£'000
Directors' fees	<b>58</b>	28
Directors' bonus - capital	<b>—</b>	31
	<b>58</b>	59

The Chairman and directors receive emoluments of £15,000 and £10,000 per annum respectively, and the Chairman of the Audit Committee receives a further £2,500 per annum. In addition, each director is entitled to a performance fee at the rate of 1% and calculated on the same basis as for the investment management performance fee (as described in note 6) subject to a total remuneration cap of £150,000 for all directors in each performance period.

There is no directors' performance fee payable for the year to 31 March 2005 (2004: £31,490).

There were no pension contributions paid or payable.

The Company has no employees.

### 6 Disclosure of interests

In accordance with an investment management agreement dated 11 February 2002 between the Company and BDT Investment Management Limited ("BDT"), BDT has been appointed to provide investment management services to the Company for which BDT receives an annual fee of 1% of the Adjusted Market Capitalisation of the Company, calculated on the last Business Day of each calendar month and payable in arrears in respect of each calendar month. The amount charged during the year is shown in note 3 and £19,327 of the fee for the year was outstanding as at the balance sheet date.

A performance fee is payable at the rate of 10% of the amount by which the growth in the Adjusted Market Capitalisation per Ordinary Share exceeds the Performance Hurdle. The "Performance Hurdle" for the third Performance Period of the Company in respect of the Ordinary Shares is 134.59p per Ordinary Share grown by the Performance Rate of Return calculated on the basis of the number of days elapsed in the relevant Performance Period. The "Performance Rate of Return" for each Performance Period is calculated at the rate of 10% compound per annum. The performance fee is payable in arrears in respect of each Performance Period.

There is no performance fee payable for the year to 31 March 2005 (2004: £314,904).

BDT's appointment as Investment Manager is subject to termination by the Company on six months notice.

In accordance with an administration agreement dated 11 February 2002 between the Company and Phoenix Administration Services Limited ("Phoenix"), Phoenix has been appointed to provide administration services to the Company for which Phoenix receives an annual fee of £65,000 which was increased from £60,000 on 1 March 2005.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements continued

### 7 Interest payable

	2005			2004		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
On loans and overdrafts	6	23	29	—	—	—

### 8 Taxation

The tax charge on the profit on ordinary activities for the year was as follows:

	2005			2004		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK corporation tax	167	—	167	—	—	—
Overseas tax - double tax relief	(44)	—	(44)	—	—	—
	<u>123</u>	<u>—</u>	<u>123</u>	<u>—</u>	<u>—</u>	<u>—</u>
Irrecoverable overseas tax	42	—	42	26	—	26
Tax relief on expenses charged to capital	43	(43)	—	86	(86)	—
Tax charge in respect of current year	208	(43)	165	112	(86)	26
Deferred tax- current year	(14)	23	9	19	80	99
Deferred tax - prior year adjustment	—	—	—	(7)	7	—
Tax charge per accounts	<u>194</u>	<u>(20)</u>	<u>174</u>	<u>124</u>	<u>1</u>	<u>125</u>

The current taxation charge for the year is different from the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2005 £'000	2004 £'000
Revenue on ordinary activities before taxation	<u>755</u>	<u>690</u>
Theoretical tax at UK corporation tax rate 30% (2004: 19%)	227	131
Effects of:		
- UK Dividends which are not taxable	(23)	(18)
- Effect of marginal tax rates below 30%	(7)	—
- Adjustments for overseas tax	(3)	23
- Prior year adjustments	—	(7)
- Tax losses carried forward	—	(5)
Actual current tax charge	<u>194</u>	<u>124</u>

The Company is an Investment Trust and therefore is not subject to UK taxation on capital gains.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements continued

### 8 Taxation continued

#### Provisions for liabilities and charges / deferred taxation

	2005 £'000	2004 £'000
<b>Deferred tax provided</b>		
Accrued income taxable on receipt	(8)	24
Unrealised gain on investment in offshore fund	110	80
Tax losses carried forward	—	(5)
	<u>118</u>	<u>99</u>

The movement in the provision is as follows:

		£'000
Provision at start of year	109	10
Deferred tax debit as per movement in revenue account	(14)	12
Deferred tax debit as per movement in capital account	23	87
Provision at end of year	<u>118</u>	<u>109</u>

Deferred tax has been provided at 19% because of uncertainty as to the average rate of tax that will apply at the time when the underlying timing differences reverse.

