

THE ESTABLISHMENT INVESTMENT TRUST PLC

Report and Accounts
For the year ended 31 March 2006



THE ESTABLISHMENT INVESTMENT TRUST PLC

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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 2005 - 31 March 2006

	31 March 2005	31 March 2006	Change
Share price	133.50p	159.00p	+19.10%
Net asset value ‡	126.79p	159.94p	+26.15%
Performance Fee Hurdle #	148.05p	162.85p	+10.00%
UK Equity *			+24.9%
World Equity *			+28.2%
Japan*			+49.1%
Asia ex Japan Equity *			+43.6%
UK Bond *			+7.3%
World Bond *			+4.3%

As the mid market price of an Ordinary Share (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 2007 is 179.14p.

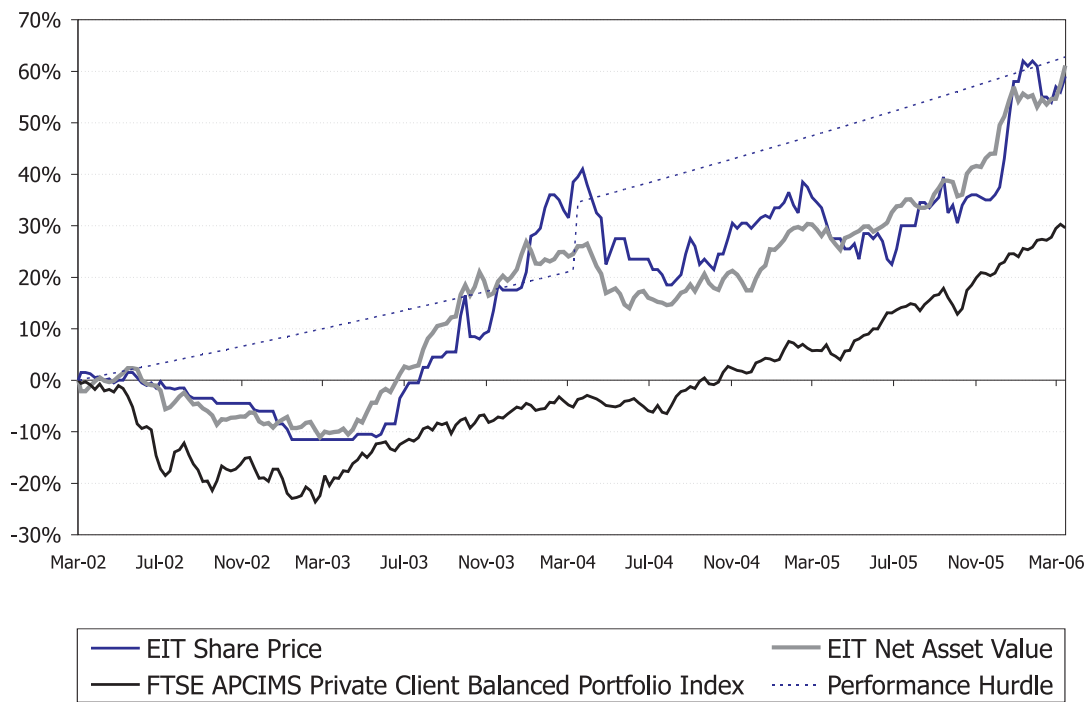
* MSCI Indices converted into sterling. All total return indices.

‡ The net asset value as at 31 March 2005 has been restated to reflect the restatement of balances at and for the year ended 31 March 2005 (see note 24 on page 44).

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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 2006



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Chairman's Statement

During the second half of the financial year the share price and net asset value rose by 14% and 15.4% respectively. For the full financial year the share price advanced 19.1% while the net asset value climbed 26.1%. In addition dividends totalling 2.8p were paid to shareholders during the period lifting the net asset value total return to 28.4%. This compares to the 22.7% increase in the FTSE APCIMS Balanced Portfolio Index and the 28.2% increase in the MSCI World Index. These are pleasing results and adequately fulfil the investment objectives of the Company, that of achieving absolute returns. Since launch in March 2002 the Company's share price and net asset value have achieved a compound rate of growth of approximately 14%, considerably ahead of the reported inflation rate and, indeed, any measure of the "risk free" rate of return.

The global economy expanded rapidly in the period under review with continued robust consumer demand in the United States combining with strong growth in the emerging world and a more gradual recovery in the European and Japanese economies. This growth has helped to sustain corporate earnings growth and most global equity indices, three years into their recovery from the 2003 lows and despite recent falls, are approaching the record levels of 2000. The contrast and similarities between these two bull markets are worthy of comment.

The outlook for world markets is discussed in more detail in the Report of the Investment Manager but your 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.

The Board is proposing a final dividend of 1.60p per ordinary share for shareholders to consider taking the total dividend for the financial year to 2.90p per ordinary share. This represents an 11.5% increase over the previous year and is consistent with the stated intent of the Board to grow dividends steadily over time.

Dr James King

Chairman

9 June 2006

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Directors

Dr James King * + ^, aged 67, Chairman, is also 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 66, Senior Independent Director, has been involved in the venture capital business since 1981, when he founded Advent Venture Partners and is currently chairman. He was the first chairman of the British Venture Capital Association in 1983/1984. He is currently chairman of the European Venture Capital Association. His early career was in industrial engineering and general management in the De La Rue Company. He retired as the senior non-executive director of the Bank of England in 2005 after 11 years service. He holds an MA in Metallurgy from Oxford University. He is a director of Resolution plc.

Rhoderick Swire * + ^, aged 55, 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 42, 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, aged 74, has had 46 years experience as an international investor. After serving some years as assistant manager of the Foreign and Colonial Investment Trust he was a co-founder of GT Management in 1969, now a part of Amvescap. In 1985 he founded Thornton and Co which was acquired by Dresdner Bank in 1988. He retired as President of Thornton and Co in 1994. From 1985 he was a director, and then chairman, of The Establishment Trust, the predecessor of The Establishment Investment Trust plc of which he was the first Chairman between March 2002 and 31 March 2005. He is a graduate of Oxford University and a Barrister at Law.

Harry Wells * +, aged 52, 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. 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

Apart from Henry Thornton who was appointed a Director on 1 April 2005, all Directors have served on the Board since the company's launch in March 2002.

* Independent

+ Audit Committee member

^ Management Engagement Committee member

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Portfolio Holdings at 31 March 2006

(All Ordinary Shares unless otherwise stated)

Holding	Company	Market value £'000	% of total assets
EUR4,000,000	Bundesobligation 3.5% 10/10/2008	2,801	8.76
350,000	BDT Invest Japanese Focus Fund 'B'	2,795	8.74
1,893,939	Hiscox UK Opportunities 'A' Income Fund	2,123	6.64
£2,000,000	Treasury 7.75% 08/09/2006	2,028	6.34
128,012	BDT Investment Management Limited*	1,910	5.97
100,000	BDT Invest Japan Fund Distributor - Sterling	1,630	5.10
200,000	BDT Invest Emerging Markets Focus 'B'	1,629	5.09
725,000	SR Europe Investment Trust	1,573	4.92
1,697,700	Siam Steel Service Center (Foreign)	1,164	3.64
900,000	Top Glove Corp	1,078	3.37
1,584,000	Sincere Navigation Corp	927	2.90
2,700,000	China Insurance	802	2.51
4,000	Bedlam Asset Management UK Fund	708	2.21
2,500,000	Thoresen Thai Agencies	670	2.09
60,000	BDT Invest Japan Smaller Cos Fund 'B'	666	2.08
35,000	Sumitomo Realty & Development	554	1.73
1,750,000	Central Pattana Public (Foreign)	490	1.53
35,000	Marui	396	1.24
415,000	Siam Commercial Bank	394	1.23
30,000	Nomura Securities	385	1.20
25,000	Nippon Electric Glass	358	1.12
70,000	Tokyu Land Corp	358	1.12
40	Mitsubishi UFJ Financial	352	1.10
1,000,000	GK Goh	344	1.08
6,800	Hyundai Heavy	342	1.07
2,200	Keyence Corp	328	1.03
25,000	LG Philips	327	1.02
1,100,000	SinoPac Financial	321	1.00
1,700	Samsung Electronics	320	1.00
674,420	Vigilant Technology	317	0.99
13,200	Hoya Corp	306	0.96
48,000	Cheung Kong	293	0.92
6,000	Nidec Corp	280	0.88
400,000	Taiwan Fertilizer	277	0.87
80,000	Hiroshima Bank	273	0.85
2,000	Lindsell Train Investment Trust	264	0.83
200,000	Tenaga Nasional Berhad	263	0.82
560,000	Minth Group	260	0.81
262,500	Quanta Computer	248	0.78
520,000	Noble Group	226	0.71
100,000	Isuzu Motors	212	0.66
200,000	Bedlam Asset Management Plc*	200	0.63
3,800	Daelim Industrial	173	0.54
146,499	Taiwan Semiconductor	167	0.52
405,000	Uni-President Enterprise Corp	142	0.44
154,000	Chipbond Technology Corp	137	0.43
11,780	Reliance Communication	47	0.15
883	Reliance Energy	8	0.03
11,780	Global Fuel Management	5	0.02
589	Reliance Capital	4	0.01
	Total investments	31,875	99.68
	Net current assets	113	0.32
	Total net assets	31,988	100.00

