

THE ESTABLISHMENT INVESTMENT TRUST PLC

Annual Report and Financial Statements
for the year ended 31 March 2012



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THIS DOCUMENT IS IMPORTANT and, if you are a holder of Ordinary shares requires your immediate attention. If you are in doubt as to what action to take you should seek advice from your own independent personal financial advisor. If you have sold or otherwise transferred all of your Ordinary shares in the capital of the Company you should send this document, and the Form of Proxy which accompanies it, immediately to the purchaser or transferee; or to the stockbroker, bank or other agent through whom the sale or transfer was effected.

Objective of the Company

The investment 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.

Investment Policy

- To invest primarily in equities issued by companies listed on regulated markets. With the prior approval of the Board, the Company may invest in unlisted securities.
- The Company holds, and expects to retain, a circa 15% economic interest in its Investment Manager, BDT Invest LLP via its investment in BDT Investment Management Limited.
- Up to 30% of net assets may be invested in investment products managed by BDT Invest LLP. The Company may also hold positions in investment products managed by third parties.
- Up to a maximum of 15% (at cost at the date of investment) may be invested in any one security.
- The Company may borrow up to a maximum of 50% of net assets.

Financial Highlights for the Year

Performance comparisons 31 March 2011 – 31 March 2012

	31 March 2011	31 March 2012	Change
Share price	185.00p	179.00p	(3.24)%
Net asset value	208.94p	209.09p	0.08%
Dividends per share	4.00p	4.30p	7.50%
Performance Fee Hurdle #	262.27p	288.50p	10.00%
Adjusted Market Capitalisation #	204.01p	204.62p	0.30%
FTSE APCIMS Stock Market Balanced Index			3.67%
UK Equity *			1.52%
World Equity *			1.02%
Japan *			0.72%
Asia ex Japan Equity *			(6.63)%
UK Bond *			14.46%

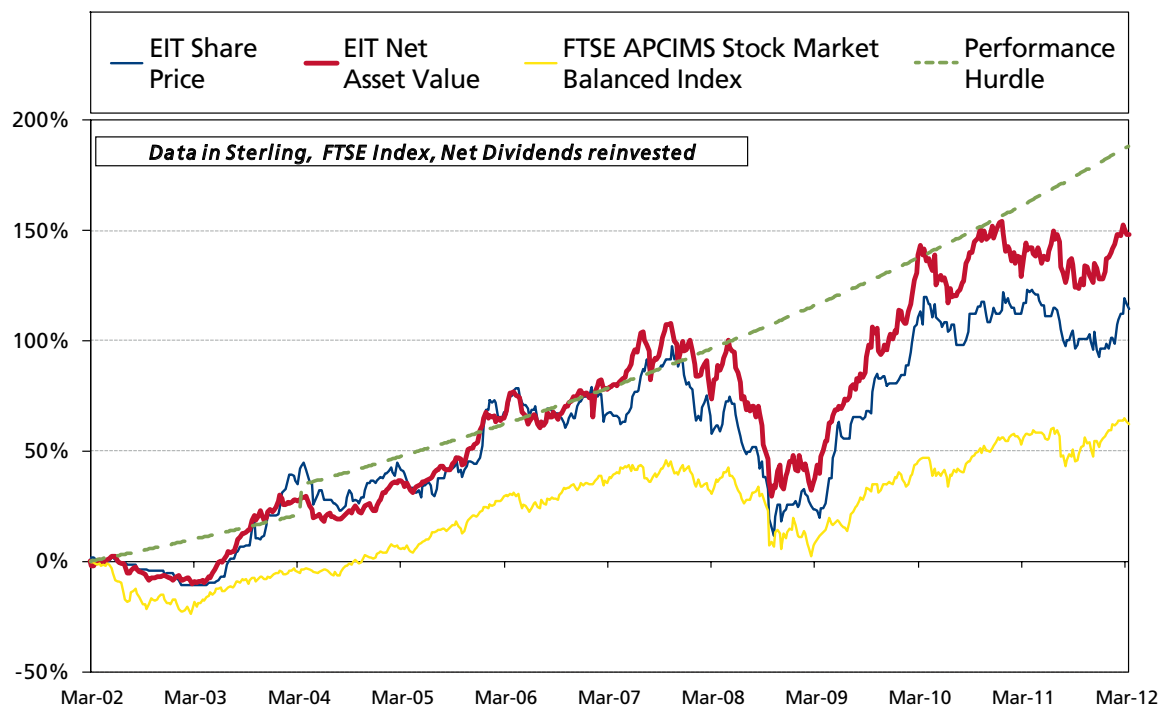
The Adjusted Market Capitalisation of an Ordinary Share at 31 March 2012 is based on the average share price for March 2012 of 178.77p plus dividends paid of 25.85p since the last performance fee was paid. As this was below the Performance Fee Hurdle of 288.50p at the year end, no performance fee is payable.

The Performance Fee Hurdle for the year to 31 March 2013 is 317.35p.

* MSCI and FTSE Total Return Indices in Sterling.

Performance

The Establishment Investment Trust plc
Share Price performance relative to the Net Asset Value, Performance Hurdle
and FTSE APCIMS Stock Market Balanced Index since inception
18 March 2002 to 31 March 2012 (total return)



Cumulative Performance to 31 March 2012

	1 year %	3 years %	5 years %	10 years %
Share Price Total Return ^(a)	-0.9	80.8	29.5	114.8
Net Asset Value Total Return ^(a)	2.1	79.4	40.1	153.6
FTSE APCIMS Stock Market Balanced Index Total Return ^(b)	3.7	48.3	17.9	62.9

^(a) Source: AIC Information Services Limited.

^(b) Source: Bloomberg.

Chairman's Statement

During the second half of the financial year the share price rose by 7.2% while the net asset value increased by 9.5%. For the full financial year the share price declined 3.2% while the net asset value rose 0.1%. In addition dividends totalling 4.1p were paid to shareholders during the period, lifting the total return of the share price to (0.9%) and the net asset value to 2.1%. These compare to the 3.7% increase in the FTSE APCIMS Stock Market Balanced Index and a 1.0% gain in the MSCI World Index in sterling terms.

The end of the last financial year marks the Company's 10th anniversary. The Company was listed in the aftermath of the dot.com bust, just after the 9/11 terrorist attack and ahead of the second Gulf War, at a time when most Western economies were in recession. A decade later many Western economies are again in, or close to, recession. This is a direct consequence of the 2008 Global Financial Crisis which was caused by the 2002-2007 Greenspan credit bubble, itself arguably a reaction to the dot.com bust. The Company was also launched during the early days of the Euro. From 2002 to 2008 the Euro appreciated constantly but since has steadily but surely started to relinquish these gains as this politically inspired project falls foul of economic realities.

At launch the Company pursued a multi asset strategy, favouring bonds, absolute return vehicles and a substantial exposure to Asian equities to achieve its goal of both protecting and growing the capital of shareholders. In more recent times shareholders' funds have increasingly been invested in Asian equities. The Company has also maintained some exposure to Gold Bullion and held a healthy degree of liquidity. There was considerable volatility in the share price and the net asset value during the global financial crisis but the swift recovery of both, and subsequent further appreciation, has vindicated your investment manager's longer term portfolio positioning.

As discussed in the Investment Manager's report the outlook for the Chinese economy is not just highly unpredictable but extremely important for all global investors at this juncture. Your investment manager holds a particularly strong view on the likely development of the Chinese economy and the probable impact on commodity prices. Your Board believes that the assets of the Company are very well positioned to benefit from this anticipated development.

Your Board continues to be alert to the many developments in regulation and corporate governance. These include the Alternative Investment Fund Managers Directive (AIFMD)(EU), the Foreign Account Tax Compliance Act (FATCA)(USA), the Retail Distribution Review (RDR), new HMRC Investment Trust regulations, changes in UK GAAP and review of UK Corporate Governance and Stewardship Codes. Inevitably, these will increase the cost of compliance and perhaps have the wider unintended consequence of repressing capital flows, which the world can ill afford as deleveraging continues in Western economies.

New Tax Regulations came into force on 1 January 2012 which introduced new rules regarding the approval of companies as investment trusts by HM Revenue & Customs. The new rules permit the distribution of capital profits to shareholders by way of dividend, allowing greater flexibility on how dividends are managed in the future. Under previous tax and company law such distributions were prohibited and this prohibition was required to be included in an investment company's Articles of Association. Your Board believes it is prudent to be in a position to take advantage of the new regulations as and when such distributions are considered to be in the best interest of the Company's shareholders and to this end Resolution 10 in the

Chairman's Statement continued

Notice of Meeting on page 47 of this Report is being proposed as a Special Resolution seeking shareholders' approval to amend the Articles of Association of the Company to remove the current restriction on the distribution of capital profits.

The Board has proposed a final dividend of 2.6p per Ordinary Share taking the total dividend for the financial year to 4.3p, an increase of 7.5% over the previous year. This is the 9th consecutive year of dividend growth. The Board will continue to pursue a progressive dividend policy.

Sir David Cooksey GBE

Chairman

31 May 2012

Board Members

Sir David Cooksey GBE ^{a), b), c)} Chairman, was involved in the venture capital business from 1981 when he founded Advent Venture Partners and retired as its Chairman in 2006. He retired as the Senior Non-Executive Director of the Bank of England in 2005 after 11 years' service. He is Chairman of Bechtel Limited and is an adviser to IpeX Capital Management Limited and Strategic Value Partners. He holds an MA in Metallurgy from Oxford University.

Harry Wells ^{a), b)} Audit Committee Chairman and Senior Independent Director, has over 35 years' experience within the investment industry primarily as a stockbroker specialising in Asia, based in London and Hong Kong, latterly as a Managing Director of Salomon Smith Barney. He is a Director of Martin Currie Pacific Investment Trust plc. He holds an MA degree from Cambridge University, is a Fellow of the Chartered Institute for Securities & Investment and a Member of the Royal Institution of Chartered Surveyors.

