CALEDONIA
INVESTMENTS

Annual report 2011

Year ended 31 March 2011

Caledonia is one of the UK's largest investment trusts and is self-managed. We aim to be a core investment for those seeking a store of increasing value, by investing for the longer term in a range of assets and providing an increasing dividend.

Our ability to identify opportunities through our extensive network, invest in significant stakes for the longer term and involve ourselves with the managements of investee companies underpins our investment approach.

Company highlights

Results summary

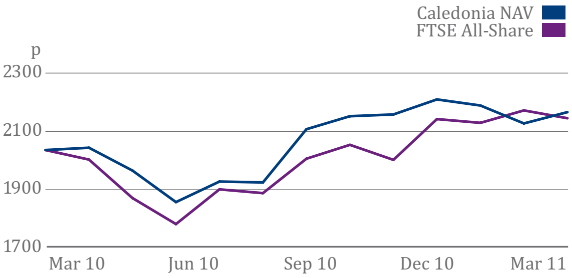
	31 March 2011	31 March 2010	Change
Net asset value	£1,259m	£1,182m	6.5%
NAV per share	2165p	2034p	6.4%
Revenue return per share	40.4p	41.1p	-1.7%
Annual dividend per share	37.1p	35.3p	5.1%
Share price	1725p	1625p	6.2%
Discount	20.3%	20.1%	
FTSE All-Share	3068	2910	5.4%

References to net asset value ('NAV') refer to the company statement of financial position, rather than that of the group, as the directors consider this to be the most appropriate measure of performance. NAV per share was calculated on a diluted, cum income basis.

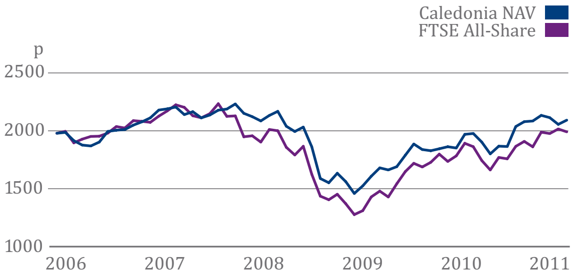
Total return performance

	5 year	10 year
Share price	-4.4%	171.5%
FTSE All-Share	20.0%	58.0%
Comparative performance	-24.4%	113.5%

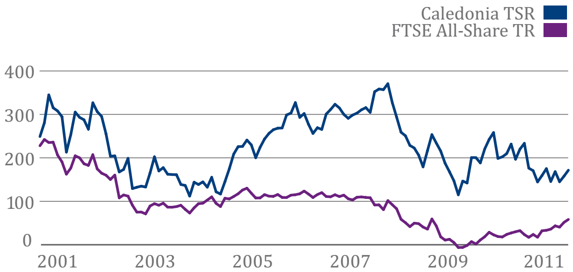
NAV per share over one year



NAV per share over five years



Rolling ten year total returns



6.4%

NAV per share growth over the year –
1.0% outperformance against FTSE All-Share

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Chairman's statement

Results

Against a background of market volatility over the past year, Caledonia's net asset value per share increased by 6.4% compared with the FTSE All-Share increase of 5.4%, an outperformance of 1.0%.

Over the longer term, Caledonia's net asset value per share has significantly outperformed this index both over the last five years and since Caledonia became an investment trust in April 2003.

However, on a total return basis including dividends, our net asset value per share has underperformed over the last five years. This underperformance has been more marked in the case of our share price total return over the last five years, with a significant widening of the share price discount to net asset value, although we have strongly outperformed over ten years.

While we cannot directly control the share price and discount, sustained superior long term net asset value growth and a progressive dividend will be key influencing factors. In providing further details of Caledonia's performance in his report, Will Wyatt gives strong emphasis to those objectives.

Dividend

The board has recommended a 5.3% increase in the final dividend to 26.0p per share, which will be payable on 11 August 2011. The total dividend for the year will therefore amount to 37.1p per share, an increase of 5.1% over the previous year. This represents the 44th successive year of annual dividend increases. It is the board's intention to raise the dividend to a higher base level in due course, when income from the portfolio allows, and to continue its progressive dividend policy.

Investment strategy

The Chief Executive's half-year and full-year reports set out in some detail the recommendations he and his management team have made to the board for building on Caledonia's past success and achieving strong performance in the future. The board has agreed both the overall strategy and the strategy proposed for the component parts of the investment portfolio.

The Caledonia investment philosophy is tried and tested and will continue to be followed. However, within that model the board fully endorses, for instance, the moves towards managing Caledonia's investments as pools of capital with enhanced accountability for relevant members of the investment team and towards the inclusion of a pool to yield higher income as well as growth. In furtherance of these moves, the management team has been strengthened in recent months by the recruitment of two senior executives.

Board

The board has seen a number of changes since the sad death of Peter Buckley in December 2008, when I took over as Chairman. A year later, Stephen King joined the board as Finance Director, in succession to Jonathan Cartwright, and last July Will Wyatt succeeded Tim Ingram as Chief Executive. Charles Gregson joined the board as an additional independent non-executive director in September 2009.

Over the last two and a half years, Caledonia has therefore seen changes in the Chairman, Chief Executive and Finance Director. In view of this, the board sees the need for some continuity and stability, but is also conscious of the length of tenure of certain non-executive directors and thus intends to undertake a process of gradual board refreshment.

In the meantime, David Thompson will take over from Charles Allen-Jones, the Senior Independent Director, as Chairman of the Audit Committee. Charles has served as a non-executive director for over nine years and Mark Davies will soon have done so. However, each of them contributes a wealth of knowledge and experience to the board's deliberations in a manner which, in the board's view, enables them to continue to be regarded as independent, notwithstanding this milestone.

AIFM Directive

I mentioned in my report last year that Caledonia was making concerted efforts to persuade EU policy makers to exclude investment trusts from the scope of the Alternative Investment Fund Managers Directive. The principal purpose of the Directive was to impose greater transparency and accountability on private equity and hedge funds following the financial crisis. However, it encompassed investment trusts within its definition of an alternative investment fund, but without any recognition of the differences in their nature and characteristics. The Directive was approved by the European Parliament in November 2010 and, while regrettably the adopted version did not exclude investment trusts, it did incorporate significant amendments to the original text drafted by the European Commission. These should enable self-managed investment trusts to continue in their current form without substantial changes to their governance structures, though there will inevitably be some additional cost.

However, the European Commission is now to draft implementation measures which will then have to be incorporated by Member States into national law, probably in 2013. As always, the devil will be in the detail. We shall therefore continue to monitor closely and, where necessary, try to influence the progress of the Directive through its remaining stages in order to seek the best possible outcome for Caledonia and other self-managed investment trusts.

Staff

I would like to thank the members of our management team for the expertise and diligence they have brought to bear on Caledonia's affairs, and all of our staff for the dedicated and professional way in which they have worked throughout the year.

Outlook

In most of the developed world low economic growth seems likely to persist for some time to come, including in the UK. The main drivers of the world economy will continue to be elsewhere, notably China and India, though policy moves to control inflation in those countries may well be a limiting factor. Whilst the outlook for Western stock markets is bound to be affected by sluggish domestic growth, it will also be influenced by the major exposure of companies based in developed countries to higher growth economies.

With the strategies described above in place and ably led by the Chief Executive and his strengthened management team, Caledonia will be in a good position to take advantage of the investment opportunities ahead, as well as benefitting from the strengths in its existing portfolio.

James Loudon
Chairman

5.3%
Increase in final dividend

Chief Executive's report

Performance summary

Caledonia's net asset value ('NAV') per share grew from 2034p to 2165p over the year to 31 March 2011. This represented an increase of 6.4% and a welcome return to outperformance against the FTSE All-Share index, albeit by a modest 1.0%. Our five year record also remains positive with an outperformance of 5.3%. However, we should not ignore the deterioration in our total return performance in the medium term, both on an NAV per share total return ('NAV TR') and share price total return ('TSR') basis. Our NAV TR has underperformed the FTSE All-Share Total Return index by 5.0% over the past five years and our TSR has underperformed by 24.4% over this same period reflecting, to a large extent, the significant widening of the discount from a small premium in 2006 to its year end of 20.3%. Over the longer term, on all measures, we have delivered strong outperformance, but in particular our TSR exceeded our benchmark by 113.5% over a ten year period.

Review of strategy

As I mentioned in the half-year report, I took the opportunity on my appointment as Chief Executive to conduct a review of our strategy. My review confirmed that much at Caledonia is fit for purpose, but also that we need to address certain issues and this work is underway. The review concluded that we had too many investments which were too small, we were not using our management resource efficiently and that we could enhance our investment process. I have recommended to the board a series of proposals specifically aimed at improving, over time, our overall returns, including the introduction of a specific allocation to income producing assets. The structure of this year's annual report reflects these strategic initiatives and they are described in more detail below. In summary, they involve the re-orientation of our portfolio into pools of capital, each reflecting an investment theme with clearer management responsibilities and objectives. We have strengthened our management team to introduce specific skills to manage these pools of capital and have refreshed our investment and divestment criteria, which will in due course result in a core portfolio of 40 to 50 investments.