* Unlisted investments

Unrealised appreciation attributable to unlimited investments during the year amounted to £887,000.

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Investment Portfolio at 31 March 2006

Sector Analysis	Market value £'000	% of total assets
Investment Companies	14,898	46.58
EuroBonds	2,801	8.76
UK Government Bonds	2,028	6.34
Electronic & Electronic Equipment	1,917	5.99
Real Estate	1,695	5.30
Transport	1,598	5.00
Steel & Other Materials	1,164	3.64
Banks	1,017	3.18
Speciality & Other Finance	955	2.99
Insurance	802	2.51
Software & Computer Services	565	1.77
Automobiles	472	1.48
General Retailers	396	1.24
Engineering & Machinery	342	1.07
Chemicals	341	1.07
Health	306	0.96
Electricity	263	0.82
Construction & Building Materials	173	0.54
Food Producers & Processors	142	0.44

Total investments	31,875	99.68
Net current assets	113	0.32

Total net assets	31,988	100.00
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Geographical Analysis (based on listing or domicile)	Market Value £'000	% of total assets
United Kingdom	15,844	49.53
Japan	3,800	11.88
Europe	2,801	8.76
Thailand	2,718	8.50
Taiwan	2,220	6.94
Hong Kong	1,355	4.24
Malaysia	1,341	4.22
Korea (North & South)	835	2.61
Singapore	570	1.78
United States	327	1.02
India	64	0.20

Total investments	31,875	99.68
Net current assets	113	0.32

Total net assets	31,988	100.00
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Classification of Assets	Market Value £'000	% of total assets
Equities	27,046	84.57
Fixed Interest Securities	4,829	15.11
Net current assets	113	0.32

Total net assets	31,988	100.00
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Investment Manager's Report

Performance Review, Market Overview and Portfolio Construction

The Chairman's statement notes the 19.1% increase in the share price and the 26.1% improvement in the net asset value of the Company during the past year. During the past twelve months the ordinary shares have moved from a modest premium to a small 0.4% discount. According to Bloomberg the average discount was 1.5% during the period under review which compares favourably to the somewhat larger discount of the AITC Global Growth sector.

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 lagged those of international equities. Thus the MSCI United Kingdom total return index returned 24.5%, a little way short of the MSCI World (28.2%) total return index and a long way short of the MSCI Japan (49.1%), Asia ex Japan (43.6%) and the Emerging Market (60.1%) total return indices. The 28.2% 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.

Considering that the vast majority of the Company's investments are in Japan and other Asian markets it could be considered a little disappointing that the increase in the net asset value is somewhat lower than the index returns in these areas. We would attribute this to the limited investments the Company has held in the strongly performing energy and material sectors and also note that the Company has maintained a healthy exposure to short term fixed interest securities and remains committed to a number of absolute return vehicles.

Our expectation in last year's annual report was that the current round of Federal Reserve tightening "would end sooner rather than later". Our reasoning then being that the profoundly deflationary implications of China and India (among other emerging economies) continuing to integrate into the global economy would prove longer-term and far more powerful than any short-term, cyclically induced, inflationary pressures. This judgement has proved misplaced, at least in the short term, with the resilience of the US consumer and continued rapid growth in Asia driving growth and stoking inflationary concerns. We have now witnessed sixteen consecutive rate increases and the consensus believes there are more rises to come. We note that longer duration US Government bonds are trading at their lowest levels, or highest yields, since mid 2002.

The strength and duration of the global economic recovery has seen risk appetite rise considerably, as evidenced by the record low emerging market bond spreads and the record flows into emerging market equity products as detailed in the Chairman's Report. Assisted by China's headlong economic expansion and continued geopolitical uncertainty in the Middle East and elsewhere, investors have also demonstrated their appetite for risk with increased investment, or should one say speculation, in the commodities market. An alternative opinion of the recent movements in commodities is that the markets are testing the inflationary credentials of the new chairman of the Federal Reserve. Either way we remain uncomfortable with any substantial exposure to these cyclical areas as monetary policy continues to tighten and the global economic expansion becomes increasingly mature.

The Company continues to invest heavily in Japan via direct equity holdings and also through a number of BDT Invest fund products. Our bullish stance on the Japanese equity market has been recounted to shareholders previously and we note the high number of very robust data releases in

Japan, be it related to property prices, housing starts, capital expenditure, the jobless rate or industrial production to name just a few. The most recent Tankan survey also painted an optimistic scenario. The comparative strength of the non-manufacturing Tankan survey in this economic upturn remains

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Investment Manager's Report *continued*

an extremely encouraging sign that the domestic economy is recovering. The weakness in Japanese Government Bonds must be an increasingly uncomfortable discussion point during the asset allocation meeting of domestic institutions who remain over exposed to bonds and under exposed to equities in comparison with historical norms.

While the longer term outlook for the other Asian markets remains positive, we believe that after the substantial move of the past three years the valuation discount to developed markets has all but disappeared. It is also the case that the asset class, like emerging markets, is increasingly well owned by local and foreign investors alike. While we continue to find a number of interesting, principally domestically orientated investments during our regular visits to the region and will retain a meaningful exposure, we believe markets are likely to be considerably more volatile in the coming twelve months. Further appreciation of regional currencies is likely and should improve overall returns.

The basic 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 useful holdings in cash and short term United Kingdom Government bonds. At the year-end the gross gearing stood at 7%.

BDT Investment Management Limited ("BDT Invest")

The Company owns 15.3% (fully diluted) of the investment manager. BDT Invest has continued to grow with funds under management rising from £310m to £609m during the twelve months to 31 March 2006. For the financial year ended 31 December 2005 BDT Invest recorded a profit after tax of £2,271,435 on turnover of £10,479,734. A final dividend of 160p per share has been declared and this will contribute over £200,000 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. The formula is an average of book value, 4% of funds under management and 4x annual management charges (excluding performance fees) and has tended to produce a valuation equivalent to 2.0-2.5% of funds under management.

Financial Results

The portfolio generated gross income of £1,149,000 during the year, an increase from the £1,093,000 generated in the preceding period. Excluding fees payable to the investment manager, expenses amounted to £259,000, a decrease from the £297,000 recorded in the previous year. The Company charges 80% of the annual management fee and 100% of any performance fee to capital. The total fees payable to the investment manager increased from £256,000 to £275,000. In consequence the Company recorded a revenue return on ordinary activities after tax of £580,000.

The Board has proposed an 11.5% increase in the total dividend for the year.