Gregory Shenkman ^{a), b), c)} has over 39 years' experience in investment banking including corporate finance, advisory, debt and equity capital markets and equity brokerage business, latterly as a managing director and global partner at the Rothschild Investment Banking Group. He was the regional head of Rothschild's Asian businesses from 2000 to 2004. He is a Director of Martin Currie Pacific Trust plc and of the Japan Residential Investment Company. He holds an MA in History from Cambridge University.

Henry Thornton is a founder member and Chairman of the Investment Manager, BDT Invest LLP and was a founder member and Chief Executive Officer of its predecessor 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 management and Nicholas Applegate Capital Management. In 1999 he was appointed head of emerging markets at Colonial First State Investments, a position he retained until his resignation in April 2000.

Richard Thornton has over 50 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 part of Amvescap. In 1985 he founded Thornton & Co which was acquired by Dresdner Bank in 1988 and retired as President of Thornton & 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.

Tom Waring ^{a), b), c)} is the Chief Executive Officer of Blackfriars Asset Management Limited. Tom was formerly Group Head of Investments and Senior Executive Director of Bahrain based Gulf Finance House (GFH), a major listed Islamic investment bank, with responsibility for GFH's asset management, venture capital and private equity business. He has over 25 years' investment management industry experience and was previously based in London as CEO of First State Investments International Limited, the international subsidiary of Commonwealth Bank of Australia. He was also formerly CEO of First State Investment in Asia, Partner and International CEO of Nicholas Applegate Capital Management, Group Managing Director of Credit Lyonnais International Asset Management (HK) Limited and Managing Director of Royal Trust Asset Management (Asia) Limited.

All Directors are non-executive.

Mr G Shenkman was appointed in August 2011, Mr T Waring was appointed in May 2008, Mr H Thornton in April 2005 and all other Directors in February 2002.

a) Independent; b) Audit Committee member; c) Management Engagement Committee member

Portfolio Holdings at 31 March 2012

(All Equity Shares unless otherwise stated)

Holding	Company	Fair value £'000	% of total assets
300,000	BDT Invest Oriental Focus Fund 'B' [†]	4,116	9.84
30,000	Gold Bullion Securities	3,022	7.23
480,000	BDT Invest Japanese Focus Fund 'B' [†]	2,632	6.29
1,600,000	China Taiping Insurance	1,948	4.66
5,000,000	Jasa Marga	1,728	4.13
1,000,000	Total Access Communications	1,658	3.97
30,000,000	REXLot Holdings	1,644	3.93
530,000	ITC	1,477	3.53
1,780,000	First Pacific	1,234	2.95
1,710	Samsung Electronics	1,203	2.88
800,000	Lafarge Malayan Cement	1,177	2.81
180,000	Siam City Cement	1,114	2.66
6,300,000	Holcim Indonesia	1,100	2.63
56,000	Jardine Strategic Holdings	1,069	2.56
1,500,000	Want Want China Holdings	1,047	2.50
200,000	BDT Invest Japanese Smaller Companies Fund 'B' [†]	1,024	2.45
3,350,000	Ayala Land	1,013	2.42
1,200,000	Minth Group	870	2.08
1,000,000	Uni-President Enterprise	865	2.07
55,000,000	BTS Group	860	2.06
100,000	Housing Development Finance Corporation	827	1.98
30,000	Rotork	614	1.47
75,000	United Breweries	497	1.19
7,700,000	Metro Pacific Investments Corporation	464	1.11
8,000	Nestle India	455	1.09
2,000	Lindsell Train Investment Trust	440	1.05
260,000	Zee Entertainment	405	0.97
128,012	BDT Investment Management*	289	0.69
183,215	Bedlam Asset Management*	264	0.63
	Total investments	35,056	83.83
	Net current assets	6,763	16.17
	Net assets	41,819	100.00

* Unlisted investments

† BDT Invest Irish domiciled and listed funds

Investment holding losses attributable to unlisted investments during the year amounted to £57,453. For valuation method, see page 9.

Analysis of Investment Portfolio at 31 March 2012

Sector Analysis	Fair value £'000	% of total assets
Investment Companies	9,229	22.06
Construction & Building Materials	5,119	12.23
Speciality & Other Finance	3,540	8.47
Steel & Other Metals	3,022	7.23
Food Producers & Processors	2,864	6.85
Insurance	1,948	4.66
Telecommunications Services	1,658	3.97
Tobacco	1,477	3.53
Diversified Industrials	1,234	2.95
Electronic & Electrical Equipment	1,203	2.88
Real Estate	1,013	2.42
Automobiles	870	2.08
Transport	860	2.06
Support Services	614	1.47
Media & Photography	405	0.97
Total investments	35,056	83.83
Net current assets	6,763	16.17
Net assets	41,819	100.00

Geographical Analysis (based on listing or domicile)	Fair value £'000	% of total assets
Ireland†	7,772	18.58
Hong Kong	6,743	16.12
United Kingdom	4,629	11.07
India	3,661	8.76
Thailand	3,632	8.69
Indonesia	2,828	6.76
Philippines	1,477	3.53
Korea	1,203	2.88
Malaysia	1,177	2.81
Singapore	1,069	2.56
Taiwan	865	2.07
Total investments	35,056	83.83
Net current assets	6,763	16.17
Net assets	41,819	100.00

Classification of Assets	Fair value £'000	% of total assets
Equities	35,056	83.83
Net current assets	6,763	16.17
Net assets	41,819	100.00

† BDT Invest Irish domiciled and listed funds

Investment Manager's Report

The Chairman's statement notes the essentially flat performance of the share price and net asset value of the Company during the past financial year. During the past twelve months the ordinary shares have moved from a discount of 11.5% to a discount of 14.4%. For comparative purposes, the MSCI AC World Index declined 0.3%, the MSCI Asia ex Japan Index fell 6.6% while the MSCI Japan Index gained 0.7%.

Longer term performance is shown graphically in the charts on pages 2 and 23 that track the net asset value and share price against the FTSE APCIMS Stock Market Balanced Index since the formation of the Company and over the past five financial years.

The past decade has been relatively fallow for equity investors. The MSCI AC World Index has compounded at 4.1% in Sterling terms while the MSCI United Kingdom (+4.4%pa) and Japan (+2.7%pa) indices have fared little differently. The FTSE APCIMS Stock Market Balanced Index has achieved a slightly higher compound return of 5.0% because of the implicit weighting in bonds. In sharp contrast the MSCI Asia ex Japan Index has returned 12% compound over the past decade compared with the Company's total shareholder return of 7.9% over the same period. Performance figures are shown in detail on page 2.

This has vindicated your Company's long term commitment to equities in this region and enabled the Company to post competitive long term returns. Including reinvested dividends the Company's share price and net asset value have grown at a compound rate of 7.9% and 9.5% since listing in March 2002 and, according to the Association of Investment Companies, this ranks the Company 3rd out of 22 in terms of net asset value appreciation and 9th out of 24 in terms of share price returns over the ten years to 31 March 2012. The difference in the rankings is principally explained by the movement from parity to a discount over the period.

China has become an increasingly important player in the global economy over the past decade, even more so since the financial crisis of 2008 from which the Western economies have yet to fully recover. The reflationary fiscal and monetary policies enacted by the Chinese authorities in the wake of the financial crisis resulted, however, in a classic credit and investment boom which has been predominantly focused in the infrastructure and property sectors. To put the scale of this boom in perspective, China now accounts for roughly 60% of the cement produced and consumed globally with per capita cement consumption running at approximately three times the global average. In recent years, only Spain, in 2007, has achieved such cement "intensity".

We remain positive on the outlook for consumption in China. A more balanced economic growth model, which favours consumption over investment, is at the heart of the current 12th five-year plan. Demographics, on-going urbanisation and rising disposable income also support expectations of rising consumption in China and indeed across much of the rest of Asia. Your Company's investments in China play to this expected trend. The Company owns no Chinese banks, property or infrastructure companies. Elsewhere in Asia this consumer focus is reflected in the Indian investments while the Company has significant exposure to the ASEAN infrastructure sector via investments in utility, transportation and cement companies.

Investment Manager's Report continued

Crucially the vast majority of companies owned by the Company purchase a large amount of raw materials, or commodities, and will therefore be big beneficiaries of any broad retreat in commodity prices. The faltering demand from China for commodities, coupled with the rapid growth in their supply, does not bode well for prices. Your investment manager is, therefore, refreshingly upbeat about the prospects for the portfolio and hopes to make further substantial progress in the second decade of the Company.

BDT Invest and Bedlam Asset Management

The Company owns an effective 15% stake in the Investment Manager and also a 4% stake in Bedlam Asset Management. These unlisted investments are revalued every quarter. The latest calculation (an average of book value, 2% of funds under management and 2x annual management charges) valued both firms at a modest premium to book value. The two investments account for 1.3% of the Company's assets.

BDT Invest's funds under management stood at approximately £85m at 31 March 2012. BDT Invest currently manages four products across Japan and Asia. BDT Invest remains a small company and future prospects are dependent upon a number of factors including the ever-changing regulatory landscape referred to in the Chairman's Statement, the necessity to deliver solid investment performance, the capability to market effectively, the ability to attract and retain high quality individuals and capable financial management.

Financial Results

The portfolio generated gross income of £1,482,000 during the year, a 2.9% increase from the £1,440,000 generated in the preceding period. Excluding fees payable to the investment manager, expenses amounted to £326,000, a 3.6% decrease from the £338,000 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 decreased from £363,000 to £350,000. In consequence the Company recorded a revenue return on ordinary activities after tax of £1,024,000.