Main themes from the review

Caledonia's aims are:

- to provide an increasing store of wealth for shareholders
- to provide an increasing annual income for shareholders.

Caledonia's core investment philosophy is:

- to invest in listed and unlisted companies and funds
- to invest in the UK and overseas
- to back high quality management teams
- to take significant minority positions with board representation if possible
- to take a long term supportive approach
- to invest in a value orientated style
- to maintain a concentrated portfolio.

We will also maintain an income portfolio, as described below.

Caledonia will avoid:

- start up or very early stage companies
- highly leveraged companies
- companies whose business we do not understand.

We will continue to measure ourselves against the FTSE All-Share capital and total return indices.

Key areas that required attention

- The way in which our management resource was deployed, whilst seeking to keep our total expense ratio to about 1%.
- The number of investments in our portfolio (68) was too large and too many were sub-scale so unlikely to make a significant impact. In the future, we will aim to keep the minimum size of new investments above £10m.
- Caledonia's portfolio yield of 1.9% and dividend yield of about 2% were too low compared with the FTSE All-Share at 3%. Our portfolio yield therefore needs to increase.
- Our investment and divestment process needed refining.

113.5%

Ten year total return outperformance against the FTSE All-Share

To address these issues, we implemented the following changes:

Pools of capital

The investment portfolio has been reorganised into six distinct pools of capital, details of which are described on pages 11 to 16. These pools, which will form the basis of our reporting from now on, are:

Pool	Investment manager	Current Portfolio	Possible allocation in 3-5 years
Quoted	Mat Masters	34%	20-30%
Unquoted	Duncan Johnson	22%	20-30%
Asia	John May	13%	15-20%
Property	Charles Cayzer	8%	5-10%
Funds	Jamie Cayzer-Colvin	16%	10-15%
Income and Growth	Stephen Mitchell	1%	15-20%
Cash/(debt)		6%	10-(10)%

Each pool is headed by an investment executive who has clear objectives and an agreed strategy. However, most of our existing investments continue to be managed by the executive responsible for its origination. The transition to the new pool format will take some time to complete. We will NOT manage the portfolio by strict allocation to each pool, though the board will review on a regular basis the absolute amounts with regard to upper limits. The probable shape of the portfolio in the future is shown above though, of course, events will continue to play a large part in our decisions.

Geography

Caledonia's style of investment, in taking significant minority positions often allied to a board seat, works effectively in the UK and, to a certain extent, Europe, but is more difficult to execute further afield due to differences in culture, distance and communication. We will however continue to invest directly in India. Caledonia will tend to use indirect means, such as funds or holding companies, to invest in other regions.

Dividend and the income portfolio

Caledonia is one of only a handful of companies in the UK that has increased its dividend every year for more than four decades. Over time, our strong capital growth has meant that our current dividend yield at around 2% is now too low and lags the market significantly. We have decided therefore to invest in a portfolio of large capitalisation global companies that offer a significant yield whilst retaining good medium term growth prospects. We believe that income will be an increasing part of overall return in what is likely, in the medium term, to be a challenging investment environment. Despite the considerable level of distributable reserves on our balance sheet, we would not consider it prudent to pay an uncovered dividend. Whilst it remains the board's intention to raise the dividend to a higher base level and to continue its progressive nature, we will only do so when income from the portfolio allows.

I am confident that these initiatives will form a sound basis for Caledonia to improve its returns in the future.

Chief Executive's report
continued

Investment activity

In the year to 31 March 2011, we invested £106.7m and realised £180.1m. We made five new investments (excluding Income and Growth pool investments), seven follow-on investments and seven full disposals during the year. On the pool basis by which we now categorise and manage our portfolio, Quoted, Unquoted and Fund investments have been the main drivers of our performance over the past year, with Property producing a disappointing fall in value.

	Value 2010 £m	Investments £m	Disposals £m	Net gains and other £m	Value 2011 £m	Total return %
Quoted	444.2	19.6	(55.3)	18.5	427.0	7.1
Unquoted	264.1	2.6	(26.6)	41.1	281.2	19.6
Asia	125.0	40.5	(8.3)	1.8	159.0	2.4
Property	106.7	8.3	(1.3)	(8.4)	105.3	(6.7)
Funds	244.6	23.6	(88.6)	19.0	198.6	10.2
Income and Growth	–	12.1	–	–	12.1	0.8
	1,184.6	106.7	(180.1)	72.0	1,183.2	8.4
Cash	8.3	(98.6)	181.2	10.3	101.2	
Other	(11.3)	(8.1)	(1.1)	(5.2)	(25.7)	
Net assets	1,181.6	–	–	77.1	1,258.7	6.1

In a concentrated and long term portfolio such as ours, the main drivers of performance are the larger investments. To highlight the concentrated nature of the portfolio, we hold two investments that exceed £100m in value, three between £50m and £100m and 14 that are worth between £20m and £50m, together comprising 75.7% of the portfolio. As might be expected, most of the larger ones have been held for some time, though of the 19 mentioned above, 12 were investments made in the past eight years, including four within the past five years, the investments being sourced and made by the existing management team. On an individual investment basis, the table below highlights the principal contributors (measured by absolute value) to our performance during the year.

Investment	Value at 31 Mar 2010 £m	Value at 31 Mar 2011 £m	Income in year £m	Total return £m
Close Brothers	152.1	165.9	7.7	21.5
British Empire Securities	121.9	103.3	2.0	15.8
Amber Group	15.4	11.5	8.3	14.1
Cobepa	72.9	85.1	1.5	13.4
Bristow Group	60.7	72.0	–	11.2
A.G.Barr	32.3	42.0	0.8	10.5

There are further details on the portfolio and each of the pools in the investment review section on pages 8 to 16.

Discount

Our discount has ranged between 13% and 23% during the course of the year. With the Cayzer family concert party owning just over 46% of our issued share capital, we only have limited capacity to undertake share buy-backs. We acknowledge that buy-backs are immediately NAV per share enhancing and will use them when there is exceptional value on offer for shareholders, though we question their longer term effect as a discount control mechanism. We believe that it is performance of the portfolio that attracts new investors to our register. This creates demand for our shares which will reduce the discount and I am confident that the strategic initiatives discussed in detail in this report will help to enhance our performance record.

Outlook

Caledonia retains a strong, ungeared balance sheet with over £100m of cash. We will continue the process of rebalancing the portfolio, exiting the smaller investments and looking in particular for new opportunities for the Unquoted and Asia pools. There is still value to be found in certain equity markets and we would anticipate adding significantly to the Income and Growth pool throughout the year. In the UK, the FTSE 250 looks expensive by historical standards, but, should there be a major correction in markets, we might use our facilities to build stakes in a number of UK quoted businesses that we follow closely. We have put significant effort into stimulating deal flow, which should lead to a good list of opportunities, though we note the very high prices currently being paid in unquoted markets by those needing to get funds deployed. This has never been our way and we will seek value in sound, well managed companies. We will continue to look for new opportunities in Asia, with the aim of increasing further our exposure to this fast growing region.

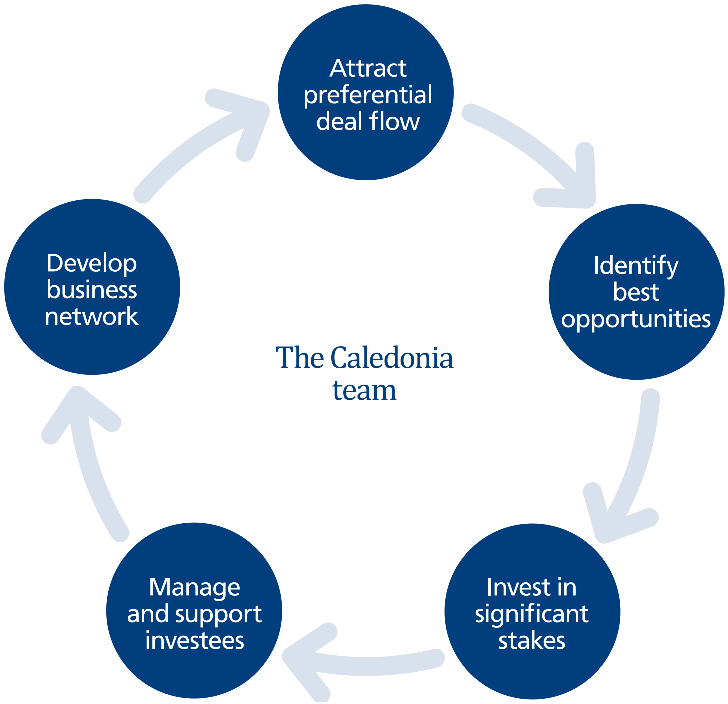
We are confident that our shareholders will benefit in the long run, despite a difficult economic climate. I would like to thank our staff for their contribution over the past year and welcome to our team the new joiners whose impact is already being felt.