In the opinion of the directors the Company has complied with the requirements of section 842 ICTA 1988.

### 9 Dividends and other appropriations

	2005 £'000	2004 £'000
Dividends on equity shares:		
Ordinary - interim paid of 1.10p per share (2004: 0.90p)	220	180
Ordinary - final proposed of 1.50p per share (2004: 1.45p)	300	290
	<u>520</u>	<u>470</u>

The directors have proposed the payment of a final dividend of 1.50p per Ordinary Share payable on 15 July 2005 to shareholders registered on 17 June 2005, (ex-dividend 15 June 2005).

An interim dividend of 1.10p per Ordinary Share was paid on 17 December 2004 to shareholders registered on 3 December 2004 (ex-dividend 1 December 2004).

### 10 Return per Ordinary Share

Revenue return:

The calculation of the revenue return per Ordinary Share of 25p each is based on net revenue on ordinary activities after taxation of £561,000 (2004: £566,000) divided by 20,000,000 Ordinary Shares (2004: 20,000,000) being the weighted average number of Ordinary Shares in issue during the year.

Capital return:

The calculation of the capital return per Ordinary Share of 25p each is based on net capital profit for the financial year of £405,000 (2004: £6,988,000) divided by 20,000,000 Ordinary Shares (2004: 20,000,000) being the weighted average number of Ordinary Shares in issue during the year.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements continued

### 11 Investments

	<b>2005</b>
	<b>£'000</b>
Investments listed on a recognised investment exchange	<b>26,553</b>
Unlisted investments	<b>1,223</b>
Valuation at year end	<b>27,776</b>
Opening book cost	<b>19,708</b>
Opening unrealised appreciation	<b>4,516</b>
Opening valuation	<b>24,224</b>
Movements in the year:	
Purchases at cost	<b>17,748</b>
Sales – proceeds	<b>(14,504)</b>
– realised losses on sales	<b>(282)</b>
Increase in unrealised appreciation for the year	<b>590</b>
Closing valuation	<b>27,776</b>
Closing book cost	<b>22,670</b>
Closing unrealised appreciation	<b>5,106</b>
	<b>27,776</b>
Sale proceeds	<b>14,504</b>
Investments at cost	<b>(14,786)</b>
Realised losses on sales based on historical cost	<b>(282)</b>
Add gains recognised as unrealised in previous year	<b>(982)</b>
Realised losses on sales based on carrying value at previous year's balance sheet date	<b>(1,264)</b>
Unrealised appreciation for the year	<b>1,572</b>
Net gains on investments	<b>308</b>

#### Significant holdings

Included in the above are the following investments in which the Company has an interest of 20% or more of the nominal value of the shares of that class in the investee company.

<b>Investments</b>	<b>Country of registration</b>	<b>Class of capital</b>	<b>% of class held</b>
BDT Invest Japan Fund Distributor*^	Cayman Islands	Ordinary Shares of US\$0.01	51.80%
BDT Invest Emerging Markets Focus 'B'*^	Ireland	Ordinary Shares of US\$0.01	26.74%

\*Country of listing - Republic of Ireland

^Whilst the above investments represent significant holdings in their share class both holdings represent less than 20% of the entire share capital of the funds.

The Company has arrangements in place with the Investment Manager to avoid double charging of fees and expenses on investments made in other BDT Investment fund products (see note 3).