BDT Invest LLP

Investment Manager
31 May 2012

Directors' Report

Statutory Information

The Directors submit their report together with the audited Financial Statements of the Company for the year ended 31 March 2012.

Activities and status

The principal activity of the Company is to carry on the business of an investment trust company. The Company is an investment company as defined in section 833 of the Companies Act 2006.

The Company operates as an investment trust in accordance with sections 1158 and 1159 of the Corporation Tax Act 2010. HMRC approval of the Company's status as an investment trust has been received in respect of the year ended 31 March 2011. Such approval is given retrospectively in respect of each 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.

The Investment Trust (Approved Company) (Tax) Regulations 2011 (SI 2011/2999) which came into force on 1 January 2012 introduced new rules regarding the approval of companies as investment trusts by HMRC for the purposes of sections 1158 and 1159 of the CTA 2010. The Regulations permit applications for approval as an investment trust to be made in advance, instead of retrospectively and an application will accordingly be made in due course in respect of the current financial year.

Life of the Company

At the Annual General Meeting of the Company held on 26 July 2010, an ordinary resolution was approved for the continuation of the Company in its current form as an investment trust for a further period of three years.

Business Review

The review of the year and commentary on the future outlook are presented in the Chairman's Statement on pages 3 and 4, the Investment Manager's Report on pages 8 and 9, and the financial instruments and capital disclosures set out in note 17 to the Financial Statements on pages 42 to 46 which together provide details of the key performance indicators and principal risks and uncertainties facing the Company.

The Company is predominantly a vehicle for overseas equity and there are the attendant risks applicable to any international or regional equity portfolio relating to strategy, country, industrial sector and stock selection.

The prime risk of investing in the Company is a fall in equity prices and adverse movements in foreign currency exchange rates as currency movements can have a significant impact on capital values. Whilst foreign currency exposures are reviewed on a regular basis, these are inherent in investing in overseas securities and at present there are no currency hedging contracts in place. The Investment Manager will take into account the possibility of currency gain or loss when evaluating investments for the Company.

Whilst counterparty credit risk is not considered to be significant since the Investment Manager undertakes transactions only with pre-approved brokers and on the basis of delivery against payment, the Company bears the risk of settlement default by clearing houses and exchanges and the risk of delayed repossession or disputed title of the Company's assets in the event of failure of the Custodian, together with operational and regulatory risks, and the risk of errors and omissions.

The Company also faces the risk that its objective and strategy become inappropriate due to changes in investor sentiment.

Directors' Report

Statutory Information continued

Business Review continued

The Board monitors the critical risks and uncertainties faced by the Company by regularly reviewing a matrix of risks, key controls and mitigating factors.

As part of the review of operational risks the Board satisfies itself that the Investment Manager has processes in place to ensure that limits are not breached. Performance and risk control are the focus of Boardroom discussion with the Investment Manager. The Board reviews the management of the portfolio and monitors the Manager's adherence to the investment mandate. This is achieved by comparing the absolute return generated by the portfolio, the breakdown of the portfolio into equities, investment funds, bonds, commodities and cash and the level of concentration within the equity portfolio.

The Board seeks to contain risk by understanding and monitoring the Investment Manager's investment style, investment process and long-term performance record. Stock specific risk is reduced to a large extent by adequate diversification, while the Investment Manager will ask the Board for approval prior to the purchase of any BDT Invest LLP products.

The Board reviews the performance of certain equity indices to further evaluate whether the Investment Manager is generating competitive returns in differing market conditions. In assessing performance, the Board in its regular meetings looks for a clear, consistent expression of strategy.

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 return achieved. To provide a reference for shareholders the Company shows its performance against the FTSE APCIMS Stock Market Balanced Index in the chart on page 2.

The Board also debates the extent to which your Company should gear its balance sheet or indeed raise liquidity in difficult markets. Strategic decisions, such as the level of borrowing, can have a significant impact on performance. The Company's policy is to limit gearing to 50% of net assets, but currently no gearing of the Company's portfolio has been implemented. Ultimately, however, the positioning of the portfolio is decided by the Investment Manager, which operates within the broad limits established by the Board.

Environmental, employment, social and community issues

The Company has no employees and has no direct impact on domestic social matters. Its investments are, in the main, focussed in the Asian region which has varying degrees of political and corporate governance standards. It is therefore impractical for the Company to adopt a policy on environmental, employment, social and community issues and it is considered that the best performing investments are likely to be in those entities which have regard for the impact of these issues on their businesses.

Results and dividend

An interim dividend of 1.70p per Ordinary Share was paid on 16 December 2011 to shareholders on the register at the close of business on 2 December 2011 (ex-dividend 30 November 2011).

The revenue return for the financial year ended 31 March 2012 after taxation amounted to £1,024,000 (2011: £864,000). A final dividend of 2.60p (2011: 2.40p) is proposed in respect of the year ended 31 March 2012. The dividend, subject to approval by shareholders, will be paid on 3 August 2012 to shareholders whose names appear on the register at the close of business on 13 July 2012 (ex-dividend 11 July 2012).

Directors' Report

Statutory Information continued

Directors

The Directors of the Company at the date of this Report are shown on page 5. All served in office throughout the year under review with the exception of Mr Gregory Shenkman who was appointed as a non-executive Director on 2 August 2011. Dr James King was a Director of the Company until he retired from the Board on 1 August 2011.

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

In accordance with the AIC Code of Corporate Governance, Sir David Cooksey GBE, Mr Richard Thornton and Mr Harry Wells will retire at the forthcoming AGM and being eligible offer themselves for re-election.

In accordance with the Company's Articles of Association Mr Gregory Shenkman, having been appointed by the Board subsequent to the last Annual General Meeting will retire at the forthcoming AGM, and offer himself for election by shareholders.

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 2012	31 March 2011
Sir David Cooksey GBE	50,000	50,000
Gregory Shenkman (appointed 2 August 2011)	–	n/a
Henry Thornton	100,000	100,000
Henry Thornton ^(a)	709,975	709,975
Henry Thornton and Richard Thornton ^(b)	1,744,728	1,744,728
Richard Thornton	3,611,083	3,611,083
Tom Waring	–	–
Harry Wells	26,000	26,000
Harry Wells ^(c)	4,000	4,000

^(a) Non-beneficial interest in shares held by The Rabbit Trust

^(b) As Trustees of The Thornton Foundation

^(c) 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 2012 and the date of this Report.

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 member of the Investment Manager, BDT Invest LLP, which receives fees under the terms of the Investment Management Agreement as set out in note 6 to the Financial Statements.

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.

Directors' Report

Statutory Information continued

Substantial shareholdings

In addition to the Directors' holdings listed on page 12, the Company had been notified or made aware of the following significant holdings of 3% or more of the Company's shares carrying unrestricted voting rights as at 31 March and 15 May 2012:

	Ordinary Shares	As at 31 March 2012 % of Issued Shares	Ordinary Shares	As at 15 May 2012 % of Issued Shares
Rysaffe Trustees Company (CI) Limited (for R C Thornton 1971 settlement)	1,600,623	8.00	1,600,623	8.00
Midas Capital Partners Limited <i>*includes Miton Worldwide Growth Investment Trust plc</i>	1,425,000*	7.13	1,425,000	7.13
	1,000,000	5.00	1,000,000	5.00
Rothschild Trust (Bermuda) Limited (as trustee of a trust dated 26 March 1996)	1,416,178	7.08	1,416,178	7.08
Cazenove Capital Management Limited [†]	909,349	4.55	889,349	4.45
Troy Asset Management Limited [†]	877,731	4.39	877,731	4.39
Charles Stanley Group PLC [†]	728,282	3.64	728,282	3.64
Notara Anstalt (as trustee of The Rabbit Trust)	709,975	3.55	709,975	3.55
Brewin Dolphin Limited [†]	629,457	3.14	579,553	2.90

[†] for various retail investors

Investment management

BDT Invest LLP, the Company's Investment Manager, is regulated by the Financial Services Authority in the United Kingdom and currently has approximately £85m in assets under discretionary management.

BDT Invest LLP provides Investment Management services for the Company, details of which can be found in note 6 to the Financial Statements on page 35.

The Directors, having evaluated the performance of the Investment Manager, have decided that BDT Invest LLP should continue as Investment Manager on the existing terms. 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.

Directors' Report

Statutory Information continued

Share capital

At 31 March 2011 and 31 March 2012, the authorised share capital was £7,500,000 divided into 30,000,000 Ordinary Shares of 25p each, of which 20,000,000 Ordinary Shares of 25p each were issued and fully paid. There were no changes to the capital structure during the year or between 31 March 2012 and the date of this Report. At 31 March 2012 the Ordinary Share price was 179p (2011:185p).

The following sets out the respective rights and obligations attaching to the Ordinary Shares of the Company:

Voting

The Ordinary Shares confer the right to receive notice and to attend and vote at any General Meeting of the Company. Each Ordinary Share carries the right to one vote. There are no restrictions on voting rights other than in respect of shares on which calls remain unpaid. The deadline for the valid exercise of voting rights is set out in the notes to the Notice of Annual General Meeting and in the Proxy Form.

Dividends

Any dividend declared by the Directors shall be paid at the same rate on each Ordinary Share of the Company but may be apportioned pro rata according to the amounts paid up on the shares where such shares are not fully paid unless issued on terms providing that such shares shall rank for dividend as if fully paid up.

Transfers

There are no restrictions on the transfers of Ordinary Shares in the Company and no limitations on the holding of Ordinary Shares or requirements to obtain the approval of the Company, or other shareholders for any transfer. The Board may refuse to register a transfer of any share (whether in certificated form or not and whether fully paid or not) to more than four persons to be held jointly by them.

Forfeiture

If any member fails to pay the whole of any part of any call on or before the due date, such shares may be forfeited in accordance with the procedures set out in the Articles of Association.