Will Wyatt
Chief Executive

Investment model

Our investment model has been successfully developed and deployed over many years to demonstrate both a growing long term store of wealth and income.

It is based on maintaining and developing our extensive network, carefully filtering the investment opportunities that arise from our contacts and an active monitoring of investment performance and value.



Attract preferential deal flow

Our reputation, network of deal originators and family tradition enables us to access premium investment opportunities not always available to others. This derives from both tracking quality management teams in proven businesses and through the contacts we make through our extensive board representation network.

Identify best opportunities

We seek businesses with established business models, strong cash flows and proven management teams. Such opportunities are not reliant on leverage for returns and offer long term growth potential.

Invest in significant stakes

We invest directly in both quoted and unquoted opportunities across the world where the opportunity exists to invest a meaningful proportion of the equity base for an investment size of between £20m and £50m. We expect to take stakes of 10% or more.

Manage and support investees

We manage our investments as pools of capital, focussing ownership and responsibility to our executive team. Through a board seat, we can both actively monitor the development of our investment and provide long term support and governance.

Develop business network

Maintaining our reputation as a supportive and constructively involved long term investor enables us to develop our network of contacts who will give us priority consideration when new deal opportunities arise.

The Caledonia team

At its heart, our investment process is focussed on recruiting and retaining high quality investment executives to maintain deal flow and investment continuity, who understand and are able to execute Caledonia's investment philosophy.

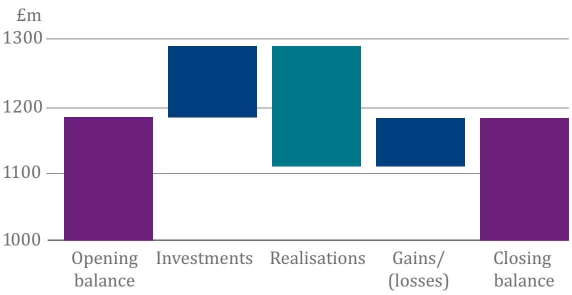
Investment review

After the collapse of markets in 2008 and early 2009, conditions have generally improved over the year. Real global GDP growth in 2010 was driven by high growth in India, China and other significant developing economies, together with recovery in some industrialised countries, including Germany, Japan and the US. This offset the sluggish performance of the UK, France and smaller European countries.

Equity markets ended the year at moderately higher levels than at the start. For example, the FTSE All-Share index started the year at 2910 and ended at 3068. However, there was a considerable amount of volatility during the year and the FTSE All-Share had a high and low of 3158 and 2486 respectively.

Portfolio movements
At the beginning of the year, the value of our investment portfolio was £1,184.6m. This reduced marginally to £1,183.2m (including derivatives) at the year end after substantial net realisations, the proceeds of which were largely held in cash of £101.2m. The following chart illustrates the components of this movement:

Movements in the investment (ex cash) portfolio



During the year, we began a process of realigning our portfolio across the new pools of capital. This has necessitated a period of higher than usual liquidity as we make the transition. In the process, we have reduced our investments in funds and sold our holding in Rathbone Brothers. Most of the proceeds from these realisations were retained in cash at the year end, pending redeployment, principally through the Income and Growth pool.

Investments

Total investments during the year were £106.7m (2010 – £116.1m), summarised as follows:

Name	Pool	Cost £m
New investment		
DP Home Finance	Asia	20.6
De La Rue	Quoted	10.0
Gateway to India	Asia	9.8
Perlus Microcap	Funds	8.5
Other new investments		13.0
		61.9
Follow-on investment		
Avanti Communications	Quoted	8.7
Edinmore Investments	Property	6.9
Capital Today China	Asia	6.2
Other follow-on investments		23.0
		44.8
		106.7

Other new investments included £12.1m invested in a number of global large cap securities through the Income and Growth pool.

An additional £14.3m invested in the Amber Group, to facilitate reorganisation before disposal of its industrial cleaning products division, has been netted against the proceeds from realisation.

Realisations

Proceeds from realisations during the year totalled £180.1m (2010 – £83.9m), summarised as follows:

Name	Pool	Proceeds £m	Realised gain/(loss) £m
British Empire Securities	Funds	32.5	28.8
Rathbone Brothers	Quoted	29.9	18.4
Eddington Capital funds	Funds	29.2	(3.1)
Penta Geronimo	Unquoted	14.1	6.4
Polar Capital funds	Funds	13.6	1.1
De La Rue	Quoted	11.3	1.3
Avanti Communications	Quoted	11.2	–
Amber Group	Unquoted	9.6	8.2
Other realisations		28.7	0.8
		180.1	61.9

Other realisations comprised a number of disposals with proceeds or realised gains or losses of less than £5.0m each.

Gains and losses

The return on our portfolio over the year was 8.4%, compared with the FTSE All-Share Total Return of 8.7%, comprising both gains and losses on investments, including a £10.0m investment provision, and income received. The following table summarises the principal contributors to this performance:

Name	Gain/(loss) £m	Income £m	Total £m	Return %
Close Brothers	13.8	7.7	21.5	14.5
British Empire Securities	13.8	2.0	15.8	15.1
Amber Group	5.8	8.3	14.1	220.4
Cobepa	11.9	1.5	13.4	18.6
Bristow Group	11.2	–	11.2	18.4
A.G.Barr	9.7	0.8	10.5	32.9
Serica Energy	(13.5)	–	(13.5)	(61.8)
Ermitage	(17.1)	0.2	(16.9)	(252.4)
Other investments	26.1	12.7	38.8	
	61.7	33.2	94.9	8.4

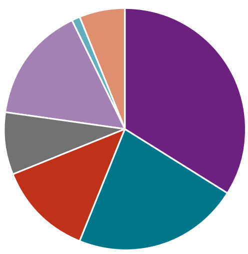
Other investments comprised investments with a total return of less than £10.0m.

Portfolio analysis

Pools

During the year, the company re-categorised its investments into pools of capital, reflecting its principal areas of interest. The following chart shows the distribution of net assets between the pools, including an equivalent analysis of net assets at last year end.

Pool distribution



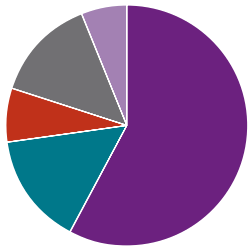
	2011	2010
Quoted	34%	37%
Unquoted	22%	22%
Asia	13%	11%
Property	8%	9%
Funds	16%	21%
Income and Growth	1%	–
Cash and other	6%	–

The reduction in the Quoted and Funds pools and increasing cash over the year reflected the process of realigning the pool allocations. The cash will principally be invested through the Income and Growth pool. The following pages provide further analysis and results during the year, based on the pool structure.

Geography

The following chart shows the distribution of net assets between geographical regions. The basis of this analysis is the country of listing, country of residence for unlisted investments and underlying regional analysis for funds.

Geographic distribution



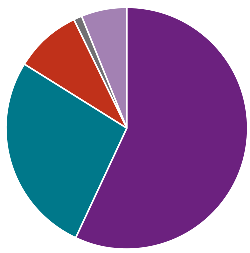
	2011	2010
United Kingdom	58%	64%
Continental Europe	15%	16%
North America	7%	7%
Asia	14%	13%
Cash and other	6%	–

At the year end, UK investments accounted for 58% of net assets, principally held in listed companies, a reduction from 64% at the last year end, reflecting the realisation of a number of UK investments to provide liquidity to invest in global equities through the Income and Growth pool.

Asset class

The following chart shows the distribution of net assets by asset class. Listed securities represented 57% of net assets at the year end and unlisted investments (companies and funds) in total accounted for 37%.

Asset class distribution



	2011	2010
Listed companies	57%	64%
Unlisted companies	27%	24%
Private equity funds	9%	8%
Hedge funds	1%	4%
Cash and other	6%	–

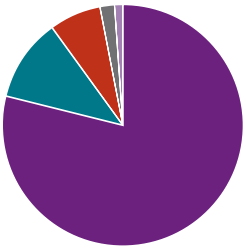
The reduction in listed companies reflected the substantial realisation of principally listed securities, including British Empire Securities and Rathbone Brothers, in the year.

Investment review
continued

Currency

The following chart analyses net assets by currency exposure, based on the currency in which securities are denominated or traded, net of any currency hedges.

Currency distribution



	2011	2010
Pound sterling	79%	77%
US dollar	11%	8%
Indian rupee	7%	7%
Euro	2%	7%
Other currencies	1%	1%

Pound sterling represented 79% of the exposure at the year end, a rise from 77% at the end of last year. This differs from the geographic distribution and shows a rise rather than a fall reflecting both the inclusion of uninvested cash and a £75.1m forward contract taken out during the year to provide a currency hedge against the euro denominated investment in Cobepa. In addition, the currency distribution differs from the geographical distribution as a number of investments in Asia are denominated in US dollars and pound sterling.