BDT Investment Management Limited

Investment Manager

9 June 2006

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Report of the Directors

The Directors submit their report together with the audited financial statements of the Company for the year ended 31 March 2006.

Activities and status

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.

HM Revenue and Customs (HMRC) has approved the Company as an investment trust for the purpose of section 842 of the Income and Corporation Taxes Act 1988 (ICTA 1988), for the year ended 31 March 2005. Such approval is given retrospectively in respect of each fiscal accounting period although this does not preclude HMRC from opening a subsequent enquiry into the Company's tax return.

The Directors have continued to conduct the affairs of the Company with a view to maintaining approval as an investment trust for the purposes of section 842 of ICTA 1988, in order to obtain exemption from United Kingdom taxation on capital gains.

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.

Business Review

As the Company's objective is to achieve long-term capital growth whilst preserving capital, performance is not measured against any specific equity or bond index but on the absolute returns achieved from time to time. To provide a reference for shareholders however, the Company show performance against the FTSE APCIMS Private Client Balanced Portfolio Index.

The review of the year and commentary on the future outlook are presented in the Chairman's Statement on page 3, the Investment Manager's Report on pages 7 and 8, and Fund Risk Profile set out in note 19 on pages 36 to 42.

Results and dividend

An interim dividend of 1.30p per Ordinary Share was paid on 16 December 2005 to shareholders on the register at the close of business on 18 November 2005 (ex-dividend 16 November 2005).

The revenue return for the financial year ended 31 March 2006 after taxation amounted to £580,000 (2005: £561,000). A final dividend of 1.60p (2005: 1.50p) is proposed in respect of the year ended 31 March 2006. The dividend, subject to approval by shareholders, will be paid on 26 July 2006 to shareholders whose names appear on the register at the close of business on 7 July 2006 (ex-dividend 5 July 2006).

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Report of the Directors *continued*

Directors

The Directors of the Company, all of whom served throughout the year under review, are listed on page 4 of this Report.

In accordance with UKLA Listing Rule 15.2.7(3) Mr Henry Thornton will retire at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.

In accordance with the Company's Articles of Association, Mr Harry Wells will retire by rotation at the forthcoming Annual General Meeting and being eligible, offers 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 74, will retire at the forthcoming Annual General Meeting and offers himself for re-election. Special Notice has been given to the Company recommending that he be proposed for re-election.

Directors' interests

The interests of the Directors in the Ordinary Shares of the Company on the dates shown were as follows:

	Ordinary Shares of 25p each	
	31 March 2005	31 March 2006
Dr. James King	10,000	10,000
Sir David Cooksey	50,000	50,000
Rhoderick Swire‡	49,400	49,400
Henry Thornton	10,000	100,000
Henry Thornton#	599,975	709,975
Henry Thornton*	1,744,278	1,744,728
Richard Thornton	3,811,083	3,611,083
Richard Thornton*	1,744,728	1,744,728
Harry Wells	26,000	26,000
Harry Wells^	4,000	4,000

‡ Due to a broker error in 2003, which has only recently come to light, the shareholding for Mr Swire in the Directors' Report for the financial years ended 31 March 2004 and 2005 was overstated by 600 shares

Non-beneficial interest in shares held by The Rabbit Trust

* As a Trustee of The Thornton Foundation

^ As a Trustee of The Pauline Lamb Grandchildren's Trust

No changes in the above interests have been notified to the Company between 31 March 2006 and 9 June 2006.

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.

Waiver of emoluments

Mr Henry Thornton has waived in full his entitlement to fees as a Director of the Company.

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Report of the Directors continued

Substantial shareholdings

In addition to the holdings of the Directors listed on page 10, at 9 June 2006 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.

	No. of Ordinary Shares	% of Issued share capital
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 a trust dated 26 March 1996)	1,416,178	7.08

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 that its continuing appointment is in the interests of all shareholders.

Share capital

At 31 March 2005 and 31 March 2006, the authorised share capital was £7,500,000 divided into 30,000,000 Ordinary Shares of 25p each, and the issued share capital was £5,000,000 divided into 20,000,000 Ordinary Shares of 25p each. There were no changes to the capital structure during the year or between 31 March 2006 and 9 June 2006.

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 terms. At 31 March 2006 the Company had no trade creditors (2005: nil).

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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, which have been prepared in accordance with UK generally accepted accounting principles, 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.

The Directors who held office at the date of approval of the Director's Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all of the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and establish that the company's auditors are aware of that information.

Auditors

RSM Robson Rhodes LLP, chartered accountants, have indicated their 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 to re-appoint RSM Robson Rhodes LLP as auditors and authorise the Directors to determine the auditors' remuneration for the ensuing year.

On behalf of the Board

Phoenix Administration Services Limited

Secretary
9 June 2006

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Corporate Governance Statement

The Board supports high standards of corporate governance. On 3 February 2006, the Financial Reporting Council confirmed that Member companies who report against the AITC Code of Corporate Governance ("AITC Code") and follow the AITC's Corporate Governance Guide for Investment Companies ("AITC Guide") will be meeting their obligations in relation to the Combined Code and paragraph 9.8.6 of the Listing Rules.

The Board has carried out a review of the principles set out in the AITC Code and in the AITC Guide and confirms that, it complies with the AITC Code and follows the AITC Guide, subject to those aspects explained below where the Company has not complied or does not feel it appropriate to do so.

Prior to the introduction of the AITC Code, the Board complied for the financial year under review with the Combined Code (as revised in July 2003), subject to those aspects explained below where the Company has not complied or did not feel it appropriate to do so.

The Terms of Reference for Committees of the Board are available from the Registered Office of the Company.

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 2006 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 identification, 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 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 Investment Manager, Administrator and the Custodian of the Company's assets all maintain their own systems of internal and financial controls.

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Corporate Governance Statement continued

Board Independence

The Board recognises that its prime purpose is to direct the business so as to maximise shareholder value within a framework of proper controls. It is predominantly an independent Board and whilst one Director, Henry Thornton, is also a director of the investment manager, in the opinion of the other Directors he acts strongly in the interest of the Company and refrains from voting on any matters that concern the interests of the Manager.

Board Structure

There is clear division of responsibility between the Chairman, the Board, the Manager and other third party service providers. The Chairman leads the Board and ensures that the Directors receive accurate, timely and clear information. The Board leads on matters concerning the Company's investment objective, gearing, capital structure, governance, the appointment of service providers and keeps in touch with shareholders. It is the sole responsibility of the Manager to take decisions on the purchase and sale of individual investments. Representatives of the Manager, the Secretary and Administrator attend each Board meeting. The Board, the Manager and Secretary operate in a supportive and cooperative manner.

Directors

For the year to 31 March 2006 the Board consisted of six 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 4. The Board has appointed Sir David Cooksey as Senior Independent Director.

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 following 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 stand for re-election annually.

Harry Wells stands for re-election at the forthcoming Annual General Meeting ('AGM'), by rotation under the Company's Articles of Association. Henry Thornton stands for re-election because of his connection with the Manager. Richard Thornton who is 74 also stands for re-election at the AGM, Special Notice having been received by the Company that he be proposed for re-election. The biographies of the Directors are set out on page 4 of this report. None of the Directors consider longevity of service as an impairment of independence or judgement but were this to become the case the relevant Director(s) would stand down.

The Board greatly values the experience and contribution to its deliberations, of the Directors standing for re-election and supports the proposal that these Directors be re-elected at the forthcoming Annual General Meeting of the Company.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Corporate Governance Statement continued

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:

Number of meetings	Board (4)	Audit Committee (2)	Management Engagement (1)
Sir David Cooksey	4	2	1
Dr. James King	4	2	1
Rhoderick Swire	3	2	1
Henry Thornton	3	n/a	n/a
Richard Thornton	4	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. 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.

Under the UK Listing Rules, where an investment trust company has no executive directors, the Code's provisions relating to directors' remuneration do not apply. Details of the Directors' fees are given in the Directors' Remuneration Report on pages 17 and 18.