Winding up

The assets of the Company shall on a winding up be divided amongst the shareholders on the basis as determined by the Liquidator, with the sanction of a resolution of the shareholders. The Company is not aware of any agreements with or between shareholders restricting the transfer of Ordinary Shares, or which would take effect in the event of a change of control of the Company.

Powers of the Board

The Board may exercise all such powers of the Company and do on behalf of the Company all such acts which are within the scope of the Articles of Association of the Company and which are not required by Statute or the Articles to be exercised or done by the Company in General Meeting, subject, nevertheless, to the provisions of the Statutes and the Articles and to such directions as may be prescribed by the Company by Special Resolution, but so that no such direction and no alteration to the Articles shall invalidate any prior act of the Board which would have been valid if that direction or alteration had not been given or made.

Directors' Report

Statutory Information continued

Whilst the Board has the power to pay a gratuity or pension or allowance on retirement to any Director or former Executive Director or member of his family, as the Company has no Executive Directors it has not exercised this power and none of the Directors are eligible for pension entitlements or other benefits from the Company. The Directors' Remuneration Report is set out on pages 22 and 23.

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 2012 the Company had nil trade creditors (2011: nil).

Special Business of the Annual General Meeting

The Investment Trust (Approved Company) (Tax) Regulations 2011 (SI 2011/2999) (the "Regulations") which came into force on 1 January 2012 introduced new rules regarding the approval of companies as investment trusts by HMRC for the purposes of section 1158 and 1159 of the Corporation Tax Act 2010.

The Regulations apply to investment companies with financial periods commencing after 1 January 2012 and, inter alia, will permit the distribution of capital profits to shareholders by way of dividend, allowing greater flexibility on how dividends are managed in the future.

Under previous tax law and pursuant to section 833(2)(c) of the Companies Act 2006 such distributions were prohibited and this prohibition was required to be included in an investment company's Articles of Association.

Additionally, changes have been made to the Companies Act 2006 to amend the definition of "investment company" in section 833 as from 6 April 2012.

Resolution 10 in the Notice of Meeting on page 47 of this Report will be proposed as a Special Resolution and seeks shareholders' approval to amend the Articles of Association of the Company to remove the current restriction on the distribution of capital profits.

Statement of Directors' Responsibilities in respect of the Annual Report, the Directors' Remuneration Report and Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under the law, the Directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the net return of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' Report

Statutory Information continued

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements and Directors' Remuneration Report comply with the Companies Act 2006. 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 Financial Statements are published on www.bdtinvest.com, which is a website maintained by the Company's Investment Manager, BDT Invest LLP. The Directors are responsible for the maintenance and integrity of the Company's information that is available on the BDT website. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of the website and accordingly the Auditors accept no responsibility for any changes that have occurred to the Annual Report and Financial Statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements may differ from legislation in other jurisdictions.

Statement under DTR 4.1.12

Each of the Directors, whose names and functions are listed on page 5, confirm that, to the best of their knowledge:

- the Financial Statements, which have been prepared in accordance with the United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and net return of the Company; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to auditors

The Directors who held office at the date of approval of the Directors' 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.

Auditor

Grant Thornton UK LLP, have indicated their willingness to continue in office. A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint Grant Thornton UK LLP as Independent Auditor and to authorise the Directors to determine the Auditor's remuneration.

Annual General Meeting

The tenth Annual General Meeting of the Company will be held on Tuesday 26 June 2012 at 12 noon at the offices of BDT Invest LLP, 52 Jermyn Street, London SW1Y 6LX. The business of the meeting is set out in the Notice of Annual General Meeting on page 47.

Directors' Report

Corporate Governance Statement

The Listing Rules and the Disclosure Rules and Transparency Rules ("Disclosure Rules") of the UK Listing Authority require listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code ("the Code"), as issued by the Financial Reporting Council ("FRC"). The provisions of the Code issued by the FRC in June 2010 are applicable to the year under review. The Code can be viewed at www.frc.org.uk.

The related AIC Corporate Governance Guide for Investment Companies ("the AIC Code") provides specific corporate governance guidelines to investment trusts. The FRC has confirmed that AIC member companies who follow and report against the AIC Code will be meeting their obligations in relation to the UK Corporate Governance Code and the associated disclosure requirements of the Disclosure Rules. The AIC Code can be viewed at www.theaic.co.uk.

Compliance

The Board supports the standards of corporate governance set out in the AIC Code and throughout the year ended 31 March 2012 the Company complied with the provisions of the Code subject to those aspects explained below where the Company has not complied or does not feel it appropriate for a company of this size to do so. It should be noted that as an investment trust, all the Directors are non-executive and most of the Company's day to day responsibilities are delegated to third parties.

The Board of Directors

At 31 March 2012 the Board consisted of six members, all of whom were non-executive and four of whom were independent of the Investment Manager. Particulars of the Directors are set out on page 5. Mr Harry Wells is the current Senior Independent Director and is available to shareholders if they feel that contact through the Chairman is inappropriate or the Chairman is not available.

The Directors normally meet as a Board on a quarterly basis. The Audit Committee meets at least twice each year. The Management Engagement Committee meets at least once a year and the Nomination and Remuneration Committees meet as and when required.

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

Number held	Board 4	Audit Committee 2	Management Engagement 1
Sir David Cooksey GBE	4	2	1
Gregory Shenkman ^(a)	2	1	n/a
Henry Thornton	4	n/a	n/a
Richard Thornton ^(c)	0	n/a	n/a
Tom Waring	4	2	1
Harry Wells	4	2	n/a
Dr James King ^(b)	2	1	1

^(a) appointed 2 August 2011.

^(b) retired 1 August 2011.

^(c) Mr R Thornton was unable to attend Board meetings due to illness.

Directors' Report

Corporate Governance Statement *continued*

The Board lays down guidelines within which the Investment Manager implements investment policy and has a schedule of matters reserved for consideration by the Directors. A full report on the investment holdings and performance is received from the Investment Manager and discussed at Board meetings.

The Investment Manager also reports regularly to the Board on the Company's financial position.

All Board members have access to the advice and services of the Company Secretary which is responsible to the Board for ensuring its compliance with board procedures, company law and the UKLA Listing Rules. The appointment and replacement of the Company Secretary is a matter for the Board as a whole. The Directors also have the facility to take independent professional advice if necessary, at the Company's expense.

Board Structure

There is a clear division of responsibilities between the Chairman, the Board, the Investment Manager and other third party service providers. No single Director has unfettered powers of decision. The Chairman is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role, setting the agenda and ensuring that the Directors receive accurate, timely and clear information. The Board decides matters concerning the Company's investment objective, gearing, capital structure, governance, the appointment of service providers and liaison with shareholders. It is the sole responsibility of the Investment Manager to take decisions on the purchase and sale of individual investments. Representatives of the Investment Manager and the Company Secretary attend each Board meeting. The Board, the Investment Manager and the Company Secretary operate in a supportive and co-operative manner.

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 Investment Manager.

Evaluation of the performance of the Board

Subsequent to the year end, the Board conducted an evaluation of the performance of the Board, its Committees, individual Directors and third party service providers which was led by Sir David Cooksey GBE. The Board is satisfied from the results of the appraisals that the individual Directors, the Board Committees and third party service 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.

Election of Directors

The following Directors will retire and being eligible offer themselves for election at the forthcoming Annual General Meeting:

- Mr Henry Thornton because of his connection with the Investment Manager is required by the Listing Rules to retire annually at each AGM.
- Sir David Cooksey GBE, Mr Richard Thornton and Mr Harry Wells in accordance with Principle 3 of the AIC Code which requires Directors who have served for more than nine years to retire annually at each AGM.
- Mr Gregory Shenkman, having been appointed subsequent to the last AGM, retires and offers himself for election in accordance with the Company's Articles of Association.

Directors' Report

Corporate Governance Statement *continued*

The biographies of the Directors are set out on page 5 of this Report. The Board acknowledges the AIC's Code provisions relating to Directors' tenure. Directors serving longer than nine years will be subject to annual re-election. The Board does not, however, have a pre-set criterion for retirement based on length of service believing that recommendation for re-election should be on an individual basis following rigorous review. The Directors do not consider longevity of service as an impairment to independence or judgement but were this to become the case the relevant Director would stand down.

The Board greatly values the experience and contribution provided by the Directors standing for election and fully supports the proposal that these Directors be re-elected, and in the case of Mr Shenkman, elected, by shareholders at the forthcoming Annual General Meeting of the Company.

The Nomination Committee

The Board as a whole fulfils the function of a Nomination Committee which considers appointments to the Board. The Directors have between them many years' collective experience within the industry 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.

Remuneration

Under the Listing Rules, where an investment trust company has no executive directors, the UK Corporate Governance Code's provisions relating to directors' remuneration do not apply. Details of the Directors' fees are given in the Directors' Remuneration Report on pages 22 and 23. The Company arranges appropriate Directors' and Officers' liability insurance cover in respect of any legal action against the Directors and Officers.

Audit Committee

The Company's Audit Committee comprises Mr Harry Wells (Chairman), Sir David Cooksey GBE, Mr Gregory Shenkman and Mr Tom Waring. All members of the Committee are independent and have considerable experience of the investment industry which the Board considers relevant to their roles on the Committee. The Committee meets at least twice each year with representatives of the Investment Manager who report on the proper conduct of the Investment Manager's business and internal controls in accordance with the regulatory environment in which both the Company and the Investment 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 least once a year and reports on the auditor's 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 include the review of internal controls and risk matrix, accounting policies, financial statements, the auditor's appointment, independence 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 auditor and are satisfied from a review of both the audit and non-audit work undertaken for the Company by Grant Thornton UK LLP during the year that the auditor's objectivity and independence was not compromised during the year nor is it likely to be compromised in the foreseeable future.