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements continued

### 12 Debtors

	<b>2005</b>	
	<b>£'000</b>	2004 £'000
Amount due from brokers	—	601
Amounts due from brokers re open forward currency contracts	<b>2,000</b>	3,500
VAT recoverable	<b>20</b>	18
Prepayments and accrued income	<b>122</b>	261
	<b>2,142</b>	4,380
	<b>2,142</b>	4,380

### 13 Creditors: amounts falling due within one year

	<b>2005</b>	
	<b>£'000</b>	2004 £'000
Bank loan	<b>3,037</b>	—
Amounts due to brokers	—	554
Amounts due to brokers re open forward currency contracts	<b>2,017</b>	3,593
Accruals and deferred income	<b>66</b>	391
Corporation tax payable	<b>123</b>	—
Deferred tax payable	<b>118</b>	109
Proposed dividends	<b>300</b>	290
	<b>5,661</b>	4,937
	<b>5,661</b>	4,937

### 14 Called up share capital

	<b>2005</b>		<b>2004</b>	
	<b>No. of shares 000's £'000</b>		No. of shares 000's £'000	
Authorised: Ordinary Shares of 25p each	<b>30,000</b>	<b>7,500</b>	30,000	7,500
Issued and fully paid: Ordinary Shares of 25p each	<b>20,000</b>	<b>5,000</b>	20,000	5,000

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements continued

### 15 Capital reserve

	<b>Realised</b>	<b>Unrealised</b>	<b>Total</b>
	<b>2005</b>	<b>2005</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance at beginning of year	566	4,336	4,902
Net realised losses on investments	(1,264)	—	(1,264)
Unrealised appreciation arising in year	—	1,572	1,572
Transfer on disposal of investments	982	(982)	—
Net realised profits on forward currency contracts	196	—	196
Unrealised losses on forward currency contracts	—	(17)	(17)
Transfer on closure of forward currency contracts	(93)	93	—
Foreign currency exchange differences	42	—	42
Capital expenses on investments	(8)	—	(8)
Capitalisation of management fee	(175)	—	(175)
Rebate of performance fee in relation to the Company's investment in BDT Invest Japan Fund	62	—	62
Loan interest charged to capital	(23)	—	(23)
Tax relief on expenses charged to capital	43	—	43
Deferred tax charge	—	(23)	(23)
	<b>328</b>	<b>4,979</b>	<b>5,307</b>

### 16 Revenue reserve

	<b>2005</b>
	<b>£'000</b>
Balance at beginning of year	41
Transfer to reserve account	144
Balance at end of year	<b>209</b>

### 17 Reconciliation of movements in shareholders' funds

	<b>2005</b>	2004
	<b>£'000</b>	<b>£'000</b>
Opening shareholders' funds	<b>24,706</b>	17,622
Net revenue for the year	<b>561</b>	566
Dividends	<b>(520)</b>	(470)
Capital surplus for the year	<b>405</b>	6,988
Closing shareholders' funds	<b>25,152</b>	24,706

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements continued

### 18 Net asset value per share

The net asset value per Ordinary Share and the net asset value at the year end calculated in accordance with the Articles of Association were as follows:

Net asset value per share attributable		Net asset value attributable	
2005	2004	2005	2004
p	p	£'000	£'000
<b>125.76</b>	123.53	<b>25,152</b>	24,706

The movements during the year of the assets attributable to each Ordinary Share was as follows:

	Ordinary Shares £'000
Total net assets attributable at beginning of year	<b>24,706</b>
Total recognised gains for the year	<b>966</b>
Dividends in respect of the year	<b>(520)</b>
Total net assets attributable at end of year	<b>25,152</b>

The net asset value per Ordinary Share is based on net assets of £25,152,000 (2004: £24,706,000) and on 20,000,000 Ordinary Shares (2004: 20,000,000), being the number of Ordinary Shares in issue at the year end.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements continued