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 members of the Committee are independent and, as all are directors of other investment trusts they all have recent and relevant financial experience. The committee 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 Audit Committee and the Board consider the nature and terms of any non-audit work undertaken by the auditors and are satisfied from review of the audit and non-audit work undertaken for the Company by RSM Robson Rhodes LLP during the year that the auditor's independence was not compromised during the year or is likely to be compromised in the foreseeable future. The Board has accepted the Audit Committee's recommendation that a proposal to reappoint the Auditors be considered at the forthcoming Annual General Meeting.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Corporate Governance Statement *continued*

As the Company has no employees it does not consider there is a need for 'whistleblowing'. The Audit Committee reviews the 'whistleblowing' procedures of the Manager. The Company does not have an internal audit function since all services are delegated to third parties. It satisfies itself about the effectiveness of internal controls by requiring service providers to report and give assurance on their controls to the Audit Committee. Although the Directors can thereby provide reasonable assurance against material misstatement or loss, they acknowledge that risk cannot be eliminated altogether. Their approach to managing internal control and risk conforms to the recommendations of the Internal Control Guidance for Directors ('Turnbull Guidance'). The Board confirms that in this manner it has reviewed the effectiveness of the Company's internal controls for the period under review, taking into account matters arising up to the date of the Report. 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, (see 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. However, 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.

Annual General Meeting

The Annual General Meeting of the Company will be held on Thursday 13 July 2006 and all shareholders are encouraged to attend. In accordance with the Code, the Notice of Meeting is circulated more than 20 working days before the meeting. Details of the Proxy votes received in respect of each resolution will be available to shareholders at the 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.

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 Auditors 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 and concluded that the amounts should remain unchanged for the present.

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 a similar investment objective. It is intended that this policy will continue for the year ending 31 March 2007 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.

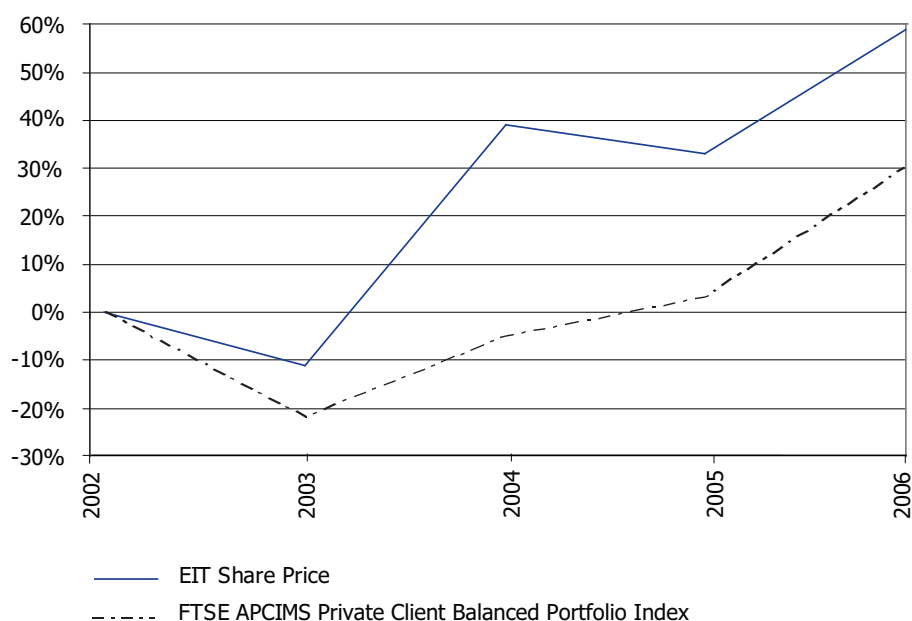
Your Company's performance

The graph below 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

Directors' 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 2006 (total return)



Directors' emoluments and benefits for the year ended 31 March 2006 (audited)

	31 March 2006	31 March 2005
	£	£
Dr James King (Chairman of the Board)	15,000	10,000
Sir David Cooksey (Chairman of the Audit Committee)	12,500	12,500
Rhoderick Swire	10,000	10,000
Henry Thornton	n/a	n/a
Richard Thornton	10,000	15,000
Harry Wells	10,000	10,000

There is no Directors' performance fee payable for the year to 31 March 2006 (2005:nil).
Henry Thornton has waived his entitlement to Directors' emoluments amounting to £10,000 per annum.

On behalf of the Board

Phoenix Administration Services Limited

Secretary
9 June 2006

THE ESTABLISHMENT INVESTMENT TRUST PLC

Report of the Independent Auditors

Independent Auditors' report to the Shareholders of the Establishment Investment Trust plc

We have audited the financial statements on pages 21 to 44. These financial statements have been prepared under the accounting policies set out therein. 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 auditors' 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 auditors

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 (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code 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 only the Report of the Directors, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Corporate Governance Statement. 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 other information.

We report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's Statement and Manager's Review that is cross-referred from the Business review section of the Report of the Directors.

Report of the Independent Auditors continued

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 31 March 2006 and of its return for the year then ended;
- 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; and
- the information given in the Report of the Directors is consistent with the financial statements.

RSM Robson Rhodes LLP

Chartered Accountants and Registered Auditors

London, England

9 June 2006

THE ESTABLISHMENT INVESTMENT TRUST PLC

Income Statement for the year ended 31 March 2006

	Notes	2006			2005 Restated (see note 24)		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	11	—	6,904	6,904	—	298	298
Exchange differences		—	(54)	(54)	—	42	42
(Losses)/gains on forward currency contracts		—	(38)	(38)	—	179	179
Income	2	1,149	—	1,149	1,093	—	1,093
Investment management fees	3	(46)	(65)	(111)	(43)	(113)	(156)
Other expenses	4	(252)	(7)	(259)	(289)	(8)	(297)
Net return before finance costs and tax		851	6,740	7,591	761	398	1,159
Interest payable and similar charges	7	(23)	(81)	(104)	(6)	(23)	(29)
Return on ordinary activities before tax		828	6,659	7,487	755	375	1,130
Tax on ordinary activities	8	(248)	(48)	(296)	(194)	20	(174)
Return on ordinary activities after tax for the financial year		580	6,611	7,191	561	395	956
Return per Ordinary Share	10	2.90p	33.05p	35.95p	2.80p	1.98p	4.78p

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

The total columns in this statement represent the profit and loss accounts of the Company.

A statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

No operations were acquired or discontinued in the year.

The notes on pages 25 to 44 form part of these financial statements.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Reconciliation of Movements in Shareholders' Funds for the years ended 31 March 2005 and 31 March 2006

	Share capital £'000	Share premium £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000	Total £'000
For the year ended 31 March 2006						
Net assets at 31 March 2005 (as restated see note 24)	5,000	14,701	328	4,884	444	25,357
Net profit from operating activities	—	—	2,458	4,153	580	7,191
Dividends paid (see note 9)	—	—	—	—	(560)	(560)
Net assets at 31 March 2006	<u>5,000</u>	<u>14,701</u>	<u>2,786</u>	<u>9,037</u>	<u>464</u>	<u>31,988</u>
For the year ended 31 March 2005						
Net assets at 31 March 2004 (as restated see note 23)	5,000	14,701	566	4,251	393	24,911
Net (loss)/profit from operating activities	—	—	(238)	633	561	956
Dividends paid	—	—	—	—	(510)	(510)
Net assets at 31 March 2005	<u>5,000</u>	<u>14,701</u>	<u>328</u>	<u>4,884</u>	<u>444</u>	<u>25,357</u>

The notes on pages 25 to 44 form part of these financial statements.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Balance Sheet as at 31 March 2006