Directors' Report

Corporate Governance Statement *continued*

The Board has accepted the Audit Committee's recommendation that a proposal to re-appoint Grant Thornton UK LLP, as Independent Auditor be considered at the forthcoming Annual General Meeting.

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. As the Company has no employees it also does not consider there is a need for 'whistleblowing' procedures. The Audit Committee reviews the 'whistleblowing' procedures of the Investment Manager. 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 Financial Reporting Council's Internal Control Guidance for Directors. 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.

Management Engagement Committee

Mr Tom Waring (Chairman), Sir David Cooksey GBE and Mr Gregory Shenkman comprise the Management Engagement Committee which considers the terms of engagement and the remuneration payable to the third party service providers to the Company, (see note 6 to the Financial Statements).

The terms of reference for Committees of the Board may be inspected at the Registered Office of the Company during normal business hours.

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 Financial Reporting Council's (FRC) 'Internal Control Revised Guidance for Directors on the Combined Code'. This process has been in place for the year ended 31 March 2012 and up to the date of this Annual Report, and is regularly reviewed by the Board.

The Board has ultimate responsibility for the system of internal control and for reviewing its effectiveness. An independent custodian has responsibility for safeguarding the Company's assets and there are clearly defined responsibilities between the Board, the Custodian and the Investment Manager, with detailed operating procedures in place. The internal controls operated by the Board include the authorisation of the investment strategy and regular reviews of 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 the FRC's guidance. The Board has monitored 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. The Company's Risk Matrix is reviewed at each meeting of the Audit Committee.

The Board has contractually delegated the management of the investment portfolio to the Investment Manager, BDT Invest LLP, the day-to-day administration and company secretarial functions to Phoenix Administration Services Limited, and the custodial services, which include the safeguarding of the Company's assets, to The Northern Trust Company. These contracts are only entered into after full consideration by the Board of the services undertaken.

Directors' Report

Corporate Governance Statement *continued*

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.

The Investment Manager, Administrator and the Custodian of the Company's assets all maintain their own systems of internal and financial controls which are reviewed annually by the Audit Committee.

Shareholder Relations

The Company, through the Investment Manager, has regular contact with its institutional shareholders and the views of shareholders are communicated to the Board. The Board supports the principle that the Annual General Meeting (AGM) of shareholders provides a constructive opportunity to facilitate communication with the Company's investors, and the Board encourages shareholders to attend and participate in the AGM.

Voting Policy

The Investment Manager researches the companies and markets in which the Company invests and accordingly the Board considers the Investment Manager to be best placed to vote the shares of invested companies where such rights exist. The Board has therefore authorised Mr Henry Thornton to vote the shares of invested companies on routine business, having regard to both their interests and those of the Company. Mr Henry Thornton however is required to consult with the Chairman, or with the Board if appropriate, before voting on any contentious or sensitive issues. The Board has reviewed the Investment Manager's policy on compliance with the UK Stewardship Code.

Commissions

The Board regularly reviews the details of the dealing commissions paid.

Annual General Meeting

The AGM of the Company will be held on Tuesday 26 June 2012 and all shareholders are encouraged to attend. Owing to the short timeframe between the date of the approval and publication of this Report and the date of the AGM, the Company is not able to meet the provision of UK Corporate Governance Code E.2.4 that the Notice of Meeting be sent to shareholders more than 20 working days before the meeting.

Details of proxy voting in respect of each resolution will be available at the Meeting and subsequently on the website at www.bdtinvest.com. It is not proposed to relate individual proxy voting figures at the Meeting after each resolution is voted on, and those attending will instead be provided with a printed summary of the voting on all resolutions.

Going Concern

After considering the Company's current financial resources, 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.

By order of the Board

Phoenix Administration Services Limited

Secretary

31 May 2012

Directors' Remuneration Report

The Company has prepared this report, in accordance with the requirements of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

The law requires a Company's Auditors to audit certain of the disclosures provided herein. Where disclosures have been audited, they are indicated as such. The Auditor's opinion on these is included in the report of the Independent Auditor on pages 24 and 25.

Remuneration Committee

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

Policy on Directors' Remuneration

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 2013 and subsequent years.

The maximum aggregate Directors' fees (see note 5 to the Financial Statements) pursuant 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 aggregate maximum, eligible Directors are 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 of an Ordinary Share (plus dividends paid since the last Performance Fee was paid) 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

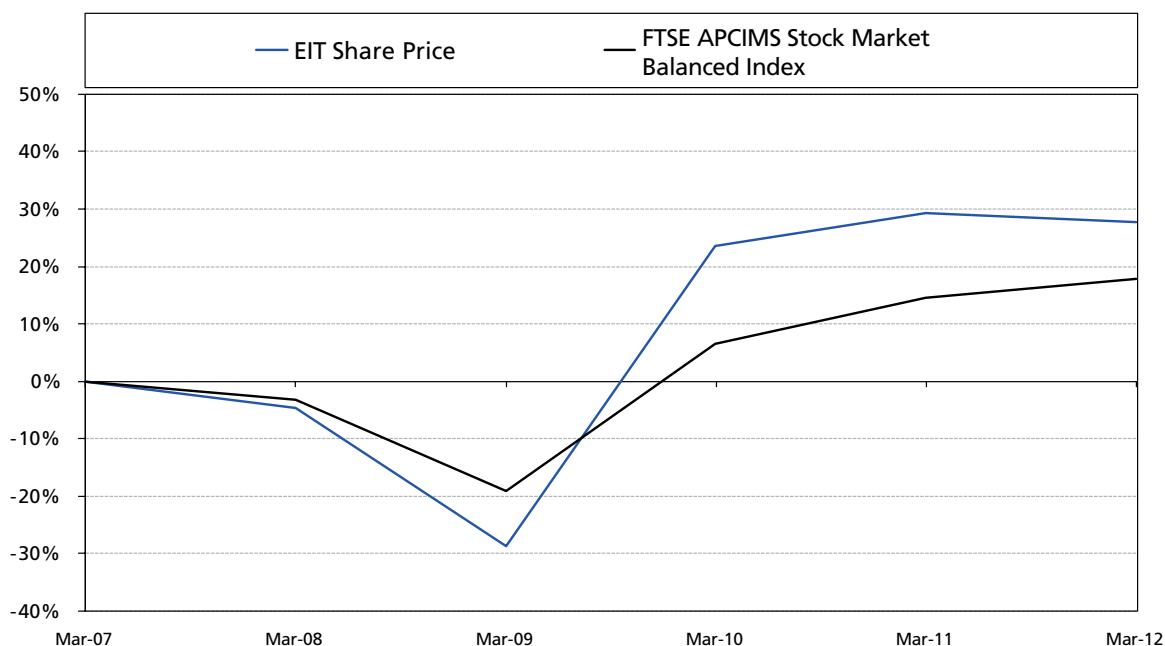
It is the Board's policy that none of the Directors has a service contract. The terms of their appointment provide that a Director shall retire and be subject to election at the first Annual General Meeting after their appointment and at least every three years after that. The terms also provide that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

Performance Graph

The graph on page 23 compares the share price total return (assuming all dividends are reinvested) to shareholders compared to the total return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE APCIMS Stock Market Balanced Index is calculated. This index was chosen for comparison purposes as it is more appropriate than a pure equity index to measure investment performance.

Directors' Remuneration Report continued

The Establishment Investment Trust plc
Share Price performance relative to the
FTSE APCIMS Stock Market Balanced Index
since 31 March 2007 to 31 March 2012



Directors' emoluments and benefits for the year ended 31 March 2012 (audited)

	31 March 2012 £	31 March 2011 £
Sir David Cooksey GBE (Chairman) ^(a)	18,958	17,500
Gregory Shenkman ^(b)	9,942	n/a
Henry Thornton	n/a	n/a
Richard Thornton	15,000	15,000
Tom Waring	15,000	15,000
Harry Wells (Chairman of the Audit Committee) ^(c)	16,458	15,000
Dr James King ^(d)	6,667	20,000
Total	82,025	82,500

^(a) appointed Chairman 1 August 2011, prior to which he was Chairman of the Audit Committee.

^(b) appointed 2 August 2011.

^(c) appointed Chairman of the Audit Committee 1 August 2011.

^(d) retired 1 August 2011.

No Directors' performance fee is payable for the year to 31 March 2012 (2011: nil).

Because of his connection with the Investment Manager, Mr Henry Thornton has waived his entitlement to Directors' emoluments amounting to £15,000 per annum.

By order of the Board

Phoenix Administration Services Limited

Secretary

31 May 2012

Independent Auditor's Report to the members of The Establishment Investment Trust plc

We have audited the Financial Statements of The Establishment Investment Trust plc for the year ended 31 March 2012 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities on pages 15 and 16, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Independent Auditor's Report continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules, we are required to review:

- the Directors' statement, on page 21 in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on Directors' Remuneration.

Marcus Swales

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

31 May 2012

Income Statement for the years ended 31 March

	Notes	Revenue £'000	2012 Capital £'000	Total £'000	Revenue £'000	2011 Capital £'000	Total £'000
Gains on investments	10	–	216	216	–	266	266
Exchange losses on currency balances		–	(149)	(149)	–	(18)	(18)
Income	2	1,482	–	1,482	1,440	–	1,440
Investment management fees	3	(60)	(241)	(301)	(59)	(236)	(295)
Other expenses	4	(326)	–	(326)	(337)	(1)	(338)
Return on ordinary activities before tax		1,096	(174)	922	1,044	11	1,055
Tax on ordinary activities	7	(72)	–	(72)	(180)	–	(180)
Return on ordinary activities after tax for the financial year		1,024	(174)	850	864	11	875
Return per Ordinary Share	9	5.12p	(0.87)p	4.25p	4.32p	0.05p	4.37p

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. The revenue and capital columns are supplementary to this and are prepared under the guidance published by the Association of Investment Companies.

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.

There was no loan outstanding or interest payable during the year.