Portfolio summary

Holdings over 1% of net assets at 31 March 2011 were as follows:

Name	Pool	Geography[4]	Business	Value £m	NAV %
Close Brothers[1,2]	Quoted	UK	Financial services	165.9	13.2
British Empire Securities[1,2]	Funds	UK	Investment trust	103.3	8.2
Cobepa[1,5]	Unquoted	Belgium	Investment company	85.1	6.8
Bristow Group[1,2]	Quoted	US	Helicopter services	72.0	5.7
Avanti Communications[1,2]	Quoted	UK	Satellite communications	55.9	4.4
A.G.Barr[2]	Quoted	UK	Soft drinks	42.0	3.3
Oval[1]	Unquoted	UK	Insurance broking	41.6	3.3
London & Stamford[1,2]	Property	UK	Property investment	39.4	3.1
Satellite Information Services[1]	Unquoted	UK	Broadcasting services	38.5	3.1
Dewan Housing Finance[1,2]	Asia	India	Housing finance	37.6	3.0
Melrose Resources[1,2]	Quoted	UK	Oil and gas producer	29.5	2.3
Alok Industries[2]	Asia	India	Textiles	28.8	2.3
Sterling Industries[1]	Unquoted	UK	Engineering	25.4	2.0
Quintain Estates[1,2]	Property	UK	Property services	24.4	1.9
Nova Springboard[3]	Funds	UK	Private equity fund	24.2	1.9
Celerant Consulting[1]	Unquoted	UK	Management consultancy	23.9	1.9
DP Home Finance[1]	Asia	India	Housing finance	21.0	1.7
Capital Today China	Asia	China	Private equity fund	20.7	1.7
The Sloane Club[1]	Unquoted	UK	Residential club	20.2	1.6
TGE Marine[1]	Unquoted	Germany	LNG engineering	18.7	1.5
Novae Group[1,2]	Quoted	UK	Insurance services	17.0	1.4
Polar Capital[1,2]	Quoted	UK	Fund manager	14.5	1.1
Pragma	Funds	France	Investment funds	13.4	1.1
Other investments				220.2	17.5
Investment portfolio				1,183.2	94.0
Cash and other net liabilities				75.5	6.0
Net assets				1,258.7	100.0

1. Board representation.
2. Equity securities listed on UK or overseas stock exchanges.
3. Also a management company shareholding and board representation.
4. Geography is based on the country of listing, country of domicile for unlisted investments and underlying regional analysis for funds.
5. Includes a forward currency derivative to hedge euro movements, valued at -£0.8m.

Quoted investments pool

The Quoted pool contains significant investments in UK and foreign quoted companies in which Caledonia holds a greater than 3% stake, excluding quoted companies principally operating in the Asian region, property sector, investment companies or large cap companies contained in the Income and Growth pool. These are generally UK headquartered companies with whom we can establish and develop good long term relationships.

The pool started the year with a portfolio valued at £444.2m and ended the year with a value of £427.0m, principally resulting from net realisations of £35.7m and revaluation gains of £18.5m.

The principal activity in the pool was the sale of our holding in Rathbone Brothers, a wealth management business, for £29.9m. We received repayment of our £11.2m loan to Avanti Communications, a satellite business, and reinvested £5.0m of these proceeds in a share placing to help Avanti finance the expansion of its satellite fleet. We also added to our holding in Avanti with market purchases of £3.7m towards the end of the year.

The portfolio provided a positive return of 7.1% over the year, which comprised an increase in valuation of £18.5m and income of £11.5m. Close Brothers, a banking, asset management and securities group, increased in value by £13.8m (9.1%), which is in line with the continued good performance of its banking business, and paid £7.7m of dividends to us. Bristow Group, the US quoted helicopter services group, increased in value by £11.2m (18.4%), with both improved earnings and market rating being tempered by a weakening of the pound against the dollar. A.G.Barr, the soft drinks manufacturer, increased in value by £9.7m (30.0%), with both its earnings improving and the market rewarding its consistent performance with a higher rating over the year. A.G.Barr paid us £0.8m of dividends during the year. Serica Energy, the oil and gas exploration and production company, declined in value by £13.5m (61.8%), as the business failed to find significant commercial oil or gas reserves from an extensive drilling campaign during the year.

We continue to look for interesting and robust businesses run by good management teams in which to invest over the longer term, with an appropriate degree of caution given both uncertain economic times and the high valuations in the smaller cap markets.

+7.1%

Pool performance over the year to 31 March 2011
34% of NAV at 31 March 2011 (2010 – 37%)

Top investments

Name	Business	Geography	First invested	Equity held %	Income recognised in the year: Revenue £m	Income recognised in the year: Capital £m	Residual cost £m	Value £m	Pool %
Close Brothers[1]	Financial services	UK	1987	13.5	7.7	13.8	43.1	165.9	38.9
Bristow Group[1]	Helicopter services	US	1991	6.6	–	11.2	36.8	72.0	16.9
Avanti Communications[1]	Satellite communications	UK	2005	14.6	1.1	2.4	34.4	55.9	13.1
A.G.Barr	Soft drinks	UK	1979	8.8	0.8	9.7	1.2	42.0	9.8
Melrose Resources[1]	Oil and gas producer	UK	2003	10.3	0.4	(5.6)	28.1	29.5	6.9
Novae Group[1]	Insurance services	UK	2003	7.2	0.2	4.1	17.1	17.0	4.0
Polar Capital[1]	Fund manager	UK	2001	14.1	0.2	5.5	0.7	14.5	3.4

1. Board representation.

Investment review
continued

Unquoted investments pool

The Unquoted pool contains investments in UK and foreign unquoted companies, excluding unquoted companies principally operating in Asia or the property sector.

The Unquoted pool had a good year, increasing in value by 19.6%, compared with a 8.7% increase in the FTSE All-Share Total Return index. This performance was driven principally by increases in earnings, as the recovery seen earlier in the larger quoted markets fed through to these companies. The Unquoted pool was valued at £264.1m at the start of the year and £281.2m at the end, after net realisations of £24.0m.

We received £14.1m from Penta Geronimo on the sale of Geronimo Inns to Youngs, a 27.7% IRR on our investment. Geronimo Inns was started 15 years ago and Caledonia co-invested with Penta Capital in 2006 to provide growth capital to the business.

The specialist industrial cleaning products division of Amber Group, a wholly-owned subsidiary, was sold to Berner Group, a private Germany based international logistics company, for which Caledonia received a net £9.6m in sale proceeds and capital dividends.

The Unquoted portfolio increased in value over the year by £41.1m. The principal contributors were Cobepa, the Belgium private investment company, Sterling Industries, the UK based, wholly-owned, industrial engineering business, Satellite Information Services, the UK broadcasting services business, Celerant Consulting, the UK based management consultancy business, Amber Group, the UK based, wholly-owned, specialty chemicals business, and Penta Geronimo, the UK pubs group. These increases were partially offset by a decline in the value of, and investment provision against, Ermitage, the majority-owned, Jersey based funds of hedge funds manager.

+19.6%

Pool performance over the year to 31 March 2011
22% of NAV at 31 March 2011 (2010 – 22%)

Top investments

Name	Business	Geography	First invested	Equity held %	Income recognised in the year Revenue £m	Capital £m	Residual cost £m	Value £m	Pool %
Cobepa[1]	Investment company	Belgium	2004	10.2	1.5	11.9	34.9	85.1	30.3
Oval[1]	Insurance broking	UK	2003	23.5	1.2	(2.6)	41.3	41.6	14.8
Satellite Information Services[1]	Broadcasting services	UK	2005	22.5	–	8.0	16.7	38.5	13.7
Sterling Industries[1]	Engineering	UK	1989	100	–	9.8	5.3	25.4	9.0
Celerant Consulting[1]	Management consultancy	UK	2006	47.3	–	7.3	10.3	23.9	8.5
The Sloane Club[1]	Residential club	UK	1991	100	0.6	3.2	–	20.2	7.2
TGE Marine[1]	LNG engineering	Germany	2006	49.9	2.1	(4.0)	9.0	18.7	6.7

1. Board representation.

Asia investments pool

The Asia pool contains investments based in, or selected through their focus on trading or investing in, the Asia region. These investments are typically locally listed or unlisted companies and funds investing in the Asia region.

Caledonia has been assessing investment opportunities in Asia since 2004, attracted by the underlying demographic profiles, high growth rates and prospects of economies in the region. At 31 March 2011, the value of our Asia pool was £159.0m, invested principally in India, China and Vietnam.

Generally, the Indian and Chinese economies have been well managed – they did not suffer the same degree of collapse as the Western developed economies in 2008 and 2009 and are less heavily indebted. Progress is constrained in India by inadequate infrastructure and the inflation rate is uncomfortably high, but the country enjoys the benefits of democracy, rule of law and a widespread use of the English language. China seems to power ahead whilst facing different challenges arising from its centrally planned economy and political system. Longer term prospects for both look attractive compared with Europe and many other parts of the world. Vietnam's economy continued to suffer into 2011, with significant current account deficits, inflation and devaluations all contributing to a loss of both international and domestic investor confidence.