	Notes	2006		2005 Restated (see note 24)	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments held at fair value through profit or loss	11		31,875		27,681
Current assets					
Debtors	12	130		142	
Financial assets held at fair value (forward currency contracts)		—		2,000	
Cash at bank		<u>2,606</u>		<u>895</u>	
		2,736		3,037	
Creditors: amounts falling due within one year	13	<u>(2,623)</u>		<u>(5,361)</u>	
Net current assets/(liabilities)			<u>113</u>		<u>(2,324)</u>
Total net assets			<u>31,988</u>		<u>25,357</u>
 Capital and reserves					
Called up share capital	14		5,000		5,000
Share premium account			<u>14,701</u>		<u>14,701</u>
			19,701		19,701
Capital reserve – realised	15		2,786		328
Capital reserve – unrealised	15		9,037		4,884
Revenue reserve	16		464		444
			<u>31,988</u>		<u>25,357</u>
Equity shareholders' funds					
Net asset value per Ordinary Share	17		159.94p		126.79p

The financial statements on pages 21 to 44 were approved by the Board on 9 June 2006 and were signed on its behalf by:

Dr. James King
Chairman

The notes on pages 25 to 44 form part of these financial statements.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Cash Flow Statement for the year ended 31 March 2006

	Notes	2006 £'000	2005 £'000
Net cash inflow from operating activities	18a	755	543
Net cash outflow from servicing of finance	18b	(101)	(15)
Tax paid		(205)	(44)
Net cash inflow/(outflow) from investing activities	18b	2,710	(3,197)
Net cash inflow/(outflow) before financing		3,159	(2,713)
Equity dividends paid		(560)	(510)
Net cash (outflow)/inflow from financing activities	18b	(834)	3,037
Net increase/(decrease) in cash		1,765	(186)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the year		1,765	(186)
Cash inflow/(outflow) from movement in debt		834	(3,037)
Change in net cash resulting from cash flows		2,599	(3,223)
Exchange movements		(54)	42
Opening net (debt)/cash		(2,142)	1,039
Closing net cash/(debt)	18c	403	(2,142)

The notes on pages 25 to 44 form part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

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

(a) Basis of accounting

The accounts are prepared on the historical cost basis of accounting, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the AITC Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' dated January 2003 revised December 2005. All of the Company's operations are of a continuing nature.

UK GAAP is converging with International Financial Reporting Standards ('IFRS') and the following Financial Reporting Standards ('FRS') are the most relevant to the Company.

Valuation of fixed asset investments

Financial Reporting Standard 26: "Financial Instruments: Measurement" requires that quoted investments are valued at fair value (previously mid market). This is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. The Company's investments have accordingly been revalued to bid price. Unquoted investments are valued by the Directors at fair value using market valuation techniques.

The investment in BDT Investment Management Limited (representing 15.3% 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 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.

Financial Reporting Standard 21: "Events after the Balance Sheet Date" states that dividends declared and approved by the Company after the balance sheet date should not be recognised as a liability of the Company at the balance sheet date. Prior year results have accordingly been restated and this is shown in notes 23 and 24 on pages 43 and 44.

(b) Changes in presentation

The Company has adopted the provisions of the revised SORP and revised UK accounting standards which has resulted in some changes to the presentation of the Company's accounts. The Statement of Total Return is now called the Income Statement and the Reconciliation of Movements in Shareholders' Funds now becomes a primary statement (see page 22).

(c) Reporting currency

The accounts are presented in Sterling which is the functional currency and presentational currency of the Company. Sterling is the functional currency because it is the currency of the primary economic environment in which the Company operates.

(d) Income

Dividends are credited to the revenue account on an ex-dividend basis or as soon as entitlement has been established, if later. The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security.

Bank and deposit interest is accounted for on an accruals basis.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements continued

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated to 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 sale of an investment are deducted from the proceeds of the sale of investment.
- any other expenses incurred in connection with the acquisition or disposal of an investment are allocated to capital reserve – realised.
- finance costs are accounted for on an accruals basis. 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.

(f) Taxation

Deferred taxation is provided on all differences which have originated but not reversed by the balance sheet date, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

(g) Foreign currency

Transactions denominated in foreign currencies are recorded in Sterling at actual exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are recorded in Sterling at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the capital reserve. The value of investments in foreign currencies is expressed in Sterling at the rates of exchange prevailing at the year end. Surpluses and deficits arising from conversion at this rate of exchange are taken directly to capital reserves.

2 Income

	2006 £'000	2005 £'000
Income from investments		
Overseas dividends	777	674
Overseas fixed interest income	73	112
UK dividends	73	75
UK fixed interest income	156	200
	<u>1,079</u>	<u>1,061</u>
Other income		
Deposit interest	<u>70</u>	<u>32</u>
Total income comprises:		
Dividends	850	749
Interest	299	344
	<u>1,149</u>	<u>1,093</u>

During the period the Company purchased and sold the following investment within one month. This increased the Company's net income by £97,156 (subject to withholding tax) at the expense of capital by £178,462, details are as follows:

Investment	Net income received	Loss to capital
1,800,000 China Steel	<u>£97,156</u>	<u>£178,462</u>

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements continued

3 Investment management fees

	Revenue	Capital	2006	Revenue	Capital	2005
	£'000	£'000	Total	£'000	£'000	Total
			£'000			£'000
Investment management fee	55	220	275	51	205	256
Rebate of investment management fee (see below)	(9)	(34)	(43)	(8)	(30)	(38)
Rebate of investment performance fee (see below)	—	(121)	(121)	—	(62)	(62)
	<u>46</u>	<u>65</u>	<u>111</u>	<u>43</u>	<u>113</u>	<u>156</u>

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 Limited products ("BDT Invest 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 Invest products in respect of the Company's investment in those funds will be rebated to the Company.

As at 31 March 2006 the Company had investments in the following BDT Invest products:

- 100,000 shares in BDT Invest Japan Fund Distributor at a total cost of £1,000,000;
- 60,000 shares in BDT Invest Japanese Smaller Companies 'B' 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;
- 350,000 shares in BDT Invest Japanese Focus Fund 'B' at a total cost of £1,914,137.

The amounts rebated on the investment management fee are shown above, of which £17,226 (2005: £28,616) relates to the Company's investment in BDT Invest Japan Fund, £6,830 (2005: £5,354) relates to the Company's investment in BDT Invest Japanese Smaller Companies Fund, £11,913 (2005: £4,184) relates to the Company's investment in BDT Invest Emerging Markets Focus 'B' Fund, £7,035 (2005:nil) relates to the Company's investment in BDT Invest Japanese Focus Fund 'B'. The amounts rebated on the performance fee earned by the Investment Manager are shown above, of which £112,140 (2005: £61,866) relates to the Company's investment in BDT Invest Japan Fund and £8,561 (2005: nil) relates to the Company's investment in BDT Invest Emerging Markets Focus 'B' Fund. Details of the investment management agreement are disclosed in note 6.

4 Other expenses

	2006	2005
	£'000	£'000
Administration fee	65	60
Directors' emoluments (see note 5)	58	58
Auditors' remuneration for:		
– audit	19	14
– other services to the Company	4	7
Custodian fees	32	39
London Stock Exchange and FSA fees	10	11
Other	64	100
	<u>252</u>	<u>289</u>
Transaction charges – capital	7	8
	<u>259</u>	<u>297</u>

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements continued

5 Directors' emoluments

	2006 £'000	2005 £'000
Directors' fees	58	58

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. Directors fees totalling £10,000 have been waived in full by Mr Henry Thornton. In addition, the Directors are 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. Mr Henry Thornton is not entitled to a Directors' bonus.

There is no Directors' performance fee payable for the year to 31 March 2006 (2005: £nil).

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 Invest"), BDT Invest has been appointed to provide investment management services to the Company for which BDT Invest 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 £22,191 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 fourth Performance Period of the Company in respect of the Ordinary Shares is 148.05p 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 2006 (2005: £nil).