The notes on pages 30 to 46 form part of these Financial Statements.

Reconciliation of Movements in Shareholders' Funds

for the years ended 31 March 2011 and 31 March 2012

	Share capital £'000	Share premium £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
For the year ended 31 March 2012					
At 31 March 2011	5,000	14,701	20,954	1,134	41,789
Return on ordinary activities after tax for the financial year	–	–	(174)	1,024	850
Dividends paid (see note 8)	–	–	–	(820)	(820)
At 31 March 2012	5,000	14,701	20,780	1,338	41,819

	Share capital £'000	Share premium £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
For the year ended 31 March 2011					
At 31 March 2010	5,000	14,701	20,943	1,050	41,694
Return on ordinary activities after tax for the financial year	–	–	11	864	875
Dividends paid (see note 8)	–	–	–	(780)	(780)
At 31 March 2011	5,000	14,701	20,954	1,134	41,789

The notes on pages 30 to 46 form part of these Financial Statements.

Balance Sheet

at 31 March

	Notes	£'000	2012 £'000	£'000	2011 £'000
Fixed assets					
Investments held at fair value through profit or loss	10		35,056		37,983
Current assets					
Debtors	11	216		1,799	
Cash at bank		6,609		2,073	
		6,825		3,872	
Creditors: amounts falling due within one year	12	(62)		(66)	
Net current assets			6,763		3,806
Net assets			41,819		41,789
Capital and reserves					
Called up share capital	13		5,000		5,000
Share premium			14,701		14,701
			19,701		19,701
Capital reserve	14		20,780		20,954
Revenue reserve			1,338		1,134
Equity shareholders' funds			41,819		41,789
Net asset value per Ordinary Share	15		209.09p		208.94p

The Financial Statements on pages 26 to 46 were approved by the Board on 31 May 2012 and were signed on its behalf by:

Sir David Cooksey GBE

Chairman

Registered in England No. 4355437

The notes on pages 30 to 46 form part of these Financial Statements.

Cash Flow Statement

for the years ended 31 March

	Notes	2012 £'000	2011 £'000
Net cash inflow from operating activities	16a	1,312	777
Taxation		(143)	(308)
Financial investment	16b	4,336	(1,363)
Net cash inflow/(outflow) before financing		5,505	(894)
Equity dividends paid		(820)	(780)
Increase/(decrease) in cash in the year		4,685	(1,674)
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the year		4,685	(1,674)
Exchange movements		(149)	(18)
Opening net funds		2,073	3,765
Closing net funds	16c	6,609	2,073

The notes on pages 30 to 46 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, except for the measurement at fair value of investments. The accounts have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and with the AIC Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' dated January 2009. All of the Company's operations are of a continuing nature.

(b) Valuation of fixed asset investments

When a purchase or sale is made under a contract, the terms of which require delivery within the time frame of the relevant market, the investments concerned are recognised or derecognised on the trade date.

The Company's investments have been designated at fair value through profit or loss, and are recognised on the trade date and are initially measured at fair value. Investments are measured at subsequent reporting dates at fair value, and changes in fair value are included in the Income Statement as a capital item. Investments are designated as at fair value through profit or loss as they are managed as a group and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the investments is provided internally on that basis to the Board of Directors. For listed investments fair value is deemed to be either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

Unquoted investments are valued by the Directors at fair value using market valuation techniques.

The investment in BDT Invest LLP (representing 15.3% of that entity) is held through BDT Investment Management Limited (BDT) as part of the investment portfolio. The Company also holds a 4% interest in Bedlam Asset Management Limited (BAM). 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 and BAM 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 Invest LLP, two per cent of the value of funds under its management and two times its annual management charges.

(c) Reporting currency

The accounts are presented in Sterling which is the functional currency of the Company 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 interest rate on the debt security.

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

Notes to the Financial Statements continued

1. Accounting policies continued

(e) Dividends

Dividends paid by the Company are recognised in the Financial Statements in respect of the period in which they are paid.

(f) Expenses

All expenses are accounted for on an accruals basis. Expenses are recognised through the Income Statement as revenue items except as follows:

- the investment management fee has been allocated 80% to capital reserve – and 20% to the revenue account within the Income Statement 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 management performance fee has been allocated 100% to capital reserve – within the Income Statement.
- 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 – within the Income Statement.
- finance costs are accounted for on an accruals basis using the effective interest rate method. 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 and 20% to the revenue account within the Income Statement. 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.

(g) 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.

(h) Foreign currency

Transactions and investment income denominated in foreign currencies are recorded in Sterling at actual exchange rates at the date of the transaction or receipt. 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 or revenue column of the income statement, depending on whether the gain or loss is of a capital or revenue nature respectively. 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 included as an exchange gain or loss in the capital or revenue column of the income statement and capital items and subsequently taken to the capital reserve.

Notes to the Financial Statements continued

1. Accounting policies continued

(i) Capital Reserve

The following are taken to this reserve:

Investment holding gains:

– Increase and decrease in the valuation of investments held at the year end.

Other:

– Gains and losses on the disposal of investments;

– Exchange differences of a capital nature;

– Expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policies.

2. Income

	2012 £'000	2011 £'000
Income from investments		
Overseas dividends	1,445	1,413
Overseas fixed interest income	–	1
UK dividends	37	26
	1,482	1,440
Total income comprises:		
Dividends	1,482	1,439
Interest	–	1
	1,482	1,440

Notes to the Financial Statements continued

3. Investment management fees

	Revenue £'000	2012 Capital £'000	Total £'000	Revenue £'000	2011 Capital £'000	Total £'000
Investment management fee	70	280	350	73	290	363
Rebate of investment management fee (see below)	(10)	(39)	(49)	(14)	(54)	(68)
Rebate of investment performance fee (see below)	–	–	–	–	–	–
	60	241	301	59	236	295

For the avoidance of double charging investment 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 Invest LLP 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 2012 the Company had investments in the following BDT Invest products:

200,000 shares in BDT Invest Japanese Smaller Companies Fund ‘B’ at a total cost of £1,155,512

480,000 shares in BDT Invest Japanese Focus Fund ‘B’ at a total cost of £2,360,255

300,000 shares in BDT Invest Oriental Focus Fund ‘B’ at a total cost of £3,250,313

The amounts rebated on the investment management fee are shown above, of which £13,504 (2011: £15,083) relates to the Company’s investment in BDT Invest Japanese Smaller Companies Fund ‘B’, £35,643 (2011: £35,410) relates to the Company’s investment in BDT Invest Oriental Focus Fund ‘B’, and nil (2011: £17,289) 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 there is no rebate for the year ended 31 March 2012 (2011: £nil). Details of the investment management agreement are disclosed in note 6.

Notes to the Financial Statements continued

4. Other expenses

	2012 £'000	2011 £'000
Administration fee	75	75
Directors' emoluments (see note 5)	82	83
Auditor's remuneration for:		
– audit of the Financial Statements of the Company	16	20
– other services relating to taxation*	10	2
Custodian fees	54	55
London Stock Exchange and FSA fees	11	11
Other	78	91
	326	337
Capital charges	–	1
	326	338

*The fee for 2012 represents tax fees for the years ended 31 March 2010 and 31 March 2011.

5. Directors' emoluments

	2012 £'000	2011 £'000
Directors' fees	82	83

The Chairman and Directors receive emoluments of £20,000 and £15,000 per annum respectively, and the Chairman of the Audit Committee receives a further £2,500 per annum. Director's fees totalling £15,000 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. In view of his connection with the Investment Manager, Mr Henry Thornton is not entitled to a Directors' performance fee.

There is no Directors' performance fee payable for the year to 31 March 2012 (2011: £nil).

There were no pension contributions paid or payable.

The Company has no employees.

Notes to the Financial Statements continued

6. Disclosure of interests

In accordance with an investment management agreement between the Company and BDT Invest LLP (“BDT Invest”) dated 1 November 2007, and a Novation Agreement with BDT Investment Management Limited, dated 31 October 2007, BDT Invest provides 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 £26,149 (2011: £26,522) of the fee for the year was outstanding as a creditor 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 of the Company (plus dividends paid since the last performance fee was paid) exceeds the Performance Hurdle. The “Performance Hurdle” for the tenth Performance Period of the Company in respect of the Ordinary Shares is 262.27p 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 2012 (2011: £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 received a fee of £75,000 for the year under review.

Notes to the Financial Statements continued

7. Taxation

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

	Revenue £'000	2012 Capital £'000	Total £'000	Revenue £'000	2011 Capital £'000	Total £'000
UK corporation tax	-	-	-	-	-	-
Overseas tax – double tax relief	-	-	-	-	-	-
Overseas tax suffered	114	-	114	168	-	168
Withholding tax reclaims	(42)	-	(42)	(133)	-	(133)
Prior year adjustment	-	-	-	145	-	145
Tax charge in respect of current year	72	-	72	180	-	180
Deferred tax – current year	-	-	-	-	-	-
Tax charge per accounts	72	-	72	180	-	180

The current taxation charge for the year is different from the standard rate of corporation tax in the UK (26%). The differences are explained below.

	2012 £'000	2011 £'000
Net return on ordinary activities before taxation	922	1,055
Theoretical tax at UK corporation tax rate 26% (2011: 28%)	240	295
Effects of:		
– Capital gains not subject to corporation tax	(17)	(69)
– UK dividends which are not taxable	(10)	(7)
– Overseas dividends which are not taxable	(376)	(395)
– Irrecoverable overseas tax	72	35
– Movement in excess expenses	163	176
– Prior year adjustment	-	145
Actual current tax charge	72	180

The Company is an Investment Trust and, whilst it obtains exemption under section 1159 of the Corporation Tax Act 2010, is not subject to UK taxation on capital gains.