### 19 Cash flow statement

(a) Reconciliation of net operating revenue to operating cash flows

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Net return before finance costs and taxation	<b>761</b>	690
Taxation	<b>(44)</b>	(52)
(Increase)/decrease in other debtors	<b>(3)</b>	65
Decrease/(increase) in accrued income	<b>142</b>	(165)
Increase in creditors	<b>7</b>	4
Management fees paid allocated to capital	<b>(113)</b>	(131)
Management performance fee paid allocated to capital	<b>(315)</b>	—
Directors bonus paid allocated to capital	<b>(31)</b>	—
Final liquidation proceeds from The Establishment Trust	—	30
	<b>404</b>	441

(b) Analysis of cash flows for headings netted in the cash flow statement

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
<b>Servicing of finance</b>		
Interest paid allocated to income	<b>(3)</b>	—
Interest paid allocated to capital	<b>(12)</b>	—
<b>Net cash outflow from servicing of finance</b>	<b>(15)</b>	—
	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
<b>Financial investment</b>		
Purchases of investments	<b>(18,302)</b>	(23,560)
Sales of investments	<b>15,105</b>	23,051
Forward currency profits	<b>103</b>	409
Capital expenses on investment	<b>(8)</b>	(5)
<b>Net cash outflow for financial investments</b>	<b>(3,102)</b>	(105)
	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
<b>Financing</b>		
Bank of Scotland loan facility	<b>3,153</b>	—
<b>Net cash inflow from financing</b>	<b>3,153</b>	—

(c) Analysis of net debt

	<b>At</b>	<b>Cash</b>	<b>Exchange</b>	<b>At</b>
	<b>beginning of</b>	<b>flow</b>	<b>movement</b>	<b>31 March</b>
	<b>year</b>	<b>£'000</b>	<b>£'000</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash at bank	<b>1,039</b>	<b>(70)</b>	<b>(74)</b>	<b>895</b>
Bank loan	—	<b>(3,153)</b>	<b>116</b>	<b>(3,037)</b>
<b>Total</b>	<b>1,039</b>	<b>(3,223)</b>	<b>42</b>	<b>(2,142)</b>

## Notes to the Financial Statements continued

### **20 Financial instruments and risk profile**

The investment objective of the Company is 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. In pursuit of this objective, the Company may be exposed to various forms of risk, as described below.

The Company's financial instruments comprise:

Equity shares held in accordance with the Company's investment objectives and policies.

Fixed interest securities, cash and liquid resources as well as short-term debtors and creditors that arise from its operations.

The Company also enters into forward currency contracts in order to manage the risks arising from its investment activities. As at the year end there was one contract outstanding.

The Company, as stated in the Report of the Directors on page 10, conducts its affairs so as to enable it to qualify as an investment trust. As part of the rules governing this status, no investment at the time of purchase can represent more than 15% by value of the Company's portfolio of investments.

The risks arising from the Company's financial instruments are market price risk, which comprises interest rate risk, equity price changes and foreign currency exposure. The Board reviews and agrees policies with the investment manager, BDT Investment Management Limited, for managing each of these risks. These policies have remained unchanged since 1 April 2004.

There is no detailed disclosure of credit risk as this is not considered material in the context of the Company's overall activities.

Short-term debtors and creditors are excluded from the analysis of the financial assets/liabilities, maturity and fair value disclosures.

#### **Market price risk**

Market price risk arises mainly from the uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements and changes in exchange rates. The Board meets quarterly to consider the asset allocation of the portfolio and the risk associated with particular markets and industry sectors.