BDT Invest'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 and company secretarial services to the Company for which Phoenix receives an annual fee of £70,000 which was increased from £65,000 on 1 March 2006.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements continued

7 Interest payable

	2006			2005		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
On loans and overdrafts	23	81	104	6	23	29

8 Taxation

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

	2006			2005		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK corporation tax	235	178	413	167	—	167
Overseas tax - double tax relief	(82)	—	(82)	(44)	—	(44)
	153	178	331	123	—	123
Irrecoverable overseas tax	78	—	78	42	—	42
Tax relief on expenses charged to capital	20	(20)	—	43	(43)	—
Tax charge in respect of current year	251	158	409	208	(43)	165
Deferred tax- current year	(3)	(110)	(113)	(14)	23	9
Tax charge per accounts	248	48	296	194	(20)	174

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.

	2006 £'000	2005 £'000
Revenue on ordinary activities before taxation	828	755
Theoretical tax at UK corporation tax rate 30% (2005:30%)	248	227
Effects of:		
- UK Dividends which are not taxable	(22)	(23)
- Effect of marginal tax rates below 30%	—	(7)
- Adjustments for overseas tax	(3)	(46)
- Tax on expenses charged to capital	20	43
- Prior year adjustments	5	—
- Tax losses carried forward	—	—
Actual current tax charge	248	194

The Company is an Investment Trust and whilst it obtains exemption under section 842 Income & Corporation Taxes Act 1988 is not subject to UK taxation on capital gains.

The tax charge against capital reflects tax arising on gains on overseas domiciled funds treated as income gains for tax purposes.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements continued

8 Taxation continued

Provisions for liabilities and charges / deferred taxation

	2006	2005
	£'000	£'000
Deferred tax provided		
Accrued income taxable on receipt	5	8
Unrealised gain on investment in offshore fund	<u>—</u>	<u>110</u>
	<u>5</u>	<u>118</u>

The movement in the provision is as follows:

	£'000	£'000
Provision at start of year	118	109
Deferred tax debit as per movement in revenue account	(3)	(14)
Deferred tax debit as per movement in capital account	(110)	23
Provision at end of year	<u>5</u>	<u>118</u>

Deferred tax has been provided at 30% 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

The Directors have proposed the payment of a final dividend of 1.60p per Ordinary Share (2005: 1.50p), subject to shareholder approval, payable on 26 July 2006 to shareholders registered on 7 July 2006, (ex-dividend 5 July 2006).

An interim dividend of 1.30p per Ordinary Share (2004: 1.10p) was paid on 16 December 2005 to shareholders registered on 18 November 2005 (ex-dividend 16 November 2005).

Total dividends of £560,000 paid during the year comprise the final dividend for the year to 31 March 2005 amounting to £300,000 and the interim dividend for the year to 31 March 2006 amounting to £260,000.

10 Return per Ordinary Share

Total return is based on total return on ordinary activities after taxation of £7,191,000 (2005 restated: £956,000) divided by 20,000,000 Ordinary Shares (2005: 20,000,000) being the weighted average number of Ordinary shares in issue during the year.

Revenue return is based on net revenue on ordinary activities after taxation of £580,000 (2005: £561,000) divided by 20,000,000 Ordinary Shares (2005: 20,000,000) being the weighted average number of Ordinary Shares in issue during the year.

Capital return is based on net capital profit for the financial year of £6,611,000 (2005: £395,000 as restated) divided by 20,000,000 Ordinary Shares (2005: 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

	2006
	£'000
Investments listed on a recognised investment exchange	29,765
Unlisted investments	2,110
Valuation at year end	31,875
Opening book cost	22,670
Opening unrealised appreciation (Restated - see note 24)	5,011
Opening valuation (Restated - see note 24)	27,681
Movements in the year:	
Purchases at cost	23,242
Sales – proceeds	(25,952)
– realised profits on sales	2,878
Increase in unrealised appreciation for the year	4,026
Closing valuation	31,875
Closing book cost	22,838
Closing unrealised appreciation	9,037
	31,875
Sale proceeds	25,952
Investments at cost	(23,074)
Realised profits on sales based on historical cost	2,878
Less gains recognised as unrealised in previous year	(2,051)
Realised profits on sales based on carrying value at previous year's balance sheet date	827
Unrealised appreciation for the year	6,077
Net gains on investments	6,904

Investment transaction costs on purchases and sales of investments during the year to 31 March 2006 amounted to £31,000 and £46,000 respectively (2005: £57,000 and £51,000 respectively).

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.

Investments	Country of registration	Class of capital	% of class held
BDT Invest Japan Fund (Distributor) Ltd*^	Cayman Islands	Ordinary Shares of US\$0.01	50.10%

*Country of listing - Republic of Ireland

^Whilst the above investment represents a significant holding in its share class the holding represents less than 20% of the entire share capital of the fund.

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

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements continued

12 Debtors

	2006	2005
	£'000	£'000
VAT recoverable	20	20
Prepayments and accrued income	110	122
	<u>130</u>	<u>142</u>

13 Creditors: amounts falling due within one year

	2006	2005
	£'000	£'000
Bank loan	2,203	3,037
Investments held for trading re open forward currency contracts	—	2,017
Accruals and deferred income	84	66
Corporation tax payable	331	123
Deferred tax	5	118
	<u>2,623</u>	<u>5,361</u>

14 Called up share capital

	No. of shares	2006	No. of shares	2005
	000's	£'000	000's	£'000
Authorised: Ordinary Shares of 25p each	<u>30,000</u>	<u>7,500</u>	<u>30,000</u>	<u>7,500</u>
Issued and fully paid: Ordinary Shares of 25p each	<u>20,000</u>	<u>5,000</u>	<u>20,000</u>	<u>5,000</u>

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements continued

15 Capital reserve

	Realised	Unrealised	Total
	2006	2006	2006
	£'000	£'000	£'000
Balance at beginning of year - restated (see note 24(a))	328	4,884	5,212
Net realised gains on investments	827	—	827
Unrealised appreciation arising in year	—	6,077	6,077
Transfer on disposal of investments	2,051	(2,051)	—
Net realised losses on forward currency contracts	(38)	—	(38)
Transfer on closure of forward currency contracts	(17)	17	—
Foreign currency exchange differences	(54)	—	(54)
Capital expenses on investments	(7)	—	(7)
Management fee allocated to capital	(186)	—	(186)
Rebate of performance fee in relation to the Company's investment in:			
BDT Invest Japan Fund	112	—	112
BDT Invest Emerging Markets Focus 'B' Fund	9	—	9
Loan interest charged to capital	(81)	—	(81)
Tax charged to capital	(178)	—	(178)
Tax relief on expenses charged to capital	20	—	20
Deferred tax charge	—	110	110
	2,786	9,037	11,823
	2,786	9,037	11,823

16 Revenue reserve

			2006
			£'000
Balance at beginning of year - restated (see note 24(a))			444
Transfer to reserve account			580
Dividends paid			(560)
Balance at end of year			464
			464

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements continued

17 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	
2006	2005	2006	2005
p	p	£'000	£'000
159.94	126.79	31,988	25,357

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

	Ordinary Shares £'000
Total net assets attributable at beginning of year - restated (see note 24(a))	25,357
Total recognised gains for the year	7,191
Dividends paid during the year	(560)
Total net assets attributable at end of year	31,988

The net asset value per Ordinary Share is based on net assets of £31,988,000 (2005: £25,357,000 as restated) and on 20,000,000 Ordinary Shares (2005: 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

18 Cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2006	2005
	£'000	£'000
Profit before finance costs and taxation	7,591	1,159
Gains on investments held at fair value	(6,904)	(298)
Losses / (gains) on exchange movements	54	(42)
Decrease in other debtors	1,998	1,498
Decrease in accrued income	17	142
Decrease in creditors	(2,001)	(1,916)
	<hr/>	<hr/>
Net cash inflow from operating activities	755	543
	<hr/>	<hr/>

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

	2006	2005
	£'000	£'000
Servicing of finance		
Interest paid allocated to income	(22)	(3)
Interest paid allocated to capital	(79)	(12)
	<hr/>	<hr/>
Net cash outflow from servicing of finance	(101)	(15)
	<hr/>	<hr/>
	2006	2005
	£'000	£'000
Cash inflow from investing activities		
Purchase of investments	(23,242)	(18,302)
Sale of investments	25,952	15,105
	<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities	2,710	(3,197)
	<hr/>	<hr/>
	2006	2005
	£'000	£'000
Financing		
Loans (repaid)/drawn down	(834)	3,037
	<hr/>	<hr/>
Net cash (outflow)/inflow from financing activities	(834)	3,037
	<hr/>	<hr/>

(c) Analysis of net debt

	At	Cash	Exchange	At
	1 April	flow	movement	31 March
	2005	£'000	£'000	2006
	£'000	£'000	£'000	£'000
Cash at bank	895	1,765	(54)	2,606
Bank loan	(3,037)	834	—	(2,203)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	(2,142)	2,599	(54)	403
	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the Financial Statements continued

19 Fund 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 objective and policies.

Fixed interest securities, cash and liquid resources as well as debtors and creditors arising from its operations.