Three new investments were made in Asia during the year. We invested £20.6m to acquire a 13.9% holding in Deutsche Postbank Home Finance, the fourth largest private sector housing finance provider in India. This was to support the expansion of Dewan Housing Finance, in which we hold a stake of 9.6%, and which is the third largest private sector housing finance provider in India. Dewan Housing Finance and its promoter group bought the rest of DP Home Finance. We have a board seat and it is likely that the businesses will merge in due course. We provided £9.8m of seed finance to establish a track record for Gateway to India, a fund managed through Mauritius by India Investment Partners (in which we held a 40% stake), which we expect in due course to be converted into an open-ended fund available to outside investors. It invests principally in Indian listed large and mid-cap equities. We also committed $20m to the second growth capital fund established by the Capital Today team, which has been making very encouraging progress in its strategy of investing in consumer facing private companies in China. We reduced our stake in Alok Industries, a major Indian integrated textiles producer, from 12.3% to 11.8%. Our exposure to Vietnam continues, but we sold two of our Vietnamese investments, reducing our portfolio exposure to £6.9m.

The principal contributors to the increase in value of the Asia pool was £7.3m from Dewan Housing Finance and £6.8m from our cornerstone investments in the Capital Today China growth funds, where the valuation of our stake in its first fund rose strongly, principally through the success of its investment in Jing Dong, a leading online retailer of IT and digital products.

+2.4%

Pool performance over the year to 31 March 2011
13% of NAV at 31 March 2011 (2010 – 11%)

Top investments

Name	Business	Geography	First invested	Equity held %	Income recognised in the year Revenue £m	Capital £m	Residual cost £m	Value £m	Pool %
Dewan Housing Finance[1,2]	Housing finance	India	2005	9.6	0.4	7.3	11.5	37.6	23.6
Alok Industries[2]	Textiles	India	2004	11.8	0.3	(0.9)	31.2	28.8	18.1
DP Home Finance[1]	Housing finance	India	2011	13.9	–	0.4	20.6	21.0	13.2
Capital Today China	Private equity fund	China	2006		–	6.8	10.3	20.7	13.0

1. Board representation.
2. Listed.

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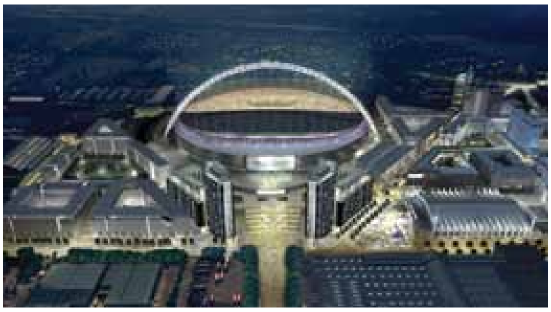
Property investments pool

The Property pool contains investments holding or trading in property, typically UK listed and unlisted property companies and funds investing in property assets.

Our Property pool has had a disappointing year, falling in value by £8.4m. The underperformance has principally arisen from a £7.1m decline in the value of our investment in Quintain Estates, the UK listed property investment, management and development company, with major projects at Wembley and the Greenwich Peninsular, as a result of both a slow pace of development and its continued debt burden.

In October 2010, London & Stamford underwent significant structural change. The management company was bought in for new shares which, although NAV dilutive, will show benefits to both revenues and expenses. This, combined with becoming a more tax efficient real estate investment trust, should help improve profitability. Although not yet fully invested, London & Stamford is paying a steadily increasing dividend.

During the year, we invested a further £6.9m in Edinmore Investments, a wholly-owned subsidiary, to purchase commercial properties in the north of England with a high yield and good growth prospects.



-6.7%

Pool performance over the year to 31 March 2011
8% of NAV at 31 March 2011 (2010 – 9%)

Top investments

Name	Business	Geography	First invested	Equity held %	Income recognised in the year Revenue £m	Income recognised in the year Capital £m	Residual cost £m	Value £m	Pool %
London & Stamford[1,2]	Property investment	UK	2007	5.8	0.9	2.0	32.1	39.4	37.4
Quintain Estates[1,2]	Property services	UK	1994	10.6	–	(7.1)	62.4	24.4	23.1

1. Board representation.
2. Listed.

Funds investments pool

The Funds pool contains investments in collective investment vehicles, other than in Asia, including listed and unlisted investment companies, private equity and hedge funds. Our objective in using fund structures is to access exceptional managers and to seek exposure to geographies where we may have limited experience, such as North America.

During the year, we realised £32.5m from the sale of part of our holding in British Empire Securities, the UK listed investment trust, taking advantage of the opportunity to reduce our holding in a strong market and at an attractively narrow discount to net asset value. This company has been a strong long term performer in our portfolio and remains a core investment. We realised £29.2m on the redemption of most of our investment in the Eddington Capital fund of hedge funds, which was closed due to the lack of critical mass in assets under management. We realised £13.6m on the redemption of two Polar Capital funds, as they came out of their seed periods.

We invested \$13.0m (£8.5m) of a \$20.0m commitment in Perlus Microcap, a fund managed by Perlus Investment Management and investing in global (principally US) publicly-traded micro-cap companies.

During 2010, Greenhill Capital Partners raised their third fund and we committed \$20m at its first close. Since 2000, we have invested \$27m in their first two funds, which so far have provided a net IRR of 35% and a net return on investment of some 2.0x.

The Funds pool performance of 10.2% derived mainly from a £13.8m increase in the value of British Empire Securities.

+10.2%

Pool performance over the year to 31 March 2011
16% of NAV at 31 March 2011 (2010 – 21%)

Top investments

Name	Business	Geography	First invested	Equity held %	Income recognised in the year Revenue £m	Income recognised in the year Capital £m	Residual cost £m	Value £m	Pool %
British Empire Securities[1,2]	Investment trust	UK	1991	13.0	2.0	13.8	11.7	103.3	52.0
Nova Springboard[3]	Private equity fund	UK	2005		–	1.5	13.6	24.2	12.2
Pragma	Investment funds	France	2006		–	0.5	11.8	13.4	6.7

1. Board representation.
2. Listed.
3. Also a management company shareholding and board representation.

Investment review
continued

Income and Growth investments pool

The Income and Growth pool contains investments focussing on yield and capital appreciation from worldwide markets. These investments are typically large cap listed equities, represent smaller stakes than our significant minority investments and are therefore more liquid. Such investments are typically multinational in nature and will therefore also provide us with an increased look-through exposure to world markets. The Income and Growth pool will expect to comprise 35 to 45 investments.

The Income and Growth pool has been created with three purposes in mind. First, to create a globally diversified, but focussed, portfolio of dividend paying companies. Second, to achieve an income from the portfolio that is significant enough to make a positive contribution to the overall dividend income that Caledonia receives and to contribute towards its own distributions. The third aim is to achieve growth, both in the operating businesses invested in, and also the stream of dividends received, the latter of which correlates very highly with good investment returns. Companies with high returns on equity, that grow book value per share, are those that are likely to pass the screening process and be eligible for more fundamental assessment of the business prospects and the management team. Good corporate governance is very important to Caledonia – particularly for investments outside the UK.

The overall target gross yield of the pool is 4.5%, which is at the upper end of most global income and growth funds' achieved results.

Stock selection will be firmly value orientated and in line with Caledonia's disciplined investment process, looking for entry at a fair or better price and selecting names with very prudent balance sheet leverage and strong free cash flow characteristics. In terms of geography, the UK, US, Canada, Australia, northern Europe and Scandinavia are all natural areas for a conservative global income and growth fund to be investing. Some diversification into Asia, Brazil and China is also achievable, but India lacks good higher yielding companies.

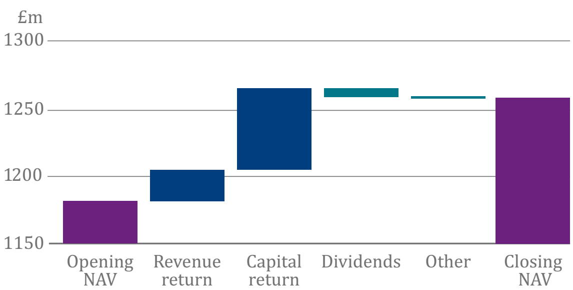
In terms of the timing of establishment of the pool, the opportunity to move out of cash into stock markets, which are trading at valuations around their long term averages, looks a sensible proposition and the desired yields are obtainable. The investment process will be a gradual one, with thorough stock selection and company visits covering the geography of the investments as a key part of the process. Selecting stocks for income inevitably means that, to realise that income, holding periods need to be reasonably long and the margin of safety to do that is embedded within the process. A gradual start has been made, first in the UK and European markets since late March 2011, and we look forward to reporting in more detail at the half-year the progress on constructing a globally diversified portfolio of above average – and growing – dividend yielding companies.