The investment manager is responsible for actively monitoring the portfolio and seeks to ensure that individual stocks meet an acceptable risk-reward profile.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements *continued*

### 20 Financial instruments and risk profile *continued*

#### Interest rate risk profile of financial assets and liabilities

Substantially all of the Company's assets are either equity investments or fixed interest securities. The Company's investments earn interest on the following terms: -

	<b>31 March 2005</b>			
	<b>Non-interest £'000</b>	<b>Floating £'000</b>	<b>Fixed £'000</b>	<b>Total £'000</b>
<i>Financial assets</i>				
<b>Equity investments</b>				
Sterling	7,951			7,951
US dollar	2,021			2,021
Euro	1,128			1,128
Indonesia rupiah	455			455
Hong Kong dollar	2,050			2,050
Korean won	553			553
Malaysian dollar	809			809
Singapore dollar	1,505			1,505
Taiwan dollar	1,024			1,024
Thailand baht	1,993			1,993
Japanese yen	3,761			3,761
<b>Non-equity investments</b> (fixed interest securities)				
Sterling			2,069	2,069
US dollar			170	170
Euro			2,287	2,287
<b>Cash at bank</b>				
Sterling	8	517		525
Taiwan dollar	370			370
<i>Financial liabilities</i>				
<b>Loan facility</b>				
US dollar		(1,058)		(1,058)
Japanese yen		(1,979)		(1,979)
<b>Forward currency contracts</b>				
Sterling	2,000			2,000
US dollar	(2,017)			(2,017)
	<u>23,611</u>	<u>(2,520)</u>	<u>4,526</u>	<u>25,617</u>

The cash balance of £517,000 on deposit received interest at the Northern Trust deposit rate of 3.50% (2004: 2.75%) per annum as at the year end date.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements *continued*

### 20 Financial instruments and risk profile *continued*

	<b>31 March 2004</b>			
	<b>Non-interest £'000</b>	<b>Floating £'000</b>	<b>Fixed £'000</b>	<b>Total £'000</b>
<i>Financial assets</i>				
<b>Equity investments</b>				
Sterling	7,199			7,199
US dollar	913			913
Euro	1,035			1,035
South Africa rand	933			933
Indonesia rupiah	741			741
Hong Kong dollar	1,116			1,116
Korean won	638			638
Malaysian dollar	298			298
Singapore dollar	776			776
Taiwan dollar	1,282			1,282
Thailand baht	2,259			2,259
Japanese yen	2,461			2,461
<b>Non-equity investments</b> (fixed interest securities)				
Sterling			1,607	1,607
US dollar			749	749
Euro			2,217	2,217
<b>Cash at bank</b>				
Sterling	9	754		763
Taiwan dollar	276			276
<i>Financial liabilities</i>				
<b>Forward currency contracts</b>				
Sterling	3,500			3,500
Japanese yen	(1,570)			(1,570)
US dollar	(2,023)			(2,023)
	19,843	754	4,573	25,170
	19,843	754	4,573	25,170

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements continued

### 20 Financial instruments and risk profile continued

#### Borrowing facilities

On 16 September 2004 the Company entered into a facility agreement with the Bank of Scotland for a multi-currency revolving credit facility to the sterling equivalent of up to £5 million. It has been secured by a floating charge over the Company's assets.

The interest rates on the sums drawn down under the loan facility are the Bank of Scotland market interest rate plus interest margin. As at the year end, the all in annual interest rate for the US dollar loan was 3.880% and the Japanese Yen loan was 1.341%.

The weighted average interest rates, together with the maturity dates, of the financial liabilities, analysed by currency, as at the year end were as follows:

	<b>Weighted average interest rate</b>	<b>Weighted average maturity date</b>
Financial liabilities - multi-currency revolving credit facility:		
US dollar	<b>3.88%</b>	<b>07-Apr-05</b>
Japanese Yen	<b>1.34%</b>	<b>25-Apr-05</b>
	<u><b>2.23%</b></u>	<u><b>19-April-05</b></u>

The weighted average interest rates, together with the weighted average maturity dates, of the fixed rate financial assets, analysed by currency, as at the year end were as follows:-