The Company also enters into forward currency contracts in order to manage the risks arising from its investment activities. At the year end there were no contracts outstanding.

The Company, as stated in the Report of the Directors on page 9, 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 2005.

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

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.

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

Notes to the Financial Statements continued

19 Fund risk profile continued

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. At the year end, there were no open forward currency contracts.

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 converted into sterling.

Interest rate risk

The Company's assets include fixed interest stocks, the values of which are regularly reviewed by the Board. The Company has a multi-currency revolving credit facility to the sterling equivalent of up to £5 million with the Bank of Scotland at floating rates of interest.

Liquidity risk

The Company's investments mainly comprise listed equities and are for the most part readily realisable securities, which can be easily sold to meet funding commitments if necessary. Short-term flexibility is achieved by the use of overdrafts and the multi-currency revolving credit facility as required.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements *continued*

19 Fund risk profile *continued*

Currency exposure

Financial Assets

The Company's financial assets comprise equity investments, fixed interest securities, short term trade receivables and cash balances.

As at 31 March 2006 the Company's currency cash-flow profile of those financial assets was as follows:

	£'000 Sterling	£'000 US\$	£'000 JPY	£'000 Euro	£'000 Other	£'000 Total
Investments held at fair value through profit or loss	10,754	5,135	4,466	2,801	8,719	31,875
Cash at bank	1,753	—	—	—	853	2,606
Debtors	29	2	16	46	—	93
	<u>12,536</u>	<u>5,137</u>	<u>4,482</u>	<u>2,847</u>	<u>9,572</u>	<u>34,574</u>

As at 31 March 2005 the Company's currency cash-flow profile of those financial assets was as follows (Restated - see note 24):

	£'000 Sterling	£'000 US\$	£'000 JPY	£'000 Euro	£'000 Other	£'000 Total
Investments held at fair value through profit or loss	9,984	2,184	3,755	3,415	8,343	27,681
Cash at bank	525	—	—	—	370	895
Debtors	39	—	19	26	22	106
Forward currency sales	2,000	—	—	—	—	2,000
	<u>12,548</u>	<u>2,184</u>	<u>3,774</u>	<u>3,441</u>	<u>8,735</u>	<u>30,682</u>

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements continued

19 Fund risk profile continued

Currency exposure

Financial Liabilities

The Company's financial liabilities comprise of its Bank of Scotland loan facility and other short-term trade payables.

As at 31 March 2006 the Company's currency cash-flow profile of those financial liabilities was as follows:

	£'000 Sterling	£'000 US\$	£'000 JPY	£'000 Euro	£'000 Other	£'000 Total
Bank of Scotland loan facility	—	(1,153)	(1,050)	—	—	(2,203)
Creditors	(67)	(15)	(2)	—	—	(84)
	<u>(67)</u>	<u>(1,168)</u>	<u>(1,052)</u>	<u>—</u>	<u>—</u>	<u>(2,287)</u>

As at 31 March 2005 the Company's currency cash-flow profile of those financial liabilities was as follows (Restated - see note 24):

	£'000 Sterling	£'000 US\$	£'000 JPY	£'000 Euro	£'000 Other	£'000 Total
Bank of Scotland loan facility	—	(1,058)	(1,979)	—	—	(3,037)
Creditors	(51)	(10)	(5)	—	—	(66)
Forward currency sales	—	(2,017)	—	—	—	(2,017)
	<u>(51)</u>	<u>(3,085)</u>	<u>(1,984)</u>	<u>—</u>	<u>—</u>	<u>(5,120)</u>

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements continued

19 Fund risk profile continued

Interest rate risk profile of financial assets and financial liabilities

As at 31 March 2006, the carrying amount, by the earlier of contractual re-pricing or maturity date, of the Company's financial instruments was as follows:

	In 1 year or less	In more than 1 year but not more than 2 years	In more than 2 years but not more than 3 years	In more than 3 years but not more than 4 years	In more than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fair value interest rate risk						
Financial assets at fair value						
through profit or loss						
- Non-current assets	2,028	—	2,801	—	—	4,829
The effective interest rate of financial assets at fair value in less than one year is 7.64% and in 2 to 3 years is 3.49%.						
Cash flow interest rate risk						
Loans and receivables						
- Cash at bank	1,554	—	—	—	—	1,554
Financial liabilities						
- Multi-currency revolving credit facility	(2,203)	—	—	—	—	(2,203)
No interest rate risk						
Financial assets at fair value						
through profit or loss						
- Non-current assets	27,046	—	—	—	—	27,046
Loans and receivables						
- Cash at bank	1,052	—	—	—	—	1,052
- Debtors	93	—	—	—	—	93
Other financial liabilities						
- Creditors	(84)	—	—	—	—	(84)

The cash balance of £1,554,000 held on deposit received interest at the Northern Trust deposit rate of 3.00% per annum as at the year end date. Cash balances of Taiwan dollar (sterling equivalent £853,000) and Sterling £199,000 were held on non-interest bearing accounts.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements continued

19 Fund risk profile continued

Interest rate risk profile of financial assets and financial liabilities continued

As at 31 March 2005 (Restated - see note 24), the carrying amount, by the earlier of contractual re-pricing or maturity date, of the Company's financial instruments was as follows:

	In 1 year or less £'000	In more than 1 year but not more than 2 years £'000	In more than 2 years but not more than 3 years £'000	In more than 3 years but not more than 4 years £'000	In more than 5 years £'000	Total £'000
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Fair value interest rate risk

Financial assets at fair value
through profit or loss

- Non-current assets	—	2,069	—	170	2,287	4,526
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The effective interest rate of financial assets at fair value in 1 to 2 years is 7.85%, in 3 to 4 years is 0.00% and in more than 5 years is 4.74%.

Cash flow interest rate risk

Loans and receivables

- Cash at bank	517	—	—	—	—	517
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Financial liabilities

- Multi-currency revolving credit facility	(3,037)	—	—	—	—	(3,037)
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No interest rate risk

Financial assets at fair value
through profit or loss

- Non-current assets	23,155	—	—	—	—	23,155
- Forward currency sales	2,000	—	—	—	—	2,000

Loans and receivables

- Cash at bank	378	—	—	—	—	378
- Debtors	106	—	—	—	—	106

Other financial liabilities

- Forward currency sales	(2,017)	—	—	—	—	(2,017)
- Creditors	(66)	—	—	—	—	(66)

The cash balance of £517,000 held on deposit received interest at the Northern Trust deposit rate of 3.50% per annum as at the year end date. Cash balances of Taiwan dollar (sterling equivalent £370,000) and £8,000 were held on non-interest bearing accounts.

Borrowing facilities

The Company has 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 5.814% (2005: 3.880%) and the Japanese Yen loan was 1.395% (2005: 1.341%).