Notes to the Financial Statements continued**7. Taxation** continued**Provisions for liabilities and charges/deferred taxation**

The Company has excess management expenses of £1,316,225 (2011: £689,523) that are available to offset future taxable revenue. A deferred tax asset of £315,894 (2011: 179,276) has not been recognised in respect of these expenses since they are recoverable only to the extent that the company has sufficient taxable revenue.

In the opinion of the Directors the Company has complied with the requirements of section 1159 of the Corporation Tax Act 2010.

8. Dividends and other appropriations

Dividends paid during the year as reflected in the Financial Statements.

	2012 £'000	2011 £'000
Final dividend for the year ended 31 March 2011 of 2.40p per Ordinary Share (2010: 2.30p)	480	460
Interim dividend for the year ended 31 March 2012 of 1.70p per Ordinary Share (2011: 1.60p)	340	320
	820	780

The total dividends payable in respect of the year, which forms the basis of section 1159 of the Corporation Tax Act 2010 (formerly section 842 of the Income and Corporation Taxes Act 1988) are set out below:

	2012 £'000	2011 £'000
Interim dividend for the year ended 31 March 2012 of 1.70p per Ordinary Share (2011: 1.60p)	340	320
Proposed final dividend for the year ended 31 March 2012 of 2.60p per Ordinary Share (2011: 2.40p)	520	480
	860	800

Notes to the Financial Statements continued

9. Return per Ordinary Share

	2012	2011
Total return per Ordinary Share		
Total return	£850,000	£875,000
Weighted average number of Ordinary Shares in issue during the year	20,000,000	20,000,000
Total return per Ordinary Share	4.25p	4.37p

The total return per Ordinary Share detailed above can be further analysed between revenue and capital, as below:

Revenue return per Ordinary Share		
Revenue return	£1,024,000	£864,000
Weighted average number of Ordinary Shares in issue during the year	20,000,000	20,000,000
Revenue return per Ordinary share	5.12p	4.32p

Capital return per Ordinary Share		
Capital return	£(174,000)	£11,000
Weighted average number of Ordinary Shares in issue during the year	20,000,000	20,000,000
Capital return per Ordinary Share	(0.87)p	0.05p

Notes to the Financial Statements continued

10. Investments held at fair value through profit or loss

	2012 £'000	2011 £'000
Investments listed on a recognised investment exchange	34,503	37,372
Unlisted investments	553	611
Valuation at year end	35,056	37,983
Opening book cost	29,581	26,402
Opening investment holding gains	8,402	11,043
Opening valuation	37,983	37,445
Movements in the year:		
Purchases at cost	16,070	26,721
Sales – proceeds	(19,213)	(26,449)
– gains on sales	1,083	2,907
Decrease in investment holding gains for the year	(867)	(2,641)
Closing valuation	35,056	37,983
Closing book cost	27,521	29,581
Closing investment holding gains	7,535	8,402
	35,056	37,983
Sale proceeds	19,213	26,449
Investments at cost	(18,130)	(23,542)
Gains on sales based on historical cost	1,083	2,907
Investment holding losses recognised in previous year	(1,758)	(3,932)
Losses on sales based on carrying value at previous year's balance sheet date	(675)	(1,025)
Investment holding gains for the year	891	1,291
Net gains on investments	216	266

Investment transaction costs on purchases and sales of investments during the year to 31 March 2012 amounted to £68,000 and £99,000 respectively (2011: £109,000 and £140,000 respectively).

Significant holdings

Included in the above are the following investments in which the Company has an interest of 10% or more of the nominal value of the shares of that class in the investee company as at 31 March 2012.

Investments	Country of registration	Class of capital	% of class held	% of fund held
BDT Invest Oriental Focus Fund*	Republic of Ireland	'B' US Dollar	43.40%	13.88%
BDT Invest Japanese Focus Fund*	Republic of Ireland	'B' US Dollar	45.88%	38.42%
BDT Invest Japanese Smaller Companies Fund*	Republic of Ireland	'B' Japanese Yen	30.22%	18.99%

*Country of listing – Republic of Ireland

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).

Notes to the Financial Statements continued

11. Debtors

	2012 £'000	2011 £'000
VAT recoverable	3	6
Prepayments and accrued income	198	585
Amounts due from brokers	15	1,208
	216	1,799

12. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Accruals and deferred income	62	66

13. Called up share capital

	No. of shares 000's	2012 £'000	No. of shares 000's	2011 £'000
Authorised: Ordinary Shares of 25p each	30,000	7,500	30,000	7,500
Issued and fully paid: Ordinary Shares of 25p each	20,000	5,000	20,000	5,000

There has been no change in the capital structure during the year to 31 March 2012.

14. Capital reserve

The capital reserve includes investment holding gains of £7,535,000 (2011: gains £8,402,000).

The Institute of Chartered Accountants in England and Wales has issued guidance stating that profits arising out of a change in fair value of assets, recognised in accordance with Accounting Standards, may be distributed provided the relevant assets can be readily convertible into cash. In accordance with the Company's status as a UK investment company under section 833 of the Companies Act 2006, the capital reserve may not be distributed by way of dividend, but may be utilised for the purposes of share buy backs. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash.

Notes to the Financial Statements continued

15. 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	
2012 p	2011 p	2012 £'000	2011 £'000
209.09	208.94	41,819	41,789

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	41,789
Total recognised gains for the year	850
Dividends paid during the year	(820)
Total net assets attributable at end of year	41,819

The net asset value per Ordinary Share is based on net assets of £41,819,000 (2011: £41,789,000) and on 20,000,000 Ordinary Shares (2011: 20,000,000) being the number of Ordinary Shares in issue at the year end.

16. Cash flow statement

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

	2012 £'000	2011 £'000
Net return before finance costs and taxation	922	1,055
Gains on investments held at fair value	(216)	(266)
Losses on exchange movements	149	18
Decrease/(increase) in other debtors	22	(1)
Decrease/(increase) in accrued income	439	(28)
Decrease in creditors	(4)	(1)
Net cash inflow from operating activities	1,312	777

Notes to the Financial Statements continued

16. Cash flow statement continued

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

	2012 £'000	2011 £'000
Financial investment		
Purchase of investments	(16,070)	(26,721)
Sale of investments	20,406	25,358
Net cash inflow/(outflow) from financial investment	4,336	(1,363)

(c) Analysis of net funds

	At 1 April 2011 £'000	Cash flow £'000	Exchange movement £'000	At 31 March 2012 £'000
Cash at bank	2,073	4,685	(149)	6,609

17. Financial instruments and capital disclosures

Risk management policies and procedures

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

The Board has policies on diversification of investment, gearing (bank borrowing), dividends and risk management, which it reviews in accordance with prevailing market conditions. Current policies are set out on page 1 and as part of the Business Review in the Directors' Report on pages 10 and 11. The Company's assets are managed so as to diversify both the market risk (including price risk) and liquidity risk that occurs in any equity portfolio and the Board monitors this process (see Business Review). Neither interest rate risk nor currency risk are considered as separate risks for the reasons explained in that Review. The Board and its Investment Manager consider and review the number of risks inherent with managing the Company's assets which are detailed overleaf.

Notes to the Financial Statements continued

17. Financial instruments and capital disclosures continued

Foreign currency exposure at 31 March 2012

	Sterling £'000	Thai Baht £'000	US Dollar £'000	HK Dollar £'000	Philippine Peso £'000	Other £'000	Total £'000
Investments held at fair value through profit or loss that are monetary items	–	–	–	–	–	–	–
Debtors	3	15	6	–	10	182	216
Cash at bank	76	(7)	4,919	–	–	1,621	6,609
Creditors	(62)	–	–	–	–	–	(62)
Foreign currency exposure on net monetary items	17	8	4,925	–	10	1,803	6,763
Equities held at fair value through profit or loss	1,608	3,632	10,838	6,743	1,477	10,758	35,056
Total net foreign currency exposure	1,625	3,640	15,763	6,743	1,487	12,561	41,819

Foreign currency exposure at 31 March 2011

	Sterling £'000	Thai Baht £'000	US Dollar £'000	HK Dollar £'000	Philippine Peso £'000	Other £'000	Total £'000
Investments held at fair value through profit or loss that are monetary items	–	–	–	–	–	–	–
Debtors	83	49	128	–	1,256	283	1,799
Cash at bank	94	–	1,804	–	–	175	2,073
Creditors	(66)	–	–	–	–	–	(66)
Foreign currency exposure on net monetary items	111	49	1,932	–	1,256	458	3,806
Equities held at fair value through profit or loss	3,027	2,898	11,747	6,087	2,531	11,693	37,983
Total net foreign currency exposure	3,138	2,947	13,679	6,087	3,787	12,151	41,789

Notes to the Financial Statements continued

17. Financial instruments and capital disclosures continued

Over the year Sterling weakened against the US Dollar by 0.32% (2011: strengthened 5.68%) and the Hong Kong Dollar by 0.51% (2011: strengthened 5.86%) but strengthened against the Company's other principal investing currencies, the Indian Rupee by 13.87% (2011: strengthened 4.97%) and the Thai Baht by 1.67% (2011 weakened: 1.16%).

A 5% rise or decline of Sterling against foreign currency denominated (i.e. non-Sterling) assets held at the year end would have decreased/increased the net asset value by £2,010,000 or 4.81% of net asset value (2011: £1,933,000 or 4.62% of net asset value). The impact on the profit or loss account is impossible to estimate since the profit and loss is the net result of all the transactions in the portfolio throughout the year.

Interest rate risk

The Company is only exposed to significant interest rate risk through its cash deposits with the Northern Trust Company. The Company had no borrowings at the year end (2011: nil) and therefore sensitivity analysis to changes in LIBOR are not applicable.

Equity price risk

If the fair value of the Company's investments, excluding fixed-interest securities (see Portfolio Holdings on page 6) at the year end increased/decreased by 10% then it would have the effect of £3,506,000 or 17.53 pence per Ordinary Share (2011: £3,798,000 or 18.99 pence per Ordinary Share) on the capital return.