	<b>31 March 2005</b>		31 March 2004	
	<b>Weighted average interest rate</b>	<b>Weighted average maturity date</b>	Weighted average interest rate	Weighted average maturity date
Financial assets – non-equity investments:				
Sterling	<b>8.12%</b>	<b>24-Apr-06</b>	8.00%	08-Jun-06
Euro	<b>5.25%</b>	<b>04-Jan-11</b>	5.25%	04-Jan-11
US dollar	<b>0.00%</b>	<b>11-Nov-08</b>	0.00%	17-Oct-08
	<u><b>6.37%</b></u>	<u><b>12-Oct-08</b></u>	<u>5.36%</u>	<u>14-Jan-09</u>

#### Foreign currency risk

The Company's total return and balance sheet can be significantly affected by foreign exchange movements because some of the Company's assets and income are denominated in currencies other than the Company's base currency (sterling).

The Board have identified three principal areas where foreign currency risk could impact the Company:

- Movements in rates affecting the value of investments
- Movements in rates affecting short-term timing differences
- Movements in rates affecting the income received

The Company has hedged the foreign currency exchange movement of the Japanese and US investments in the portfolio from time to time during the year by use of forward currency contracts. As at the year end, there was an open contract reducing the exposure of the US investments to the value of US\$ 3,804,000 against sterling £2,000,000 for value 20 May 2005.

The Company might also be subject to short-term exposure from exchange rate movements, for example between the date when the investment is bought or sold and the date when settlement of the transaction occurs, investment income denominated in foreign currencies is not immediately converted into sterling.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements continued

### 20 Financial instruments and risk profile continued

#### Currency exposures

As at 31 March 2005 the Company's net currency exposures were as follows:

	£'000 Sterling *	£'000 US\$	£'000 JPY	£'000 Euro	£'000 THB	£'000 HKD	£'000 Other	£'000 Total
Fixed asset investments	10,020	2,191	3,761	3,415	1,993	2,050	4,346	27,776
Cash and overdrafts	525						370	895
Bank of Scotland loan facility		(1,058)	(1,979)					(3,037)
Open forward currency contract	2,000	(2,017)						(17)
Other net current assets/(liabilities)	(517)	(10)	14	26			22	(465)
	<u>12,028</u>	<u>(894)</u>	<u>1,796</u>	<u>3,441</u>	<u>1,993</u>	<u>2,050</u>	<u>4,738</u>	<u>25,152</u>
	47.82%	(3.55)%	7.14%	13.68%	7.92%	8.15%	18.84%	100.00%

\* The currency profile of FRS13 does not require the disclosure of sterling (£) assets and liabilities, nor of investments, however they are included here for completeness.

As at 31 March 2004 the Company's net currency exposures were as follows:

	£'000 Sterling *	£'000 US\$	£'000 JPY	£'000 Euro	£'000 THB	£'000 SGD	£'000 Other	£'000 Total
Fixed asset investments	8,806	1,662	2,461	3,252	2,259	776	5,008	24,224
Cash and overdrafts	763						276	1,039
Amounts due from brokers		221			35	231	114	601
Amounts due to brokers		(259)	(295)					(554)
Open forward currency contract	3,500	(2,023)	(1,570)					(93)
Other net current assets/(liabilities)	(673)		6	25			131	(511)
	<u>12,396</u>	<u>(399)</u>	<u>602</u>	<u>3,277</u>	<u>2,294</u>	<u>1,007</u>	<u>5,529</u>	<u>24,706</u>
	50.17%	(1.61)%	2.44%	13.26%	9.28%	4.08%	22.38%	100.00%

\* The currency profile of FRS13 does not require the disclosure of sterling (£) assets and liabilities, nor of investments, however they are included here for completeness.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notes to the Financial Statements continued

### 20 Financial instruments and risk profile continued

#### Liquidity risk

The Company's assets mainly comprise readily realisable securities, which can be easily sold to meet funding commitments if necessary. Short-term flexibility is achieved by the use of bank loan and overdraft facilities as required.

#### Fair values of financial assets and financial liabilities

The directors consider that all financial assets and liabilities have been recorded at fair value as at 31 March 2005 and 31 March 2004.