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements continued

19 Fund risk profile continued

Fair values of financial assets and financial liabilities

The Directors are of the opinion that all financial assets and liabilities of the Company are stated at fair value in the balance sheet as at 31 March 2006 and 31 March 2005.

20 Financial commitments and contingent liabilities

There were no financial commitments or contingent liabilities outstanding at the year end (2005: none).

21 Total expense ratio

	2006		2005	
	£'000	%	£'000	%
Total operating expenses*	534	1.90	553	2.30

*Total operating expenses (capital & income) prior to the reduction in expenses of £43,000 (2005: £38,000) in respect of management fee waiver and £121,000 (2005: £62,000) in respect of performance fee waiver (see note 3).

The above total expense ratio is based on the average total assets/shareholders' funds of £28,096,000 (2005: £24,082,000) calculated at the end of each month during the year.

22 Related party disclosure

BDT Investment Management Limited acts as investment manager to the Company. The amounts paid to BDT Invest are disclosed in note 3 and further details of the relationship between the Company and BDT Invest are set out in note 6. Full details of Directors' interests are set out in the Report of the Directors on page 10.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements

23. Restatement of opening balances at 31 March 2004

	Notes	Previously reported 31 March 2004 £'000	Adjustments £'000	Restated 31 March 2004 £'000
Fixed assets				
Investments	1	24,224	(85)	24,139
Current assets		5,419	—	5,419
Creditors: amounts falling due within one year	2	<u>(4,937)</u>	<u>290</u>	<u>(4,647)</u>
Net assets		<u>24,706</u>	<u>205</u>	<u>24,911</u>
Capital and reserves				
Called up share capital		5,000	—	5,000
Share Premium account		14,701	—	14,701
Capital reserve - realised		566	—	566
Capital reserve - unrealised	1	4,336	(85)	4,251
Revenue reserve	2	<u>103</u>	<u>290</u>	<u>393</u>
Equity Shareholders' Funds		<u>24,706</u>	<u>205</u>	<u>24,911</u>
Net asset value per Ordinary Share		<u>123.53p</u>	<u>1.03p</u>	<u>124.56p</u>

Notes to the reconciliation

- Investments are designated as held at fair value in accordance with FRS26 and are carried at bid prices which total their fair value of £24,139,000 (previously they were carried at mid prices). The aggregate differences, being a revaluation downwards of £85,000, also decreased the capital reserve - unrealised.
- No provision has been made for the final dividend on the Ordinary Shares for the year ended 31 March 2004 of £290,000. Under FRS21 the final dividend is not recognised until approved by shareholders.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notes to the Financial Statements continued

24. (a) Restatement of balances as at and for the year ended 31 March 2005

	Notes	Previously reported 31 March 2005 £'000	Adjustments £'000	Restated 31 March 2005 £'000
Fixed assets				
Investments	1	27,776	(95)	27,681
Current assets		3,037	—	3,037
Creditors: amounts falling due within one year	2	(5,661)	300	(5,361)
		<u>25,152</u>	<u>205</u>	<u>25,357</u>
Net assets				
Capital and reserves				
Called up share capital		5,000	—	5,000
Share premium account		14,701	—	14,701
Capital reserve - realised		328	—	328
Capital reserve - unrealised	1	4,979	(95)	4,884
Revenue reserve	2	144	300	444
		<u>25,152</u>	<u>205</u>	<u>25,357</u>
Equity shareholder' Funds				
		<u>25,152</u>	<u>205</u>	<u>25,357</u>
Net asset value per Ordinary Share				
		<u>125.76p</u>	<u>1.03p</u>	<u>126.79p</u>

Notes to the reconciliation

- Investments are designated as held at fair value in accordance with FRS26 and are carried at bid prices which total their fair value of £27,681,000 (previously they were carried at mid prices). The aggregate differences, being a revaluation downwards of £95,000, also decreased capital reserve - unrealised.
- No provision has been made for the final dividend on the Ordinary Shares for the year ended 31 March 2005 of £300,000. Under FRS21 the final dividend is not recognised until approved by shareholders.

(b) Reconciliation of changes to the Income Statement (restated) for the year ended 31 March 2005

	Notes	31 March 2005 £'000	Earnings Per Share impact (pence)	
Total transfer to reserves per the Statement of Total Return (previously reported)		446	—	
Add back dividends paid and proposed	1	520	—	
Investments held at fair value changed from mid to bid basis at 31 March 2004	2	85	0.42	
Investments held at fair value changed from mid to bid basis at 31 March 2005	2	(95)	(0.47)	
		<u>956</u>	<u>(0.05)</u>	
Net return per the Income Statement (as restated)				

Notes to the reconciliation

- Ordinary dividends declared and paid during the year are dealt with through the Reconciliation of Movements on Shareholders' Funds.
- Portfolio valuations at 31 March 2004 and 31 March 2005 are required to be valued at fair value under FRS26. These values are lower than the previous valuations by £85,000 and £95,000 respectively.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Notice of Annual General Meeting

Notice is hereby given that the fourth Annual General Meeting of The Establishment Investment Trust plc will be held at the offices of BDT Investment Management Limited, 52 Jermyn Street, London, SW1Y 6LX on Thursday 13 July 2006 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 2006;
2. to approve the Directors' Remuneration Report;
3. to declare a final dividend of 1.60p per Ordinary Share;
4. to re-elect Mr Henry Thornton as a Director of the Company;
5. to re-elect Mr Harry Wells as a Director of the Company;
6. to re-elect Mr Richard Thornton who is 74 as a Director of the Company.
7. to re-appoint RSM Robson Rhodes LLP as auditor to the Company and to authorise the Directors to determine the auditor's remuneration.

Dated this 9th day of June 2006

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 5 p.m. on 11 July 2006 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)
Sir David Cooksey
Rhoderick Swire
Henry Thornton
Richard Thornton
Harry Wells

Investment Manager

BDT Investment Management Limited
52 Jermyn Street
London
SW1Y 6LX

Company Secretary and registered office

Phoenix Administration Services Limited
Springfield Lodge
Colchester Road
Chelmsford
Essex
CM2 5PW
www.phoenixadmin.co.uk
email: info@phoenixadmin.co.uk

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
30 Finsbury Square
London
EC2P 2YU

Brokers

JPMorgan Cazenove
20 Moorgate
London
EC2R 6DA

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 fourth Annual General Meeting of the Company to be held on 13 July 2006 and at any adjournment thereof, in the following manner:

Ordinary Business

	FOR*	AGAINST*	WITHHELD*	
1.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	the resolution to receive the accounts and the reports of the Directors and the auditor for the year ended 31 March 2006;
2.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	the resolution to approve the Directors' Remuneration Report;
3.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	the resolution to declare a final dividend of 1.60p per Ordinary Share;
4.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	the resolution to re-elect Mr Henry Thornton as a Director of the Company;
6.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	the resolution to re-elect Mr Harry Wells as a Director of the Company;
5.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	the resolution to re-elect Mr Richard Thornton who is 74 as a Director of the Company;
7.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	the resolution to re-appoint RSM Robson Rhodes LLP as auditor of the Company and to authorise the Directors to determine the auditor's remuneration.

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

As WITNESS my/our hand(s) this day of 2006

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.

THE ESTABLISHMENT INVESTMENT TRUST PLC

Third Fold and Tuck in

BUSINESS REPLY SERVICE
Licence No. MB 122

2



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

First Fold

Second Fold

THE ESTABLISHMENT INVESTMENT TRUST PLC

Investment Manager

BDT Investment Management Limited
52 Jermyn Street
London SW1Y 6LX
Tel: 020 7659 1300
Email: info@bdtinvest.com
www.bdtinvest.com

Monthly updates are available from the Investment Manager

Company Secretary and registered office

Phoenix Administration Services Limited
Springfield Lodge
Colchester Road
Essex
CM2 5PW
Tel: 01245 398950
Fax: 01245 398951
www.phoenixadmin.co.uk

The Establishment Investment Trust plc
Registered in England 4355437