1% of NAV at 31 March 2011 (2010 – n/a)

Financial review

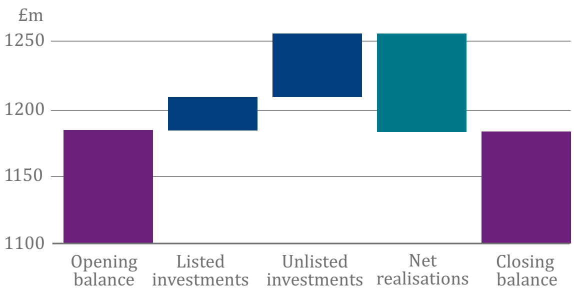
Net asset value increased over the year to £1,258.7m, from £1,181.6m. The contributions to this change were as follows:

Movements in net asset value



The chart below illustrates the gains and losses on investments between the listed and unlisted portfolio.

Movements in investment portfolio value



Company total return

The company generates returns through both revenue earnings, net of expenses, and capital growth. For the year ended 31 March 2011, the total return was £84.1m (2010 – £311.7m), comprising earnings equivalent to 145.1p (2010 – 539.6p) per share, of which 40.4p (2010 – 41.1p) was derived from revenue and 104.7p (2010 – 498.5p) from capital growth.

Company revenue performance

Revenue earned from the company's investments increased by 0.6% to £33.2m (2010 – £33.0m) over the year. The income for the year included an £8.3m dividend from Amber Group, a £2.4m income distribution from Penta Geronimo on the repayment of loans from Geronimo Inns, and a £2.0m dividend from TGE Marine. Income in the previous year included a £3.2m dividend paid by Satellite Information Services not repeated in 2011, dividends from a number of investments realised during the year, with the proceeds held in low yielding cash pending reinvestment, together with a number of dividends accelerated into 2010 in advance of last year's increase in the higher rate of income tax.

The yield on the company's portfolio increased over the year to 2.81%, which compares with 2.79% for last year. By comparison, the yield on the FTSE All-Share fell over the year by 6.3%, from 3.16% to 2.96%.

Company capital performance

The recovery in the markets and improved underlying earnings led to a 6.4% increase in NAV per share over the year. Net gains on investments and derivatives totalled £71.7m (2010 – £295.3m) and a £10.0m investment provision was established in relation to a guarantee for a subsidiary's bank loan. The principal gains were £13.8m from Close Brothers, £13.8m from British Empire Securities, £11.9m from Cobepa and £11.2m from Bristow Group. These were partially offset by a £13.5m loss in the value of Serica Energy.

Unlisted investments (companies and funds) contributed £47.3m to the valuation increase. The company maintains a prudent valuation approach to these investments. Unlisted property and fund investments are usually based on external valuations and internal valuations of other investments conducted in accordance with the IPEV Guidelines.

Company expenses

The total expense ratio ('TER') for the year was 0.81% (2010 – 1.14%), compared with an industry average of 1.40% (2010 – 1.40%). We calculate our TER on an industry standard basis, comprising published management expenses over the monthly average NAV, to aid comparability.

Overall, the company's expenses allocated to the revenue reserve were 21.1% lower than last year at £9.7m (2010 – £12.3m). This was due mainly to a £1.5m reduction in the share-based payment expense in 2011 compared with 2010, principally arising on the lapsing of the 2008 share option and deferred bonus matching share awards, together with other savings in staff-related costs.

Dividend

The company's policy is to maintain a progressive dividend. We recognise that a reliable source of growing dividends is an important part of shareholder return and are pleased to extend our record of growing annual dividends to 44 years.

We paid an interim dividend of 11.1p per share on 6 January 2011 and have proposed a final dividend of 26.0p per share, up 5.3% on last year. The total dividend for the year of 37.1p is an increase of 5.1% on the 35.3p last year (paid as interim and second interim dividends).

If approved by shareholders, the final dividend will be payable on 11 August 2011 to holders of shares on the register on 8 July 2011. The ex-dividend date will be 6 July 2011.

Financial review
continued

Consolidated results
The consolidated results differ from the company results in incorporating the group's share of the earnings and net assets of subsidiaries and joint ventures, as opposed to their investment returns and fair value. The consolidated diluted earnings per share were 118.7p (2010 – 517.0p).

Cash flows, liquidity and facilities
The company started the year with net cash of £8.3m and ended with £101.2m. During the year, liquidity has been increased in preparation for an orderly deployment into the new Income and Growth pool, in which investment commenced just before the year end and will continue over the course of the coming year.

The company has committed bank facilities of £100m in place at the year end and has strong covenant cover. It had no borrowings at 31 March 2011 or 2010 and did not draw on its facilities during the year.

Subsidiaries had borrowings totalling £79.0m at 31 March 2011 (2010 – £86.2m) to finance operations. Caledonia provided guarantees and letters of comfort in respect of £70.0m (2010 – £76.7m) of these borrowings.

Treasury management
The Treasury department provides a central service to group companies and conducts its operations in accordance with clearly defined guidelines and policies, which have been reviewed and approved by the board. Treasury transactions are only undertaken as a consequence of underlying commercial transactions or exposures and do not seek to take active risk positions. It is Treasury's role to ensure that the group has sufficient available funds to meet its needs in the foreseeable future.

During the year, the company took out a forward currency contract to sell €85.9m to hedge against the euro exposure of our investment in Cobepa.

Company record

	Profit for the year £m	Earnings per share p	Annual dividend p	Net assets £m	NAV per share p	Share price p	Caledonia TSR 10 year	FTSE All-Share TR 10 year
2002			25.0	857	1192	847.5	326.7	207.1
2003	(183.2)	(254.0)	26.0	651	917	642.5	132.7	70.9
2004	282.8	390.7	27.0	915	1265	1017.0	138.5	94.4
2005	171.4	260.3	28.2	978	1531	1367.0	229.7	118.4
2006	349.4	549.2	29.6	1,307	2044	1980.0	302.0	123.4
2007	136.1	226.9	31.1	1,323	2258	2066.0	302.9	109.2
2008	(43.9)	(76.0)	32.5	1,252	2155	2050.0	228.5	41.4
2009	(325.5)	(564.1)	33.8	906	1559	1289.0	146.4	(6.4)
2010	312.4	539.6	35.3	1,182	2034	1625.0	196.7	29.7
2011	84.1	145.1	37.1	1,259	2165	1725.0	171.5	58.0

Prior to 2005, profits, earnings and net assets were prepared in accordance with UK GAAP, however, NAVs per share have been adjusted as appropriate to exclude accrued dividends. Net assets and NAVs per share for 2002 and 2003 were based on the company total return pro forma published in the annual report 2003, restating results as though the company had been an investment trust throughout the year. NAVs per share prior to 2006 reported on an undiluted basis have been restated on a diluted basis. Profits and earnings for 2002 have not been included as the company was not an investment trust during that year.

Risk management

Caledonia has a risk management framework that provides a structured process for identifying, assessing and managing risks associated with the company's business objectives and strategy.

The board has overall responsibility for setting the level of risk that the company is prepared to accept and this is regularly reviewed. The principal risks and mitigating actions are set out below.

Risk	Mitigation
Strategic – design and implementation of the company's strategy and investment model.	The board reviews strategy periodically. Management monitors regularly the company's performance against agreed business objectives.
Investment – specific investment decisions and subsequent performance of an investment.	Investment proposals are supported by detailed reviews and due diligence reports. Investments are regularly reviewed by management and, in the case of the larger investments, the board and risk assessments conducted.
Treasury and funding – changes in market prices or rates, counterparty failure and lack of access to liquidity to enable the company to meet its obligations.	Weekly detailed cash forecasts and regular reviews of liquidity. The board reviews the treasury policy periodically and sets counterparty limits and maximum exposures.

Operational – the risk arising from potentially inadequate or failed controls, processes, people and systems, or from external factors. Operational risk is divided into a number of categories:

Legal and regulatory – loss arising from failure to comply with laws, regulations and industry guidelines.	The Compliance Committee meets weekly to ensure the company's continued compliance with legal and regulatory requirements.
Process – loss resulting from inadequate or failed internal processes and systems.	Investment managers operate within parameters set by the board and the Approvals Committee. They have individual objectives and their performance is measured against these. Front and back office duties are carefully segregated.
People – loss arising from inappropriate behaviour or health and safety issues. This includes the failure to retain and motivate staff and to recruit properly skilled staff.	Policies are in place to ensure the company remunerates staff in line with market practice and to provide development opportunities and to encourage staff motivation and retention.
Business continuity – loss arising from the interruption or disruption of critical processes, including office exclusion, power failure, lack of IT services and environmental hazards.	A business continuity process and plan is in place, including provision of an off-site disaster recovery facility.