### 21 Financial commitments and contingent liabilities

There were no financial commitments or contingent liabilities outstanding at the year end (2004: none).

### 22 Total expense ratio

	2005		2004	
	£'000	%	£'000	%
Total operating expenses*	553	2.30	754	3.39

\*Total operating expenses (capital & income) is net of the reduction in expenses of £38,000 (2004: £8,000) in respect of management fee waiver and £62,000 (2004: £36,000) in respect of performance fee waiver (see note 3).

The above total expense ratio is based on the average total assets/shareholders' funds of £24,082,000 (2004: £22,226,000) calculated at the end of each month during the year.

### 23 Related party disclosure

BDT Investment Management Limited acts as Manager to the Company. The amounts paid to the Manager are disclosed in note 3 and further details of the relationship between the Company and the Manager are set out in note 6. Full details of directors' interests are set out in the Report of the Directors on page 11.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Notice of Annual General Meeting

Notice is hereby given that the third Annual General Meeting of The Establishment Investment Trust plc will be held at 7 Albemarle Street, London, W1S 4HQ on Thursday 7 July 2005 at 12.00 noon for the following purposes:

### Ordinary business

1. to receive the accounts and the reports of the directors and the auditor for the year ended 31 March 2005;
2. to approve the Directors' Remuneration Report;
3. to declare a final dividend of 1.50p per Ordinary Share;
4. to re-elect Mr Rhoderick Swire as a director of the Company;
5. to re-elect Mr Richard Thornton who is 73 as a director of the Company.
6. to elect Mr Henry Thornton as a director of the Company;
7. to re-appoint RSM Robson Rhodes LLP as auditor to the Company and authorise the directors to determine the auditor's remuneration.

### Special Business

The following Resolution will be proposed as an Ordinary Resolution:

8. That the limit authorised for investments in aggregate by the Company in investment products of BDT Investment Management Limited ("BDT Products") be and is hereby increased from 20% to 30%.

Dated this \_\_\_th day of May 2005

By order of the Board

Phoenix Administration Services Limited  
Secretary

### Notes

- (i) A shareholder entitled to attend and vote is entitled to appoint a proxy or proxies to attend in their place and, on a poll, vote instead of that shareholder. A proxy need not be a shareholder of the Company.
- (ii) Shareholders are invited to complete and return the reply paid form of proxy which accompanies this report. Lodgement of the form of proxy will not prevent a shareholder from attending and voting at the meeting if they subsequently so decide.
- (iii) To be effective, the form of proxy and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power or authority) must be completed and returned to the offices of the Company's registrars, Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR, as soon as possible and, in any event, so as to be received by not later than 48 hours before the time for holding the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used.
- (iv) Entitlement to attend and vote at the Annual General Meeting or any adjournment thereof, and the number of votes which may be cast thereat, will be determined by reference to the register of shareholders of the Company at 6 p.m. on 5 July 2005 or, if the meeting is adjourned, 48 hours before the time fixed for the adjourned meeting (as the case may be). Changes to the register of shareholders after such time will be disregarded.
- (v) No director has a service contract with the Company.
- (vi) The register of directors' interests will be available for inspection at the Annual General Meeting for fifteen minutes prior to and throughout the meeting.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Company Information

### **Directors**

Dr James King (Chairman)  
Limited  
Sir David Cooksey  
Rhoderick Swire  
Henry Thornton  
Richard Thornton  
Harry Wells

### **Investment Manager**

BDT Investment Management  
7 Albemarle Street  
London  
W1S 4HQ

### **Company Secretary and registered office**

Phoenix Administration Services Limited  
77a High Street  
Brentwood  
Essex  
CM14 4RR

### **Solicitors**

Stephenson Harwood  
One, St. Paul's Churchyard  
London  
EC4M 8SH

### **Registrars**

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

### **Registered auditor**

RSM Robson Rhodes LLP  
186 City Road  
London  
EC1V 2NU

### **Brokers**

Cazenove & Co  
12 Tokenhouse Yard  
London  
EC2R 7AN

### **Custodian**

The Northern Trust Company  
London Branch  
155 Bishopsgate  
London  
EC2M 3XS

### **Shareholder relations**

The Company's share price for Ordinary Shares is listed daily in the Financial Times.