Liquidity risk

Liquidity risk is generally not significant in normal market conditions as the majority of the Company's investments are listed on recognised stock exchanges and for the most part readily realisable securities which can be sold easily to meet funding commitments if necessary. Short-term flexibility is achieved by the use of bank overdrafts.

Credit risk

Credit risk is mitigated by diversifying the counterparties through whom the Investment Manager conducts investment transactions. The credit-standing of all counterparties is reviewed periodically with limits set on amounts due from any one broker.

Cash is only held at banks and in money market funds that have been identified by the Board as reputable and of high credit quality. Northern Trust has a credit rating of A1 (2011: A1) with Moody's and AA- (2011: AA-) with S&P.

The total credit exposure of the Company at the year end as shown on the Balance Sheet was £6,822,000 (2011: £3,866,000).

Notes to the Financial Statements continued

17. Financial instruments and capital disclosures continued

Valuation of financial instruments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

- Level 1 – valued using quoted prices unadjusted in active markets for identical assets or liabilities.
- Level 2 – valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included within Level 1.
- Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability.

The table below sets out fair value measurements of financial instruments as at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Financial assets at fair value through profit or loss at 31 March 2012

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	34,503	–	553	35,056

There have been no transfers during the year between Levels 1 and 2. A reconciliation of fair value measurements in Level 3 is set out below.

Level 3 Financial assets at fair value through profit or loss

	Equities £'000
Opening fair value	611
Purchases at cost	–
Sales proceeds	–
Total gains included in gains on investments in the income statement	
– on assets sold	–
– on assets held at the period end	(58)
	553

Financial assets at fair value through profit or loss at 31 March 2011

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	37,372	–	611	37,983

Notes to the Financial Statements continued

17. Financial instruments and capital disclosures continued

There have been no transfers during the year between Levels 1 and 2. A reconciliation of fair value measurements in level 3 is set out below.

Level 3 Financial assets at fair value through profit or loss

	Equities £'000
Opening fair value	527
Purchases at cost	–
Sales proceeds	(57)
Total gains included in gains on investments in the income statement	
– on assets sold	41
– on assets held at the period end	100
	611

The valuation techniques used by the Company are explained in the accounting policies note 1(b) on page 30.

Capital management policies and procedures

The capital managed by the Company is only its equity shareholders' funds of £41,819,000 (2011: £41,789,000).

The Company's objectives, policies and procedures for managing capital are set out in the Business Review on pages 10 and 11.

18. Guarantees, financial commitments and contingent liabilities

There were no financial commitments outstanding at the year end (2011: none).

There were no contingent liabilities outstanding at the year end (2011: none).

19. Total expense ratio

	2012		2011	
	£'000	%	£'000	%
Total operating expenses*	676	1.7	700	1.7

*Total operating expenses (capital & income) prior to the reduction in expenses of £49,000 (2011: £68,000) in respect of management fee waiver and £nil (2011: £nil) in respect of performance fee waiver (see note 3).

The above total expense ratio is based on the average shareholders' funds of £40,220,000 (2011: £40,921,000) calculated at the end of each month during the year.

20. Related party disclosure

BDT Invest LLP 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 Directors' Report on page 12.

Notice of Annual General Meeting

Notice is hereby given that the tenth Annual General Meeting of The Establishment Investment Trust plc will be held at the offices of BDT Invest LLP, 52 Jermyn Street, London, SW1Y 6LX on Tuesday 26 June 2012 at 12 noon for the following purposes:

Ordinary Business

1. To receive and adopt the Report of the Directors and the audited Financial Statements for the year ended 31 March 2012.
2. To approve the Directors' Remuneration Report.
3. To declare a final dividend of 2.60p per Ordinary Share.
4. To re-elect Mr Henry Thornton as a Director of the Company.
5. To re-elect Sir David Cooksey GBE as a Director of the Company.
6. To re-elect Mr Richard Thornton as a Director of the Company.
7. To re-elect Mr Harry Wells as a Director of the Company.
8. To elect Mr Gregory Shenkman as a Director of the Company.
9. To re-appoint Grant Thornton UK LLP as Independent Auditor to the Company and to authorise the Directors to determine the Auditor's remuneration.

Special Business

Special Resolution

10. To amend the Articles of Association of the Company as follows:
 - (a) by deleting the words "The Capital Reserve and all monies in the nature of accretion to capital shall be treated for all purposes as capital monies and not as profits available for distribution (as defined in Section 829 of the 2006 Act) or be applied in paying dividends on any shares in the Company's capital save that the Company may distribute capital profits by way of the redemption or purchase of any of the Company's own shares in accordance with Sections 687 and 690 of the 2006 Act." from Article 138; and
 - (b) by deleting the words "(excluding any profits which under the provisions of these Articles ought to be carried to the credit of the Capital Reserve or applied in providing for depreciations or contingencies)" from each of Articles 141 and 143.

Dated this 31st day of May 2012

By order of the Board

Phoenix Administration Services Limited

Secretary

Notes to the Notice of Annual General Meeting

- 1) This Annual Report and Financial Statements is sent to holders of Ordinary shares, all of whom are entitled to attend, speak and vote at the above Annual General Meeting ("AGM").
- 2) Members entitled to attend and vote at the AGM are also entitled to appoint one or more proxies to exercise all or any of their rights to attend and speak and vote on their behalf. Where multiple proxies are appointed they must be appointed to exercise the rights in relation to different Ordinary shares. Proxies need not be members of the Company.
- 3) A form of proxy is sent to members with the Annual Report and Financial Statements. To be valid the form of proxy and any power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of that power of attorney or authority) must be sent to the Company's registrar – Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU – so as to arrive no later than 12 noon on 24 June 2012. Where multiple proxies are being appointed the form of proxy should be copied and a separate one completed for each proxy identifying, that the form of proxy is a multiple form and the different Ordinary shares that each proxy represents. Completion and return of form(s) of proxy will not preclude a member from attending, speaking and voting in person at the AGM.
- 4) CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- 5) In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent Capita Registrars (ID: RA10) by 12 noon on 24 June 2012. In this respect the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message in the manner prescribed by CREST.
- 6) CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by the particular time the CREST member requires.
- 7) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Notes to the Notice of Annual General Meeting continued

- 8) A person who is not a member of the Company and receives this notice of meeting as a person nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 ("Act") does not have a right to appoint proxies. However, if a nominated person has an agreement with the member who nominated them, the nominated person may have a right to be appointed as a proxy or a right to instruct the member as to the exercise of voting rights at the AGM.
- 9) Shareholders entered on the Register of Members of the Company at the close of business on 22 June 2012, or close of business on the day two days prior to the time of an adjourned meeting, shall be entitled to attend and vote at the AGM. Any changes to the Register of Members after such dates shall be disregarded in determining the rights of any shareholders to attend and vote at the AGM.
- 10) Under section 319(A) of the Act, the Company must cause to be answered any question relating to the business being dealt with at the AGM put by a member attending the AGM unless answering the question would interfere unduly with the preparation for the meeting, would involve the disclosure of confidential information, an answer has already been given on a website, or is undesirable in the interests of the Company or the good order of the AGM.
- 11) Members may not use any electronic address provided in this notice or any related document(s) to communicate with the Company for any purpose other than as specifically stated.
- 12) As at 30 May 2012, the latest practicable date prior to the publication of this notice, the Company's issued share capital comprised 20,000,000 Ordinary shares of 25p each, of which none are held in treasury. Each Ordinary share carries a right to one vote at general meetings of the Company and accordingly the total number of voting rights in the Company as at 30 May 2012 is 20,000,000.
- 13) Information regarding the AGM, including the information required by section 311A of the Act, can be found on the Company's web-pages by following the appropriate links at www.bdtinvest.com.
- 14) No Director has a service agreement with the Company.
- 15) Member(s) have a right in accordance with section 388 of the Act to require the Company to give to members of the Company entitled to receive the above notice of meeting, notice of any resolution which they may properly move at the meeting. Under section 338A of the Act member(s) may request the Company to include in the business to be dealt with at the meeting any matter, other than a proposed resolution, which may be properly included in that business.
- 16) Members may require the Company, under section 527 of the Act, to publish on a website a statement setting out any matter relating to the audit of the Company's Accounts being laid before the meeting, including the auditor's report and the conduct of the audit at the Company's expense. Where the Company is required to place such a statement on a website it must forward the statement to the Company's auditor not later than the time it makes the statement available on that website, and include the statement in the business to be dealt with at the meeting.

Company Information

Directors

Sir David Cooksey GBE (Chairman)
Gregory Shenkman
Henry Thornton
Richard Thornton
Tom Waring
Harry Wells

Investment Manager

BDT Invest LLP
52 Jermyn Street
London SW1Y 6LX
Tel: 020 7659 1300

Corporate Secretary and Registered Office

Phoenix Administration Services Limited
Springfield Lodge
Colchester Road
Chelmsford
Essex CM2 5PW
Tel: 01245 398 950
www.phoenixfundservices.com
email: cosec@phoenixfundservices.com

Solicitors

Stephenson Harwood
1 Finsbury Circus
London EC2M 7SH

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: 0871 664 0300
*(calls cost 10p per minute plus network extras;
from outside the UK: +44 208 639 3399)*

Registered Auditor

Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU

Broker

J.P. Morgan Cazenove
20 Moorgate
London EC2R 6DA

Custodian

The Northern Trust Company
London Branch
Bishopsgate
London EC2N 3GB

Shareholder Relations

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

The Company's Website can be accessed by logging on to: www.bdtinvest.com

Individual Savings Account ('ISA')

The Company's shares are eligible to be held in an ISA account subject to HM Revenue & Customs' limits.



Registered in England No. 4355437