Corporate responsibility

Caledonia considers the impact of its business in the following areas:

Marketplace
As an investment company, we are committed to a long term investment strategy and to maintaining effective relationships with those companies in which we invest. We generally hold a board seat in our significant investments and use this to maintain a close relationship with managements of those companies. Additionally, we hold frequent meetings with managements and review internal documents, such as management accounts and reports.

We also make considered use of our voting rights. As a consequence of our involved investment style, we would expect to vote in line with management recommendations, but are prepared to abstain or vote against recommendations where we consider they are not in the interests of our shareholders.

We continue to meet with our institutional and individual shareholders and listen to any concerns they may have.

Workplace
Caledonia has in place a set of polices intended to protect employees from unlawful discrimination, offer them a working environment where they have a right to be treated fairly, with consideration and respect, and support high standards of conduct and performance. These policies assist in ensuring that the company meets applicable health and safety standards and treats disabled employees in accordance with its statutory obligations. These policies are communicated to employees by way of a staff handbook provided at the time of joining and periodically thereafter.

In addition to a grievance procedure, which allows employees to raise concerns either formally or informally, there are formal whistleblowing arrangements in place, which enable members of staff to raise any issue of concern regarding possible impropriety in the conduct of the company's business, confidentially and independently of line management.

A formal performance appraisal process, through which employees may be set objectives on an annual basis and their achievement against those objectives assessed at the end of the year, is intended to ensure that employees have a clear view of their performance and the ability to develop their potential within the company through additional training where necessary. Together with team meetings and company-wide briefings, this provides staff with the opportunity to be closely involved in the success of the business.

Community
Caledonia encourages employees to support local voluntary organisations and charitable causes and provides matched sponsorship to their fundraising activities. This and other charitable donations made at the company's own initiation in the year amounted to £60,800.

The company also supports the work of the Royal Horticultural Society and contributions to the RHS's campaigns to promote gardening, through sponsorship of the RHS Chelsea Flower Show Charity Gala Preview, amounted to £103,200 in the year.

Environment
Caledonia's environmental impact is limited. However, any measures taken to reduce this impact demonstrate the company's commitment to improve the environment and can have direct benefits through reductions in costs for energy and consumables. A number of measures have been and will be taken in this area:

- encouragement of the use of electronic communications to save paper, printing consumables and energy
- usage of video-conferencing and telephone conference calls rather than travelling to meetings
- recycling of office waste, used paper and other consumables.

Valuation methodology

Investments are measured at the directors' estimate of fair value at the reporting date, in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Publicly traded securities
Investments listed in an active market are valued at their bid price on the reporting date. When a bid price is unavailable, the price of the most recent transaction will normally be used.

Unlisted companies
Unlisted company investments are valued by applying an appropriate valuation technique, which makes maximum use of market-based information, is consistent with models generally used by market participants and is applied consistently from period to period, except where a change would result in a better estimation of fair value.

The value of an unlisted company investment is generally crystallised through the sale or flotation of the entire business, rather than the sale of an individual instrument. Therefore, the estimation of fair value is based on the assumed realisation of the underlying business at the reporting date, based on the International Private Equity and Venture Capital Valuation Guidelines (September 2009). Recognition is given to the uncertainties inherent in estimating the fair value of unlisted companies and appropriate caution is applied in exercising judgments and making the necessary estimates.

Enterprise value is normally determined using one of the following valuation methodologies:

Price of recent investment
Where the investment being valued was recently acquired or a recent transaction has taken place, its cost or transaction price will generally provide a good indication of fair value. This methodology is likely to be appropriate only for a limited period after the date of the relevant transaction.

Multiples
This methodology involves the application of an earnings multiple to the maintainable earnings of the business and is likely to be appropriate for an investment in an established business with an identifiable stream of continuing earnings.

The earnings multiple used is determined by reference to market-based multiples appropriate for the business and correlating to the period and calculation of earnings of the company being valued. The aim is to identify comparator companies that are similar in terms of risk and growth prospects to the company being valued. Earnings multiples are adjusted for points of difference between the comparator and the company being valued where appropriate, including the ability of Caledonia to effect change in the company and risks associated with holding an unlisted share.

Maintainable earnings balance reliability and relevance. Generally, the latest historical accounts are used unless reliable forecast results for the current year are available. Earnings are adjusted where appropriate for exceptional or non-recurring items and an average of more than one year's earnings may be used to better estimate maintainable earnings for cyclical or volatile businesses.

Net assets
The net assets methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as a property holding company and an investment business. It may also be appropriate for a business that is not making an adequate return on assets and for which a greater value can be realised by liquidating the business and selling its assets. A third party valuation may be used to give the fair value of a certain asset or group of assets.

Fund interests
Fund interests refer to participations in arrangements to create a designated pool of capital to invest in a wider range of assets than is feasible for an individual investor and to share the costs and benefits.

Open-ended funds, including investment companies with variable capital, typically report regular net asset values, which usually provide a reliable basis to estimate fair value. If the price reported by the fund is not available at the reporting date, the latest available price is used and may be adjusted to take account of changes or events to the reporting date.

Closed-ended funds include unlisted investment companies and limited partnerships. For these investments, the fair value estimate is based on a summation of the estimated fair value of the underlying investments. Fund manager valuation reports may be used where there is evidence that the valuation is derived using fair value principles and may be adjusted to take account of changes or events to the reporting date. Adjustment may also be necessary for features of the fund agreement not captured in the valuation report, such as performance fees or carried interest.

Other investments
Other investments include preference shares, loan notes or facilities, options, warrants and treasury instruments that are not publicly traded and do not form part of an investment in an unlisted company. For such investments, appropriate valuation techniques are adopted and used consistently.

Board of directors

1 James Loudon
Chairman
Having served as a non-executive director of Caledonia since 1995 and Non-Executive Deputy Chairman since 2001, he was appointed Chairman in December 2008. He is also Chairman of the Nomination Committee. He was Group Finance Director of Blue Circle Industries from 1987 to 2001, a non-executive director of Lafarge Malayan Cement from 1989 to 2004 and a non-executive director of James Hardie Industries NV from 2002 to 2008. He is Vice Chairman and Treasurer of Canterbury Cathedral Trust and Chairman of Finance of Kent, Surrey and Sussex Air Ambulance. Age 68.

2 Will Wyatt
Chief Executive
He joined the Caledonia group in 1997 from Close Brothers Corporate Finance, working at Sterling Industries before transferring to Caledonia's head office in 1999 as an investment executive. He was appointed an associate director in 2002, a director in 2005 and Chief Executive in July 2010. He is a non-executive director of Avanti Communications Group, Cobepa, Melrose Resources, Real Estate Investors, Terrace Hill, TGE Marine and Chairman of Sterling Industries. Age 43.

3 Stephen King
Finance Director
After qualifying as a chartered accountant, he held senior financial positions with Lonhro, Lucas Industries, Seeboard and was Group Finance Director of Midlands Electricity before his appointment as Group Finance Director of De La Rue from 2003 to March 2009. He joined Caledonia as Finance Director in December 2009. He is a non-executive director of Bristow Group and also of Weir Group, where he is Chairman of the Audit Committee. Age 50.

4 The Hon Charles Cayzer
Executive Director
Having gained experience of merchant banking, commercial banking and corporate and project finance with Baring Brothers, Cayzer Irvine and Cayzer Ltd, he was appointed a director of Caledonia in 1985. He is Chairman of Easybox, Edinmore and The Sloane Club and a non-executive director of Eredene Capital, London & Stamford Property and Quintain Estates & Development. Age 54.

5 Jamie Cayzer-Colvin
Executive Director
He joined the Caledonia group in 1995, initially working at its Amber specialty chemicals subsidiary before becoming an investment executive at Caledonia in 1999. He was appointed an associate director in 2002 and a director in 2005. He is a non-executive director of Celerant Consulting, Close Brothers Group, The Henderson Smaller Companies Investment Trust, India Capital Growth Fund and Polar Capital Holdings. Age 46.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6 John May
Executive Director
Appointed an executive director of Caledonia in 2003, he worked for the Hambros Group for over 20 years until 1999, where he was an executive director of Hambros Bank and Joint Managing Director of Hambro Countrywide. He then ran his own private equity investment and consultancy business. He is Chairman of Amber Chemicals and a non-executive director of Begbies Traynor, Bristow Group, British Empire Securities, Oval and Satellite Information Services. Age 56.

7 Charles Allen-Jones
Senior Independent Non-Executive Director
Appointed a non-executive director of Caledonia in 2001, he is Chairman of the Audit and Governance Committees and a member of the Nomination and Remuneration Committees. He was a partner of the international law firm, Linklaters, for 33 years, including five years as Senior Partner until his retirement in 2001. He is also a non-executive director of Hongkong Land Holdings and Jardine Strategic Holdings, a member of the Financial Reporting Review Panel and Vice-Chairman of the Council of the Royal College of Art. Age 71.