### **Individual Savings Account ('ISA')**

The Company's shares are eligible to be held in a Maxi ISA allowing investment of up to £7,000 in each tax year up to 2010.

# THE ESTABLISHMENT INVESTMENT TRUST PLC

## Form of Proxy

Name(s) in full.....

(BLOCK CAPITALS PLEASE)

I/We, the undersigned, being (a) member(s) of the above Company, hereby appoint the Chairman of the Meeting or .....  
(see note 3) as my/our proxy to vote for me/us and on my/our behalf at the third Annual General Meeting of the Company to be held on Thursday 7 July 2005 and at any adjournment thereof, in the following manner:

### Ordinary Business

- |    | FOR*                     | AGAINST*                 |   |
|----|--------------------------|--------------------------|---|
| 1. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to receive the accounts and the reports of the directors and the auditor for the period ended 31 March 2005;                       |
| 2. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to approve the Directors' Remuneration Report;   |
| 3. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to declare a final dividend of 1.50p per Ordinary Share;   |
| 4. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to re-elect Mr Rhoderick Swire as a director of the Company;   |
| 5. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to re-elect Mr Richard Thornton who is 73 as a director of the Company;  |
| 6. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to elect Mr Henry Thornton as a director of the Company;   |
| 7. | <input type="checkbox"/> | <input type="checkbox"/> | the resolution to re-appoint RSM Robson Rhodes LLP as auditor of the Company and authorise the directors to determine the auditor's remuneration. |

### Special Business

- |    |                          |                          |  |
|----|--------------------------|--------------------------|--|
| 8. | <input type="checkbox"/> | <input type="checkbox"/> | To increase the limit on investment in BDT Products from 20% to 30%. |
|----|--------------------------|--------------------------|--|

\*Please vote by marking "X" in the appropriate box.

As WITNESS my/our hand(s) this                      day of                      2005

Signature(s) .....

### Notes:

1. If this form is returned without any indication as to how the person appointed proxy shall vote, that person will exercise his/her discretion as to how he/she votes or whether he abstains from voting.
2. This form of proxy, duly signed and any power of attorney under which it is executed must be deposited at the offices of the Company's registrars not less than 48 hours before the time fixed for holding the meeting or an adjourned meeting.
3. A member may appoint a proxy of his/her own choice by deleting the reference to the Chairman of the meeting and inserting the name of his/her proxy in the space provided. A proxy need not be a member of the Company but must attend the meeting in person to represent the member. A proxy may vote only in the event of a poll.
4. A corporation should complete this form under its common seal or under the hand of a duly authorised officer or attorney.
5. In the case of joint holders, this form may be signed by any one of the holders, but the names of all of them should be stated.

Third Fold and Tuck in

BUSINESS REPLY SERVICE  
Licence No. MB 122



Capita Registrars (Proxies)  
PO Box 25  
Beckenham  
Kent  
BR3 4BR

First Fold

Second Fold

**Investment Manager**

BDT Investment Management Limited  
7 Albemarle Street  
London W1S 4HQ  
Tel: 020 7659 1310  
Email: [info@bdtinvest.com](mailto:info@bdtinvest.com)  
[www.bdtinvest.com](http://www.bdtinvest.com)

Monthly updates are available from the Investment Manager

**Company Secretary and registered office**

Phoenix Administration Services Limited  
77a High Street  
Brentwood Essex CM14 4RR  
Tel: 01277 201222  
Fax: 01277 200975  
[www.phoenixadmin.co.uk](http://www.phoenixadmin.co.uk)

The Establishment Investment Trust plc  
Registered in England 4355437