8 Mark Davies
Non-Executive Director
Appointed a non-executive director of Caledonia in 2002, he is Chairman of the Remuneration Committee and a member of the Governance and Nomination Committees. He founded Inter Commodities in 1972, became Chief Executive of Gerrard Group in 1995 and was an executive director of Old Mutual Financial Services (UK) from 2000 to 2001. He is currently Chief Executive of Fleming Family & Partners. Age 63.

9 Richard Goblet d'Alviella
Non-Executive Director
A Belgian national, he was appointed a non-executive director of Caledonia in 2005 and is a member of the Audit Committee. He is Executive Chairman of Sofina, a quoted Belgian financial holding company, where he has been a board member since 1982, prior to which he was a managing director of the Paine Webber Group with a background in international investment banking in London and New York. He is a non-executive director of Group Danone, Delhaize and Eurazeo, in which Sofina has interests. Age 62.

10 Charles Gregson
Non-Executive Director
Appointed a non-executive director of Caledonia in September 2009, he is a member of the Audit, Governance, Nomination and Remuneration Committees. He has spent his career at United Business Media and its predecessor companies in a number of divisional and head office roles, most recently as Chief Executive Officer of US headquartered, PR Newswire. He is also Chairman of ICAP and a non-executive director of CPPGroup, International Personal Finance and St James's Place. Age 63.

11 David Thompson
Non-Executive Director
Appointed a non-executive director of Caledonia in 2003, he is a member of the Audit, Governance, Nomination and Remuneration Committees. He is Chairman of Marston's, having served as its Managing Director from 1986 to 2001, and is also a non-executive director of Persimmon. Age 56.


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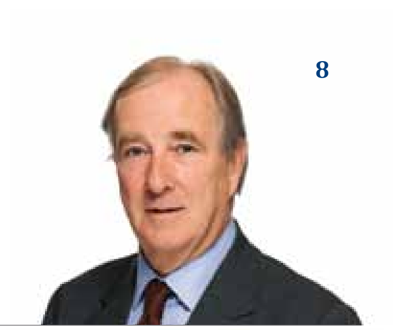
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Directors' report

The directors present their report and accounts for the year ended 31 March 2011. The directors' remuneration report and the corporate governance report form part of this report.

Principal activities and results

Caledonia is an investment trust company. A review of the activities of the company, together with the results for the year, is given in the business review, which should be regarded as part of this report.
In February 2011, the specialist industrial chemical products division of the Amber group was sold to Berner Group. There have been no other significant changes in the activities of its operating subsidiaries, principally comprising engineering, chemicals, property, support services, leisure, financial services and investment.

The company has been approved by Her Majesty's Revenue and Customs ('HMRC') as an investment trust for its relevant financial years up to 31 March 2009 and continues to manage its affairs so as to comply with the requirements for investment trust status. Confirmation of investment trust status is granted retrospectively by HMRC for each financial year. An application for approval for the year ended 31 March 2010 has been made to HMRC and an application for approval for the year ended 31 March 2011 will be made subsequent to the approval of these accounts by shareholders of the company.

Dividends

An interim dividend of 11.1p per share (2010 – 10.6p) was paid on 6 January 2011 and the board has proposed that a final dividend of 26.0p per share (2010 – second interim dividend of 24.7p) be paid on 11 August 2011. This will result in total dividends for the year of 37.1p per share (2010 – 35.3p).

Annual general meeting

The eighty-second annual general meeting of the company will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN on Thursday, 21 July 2011 at 11.30 am. The notice of the annual general meeting and details of all of the resolutions to be put to shareholders are set out in a separate circular which accompanies this annual report.

Directors and their interests

The directors of the company, all of whom served throughout the year, are shown on pages 22 and 23. Mr T C W Ingram also served as a director until his retirement on 21 July 2010.

The interests of the directors and their families in the ordinary share capital of the company as at 31 March 2011 were as follows:

	Beneficial		Non-beneficial	
	2011 No	2010 No	2011 No	2010 No
J R H Loudon	13,564	13,564	9,930	9,930
W P Wyatt[1]	1,029,425	117,940	19,093	19,093
S A King	–	–	–	–
The Hon C W Cayzer[1]	40,892	40,892	49,012	47,527
J M B Cayzer-Colvin	408,498	408,498	7,053	7,053
J M May	48,218	48,218	–	–
C M Allen-Jones	7,500	7,500	–	–
M E T Davies	2,500	2,500	–	–
R Goblet d'Alviella	–	–	–	–
C H Gregson	610	610	–	–
D G F Thompson	3,000	3,000	3,000	3,000

1. Mr Wyatt's beneficial interests included 36,512 shares in which The Hon C W Cayzer had a non-beneficial interest (2010 – 35,037 shares) and 910,000 shares held by The Dunchurch Lodge Stud Company, a private family company controlled by Mr Wyatt and certain of his connected persons (2010 – nil). The Hon C W Cayzer's non-beneficial interests included 12,500 shares in which Mr Wyatt also had a non-beneficial interest (2010 – 12,500 shares).

Included in the beneficial interests of Messrs Wyatt, Cayzer, Cayzer-Colvin and May were vested restricted shares granted following the waiver by them on 30 March 2010 of compulsory and voluntary deferred bonus awards granted in June 2008 (2010 – awards granted in May 2007 and June 2008) as follows:

	Restricted shares	
	2011 No	2010 No
W P Wyatt	3,271	4,894
The Hon C W Cayzer	1,368	3,087
J M B Cayzer-Colvin	1,472	2,863
J M May	6,186	10,576

These shares ceased to be restricted on 1 April 2011. There have been no other changes in the directors' interests shown above notified up to the date of approval of these accounts.

Details of the directors' options to acquire ordinary shares in the company and awards over ordinary shares under the company's deferred bonus plan as at 31 March 2011 are set out in the directors' remuneration report on pages 31 to 38.

Directors' indemnity

Each of the directors has the benefit, under the company's articles of association, of an indemnity, to the extent permitted by the Companies Act 2006, against any liability incurred by him for negligence, default, breach of duty or breach of trust in relation to the affairs of the company.

Share capital structure

The company has two classes of share capital – ordinary shares of 5p each and deferred ordinary shares of 5p each.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All voting rights are however suspended in respect of the company's shares that are held in treasury or by group companies.

The deferred ordinary shares carry no voting rights and are not redeemable. They carry the right to a fixed cumulative preference dividend of 1% per annum (exclusive of any associated tax credit) of the nominal value of such deferred ordinary shares, being 0.05p per share, or £4,000 in aggregate, for all such shares currently in issue. The company is required to pay the dividend to the extent that it has distributable profits. On a winding-up or other return of capital, the deferred ordinary shares carry the right to the payment of the amount paid up on such shares only after holders of the ordinary shares have received the sum of £100,000 in respect of each such ordinary share. All of the deferred ordinary shares are held by Sterling Industries PLC, a wholly-owned subsidiary of Caledonia.

At 31 March 2011, 58,794,781 ordinary shares and 8,000,000 deferred ordinary shares were in issue. The ordinary shares therefore represented approximately 88%, and the deferred ordinary shares approximately 12%, of the total issued share capital. Of the ordinary shares in issue at 31 March 2011, 572,230 shares were held in treasury and 3,000 shares held by a group company. As stated above, all voting rights are suspended on these shares.

Restrictions on the transfer of shares

There are no specific restrictions on the transfer of the company's shares, although the articles of association contain provisions whereby the directors may refuse to register a transfer of a certificated share which is not fully paid, provided that such refusal does not prevent dealings in the share from taking place on an open and proper basis. The directors may also refuse to register the transfer of a certificated share unless it is (i) lodged, duly stamped, at the registered office or at such other place as the directors may appoint, accompanied by the certificate for the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer; (ii) in respect of only one class of shares; and (iii) in favour of not more than four transferees.

The directors may refuse to register a transfer of shares if a shareholder has not supplied information to the company in default of a request duly served under section 793 of the Companies Act 2006 and such shares represent at least 0.25% of the class of shares concerned.

Substantial interests

As at 24 May 2011, being the latest practicable date prior to the date of this report, the following had notified the company that they held 3% or more of the voting rights of the company:

	Number of voting rights	Percentage of voting rights
The Cayzer Trust Company Ltd	19,601,572	33.7%
Rebelco S.A.	2,846,777	4.9%

Rebelco S.A. is a wholly-owned subsidiary of Sofina S.A.

Employee share schemes

The Caledonia Investments plc Employee Share Trust acquires and holds ordinary shares in the company for subsequent transfer to employees exercising options under the company's executive share option schemes or calling for awards vesting under the company's deferred bonus plan. The voting rights of shares held by the trust are exercisable by the independent trustee. The trustee has also waived all dividends payable in respect of the ordinary shares held by the trust, except to the extent of 0.0001% of such dividends. At 31 March 2011, the trust held 350,293 ordinary shares.

Restrictions on voting rights

The directors may direct that a shareholder shall not be entitled to attend and vote either personally or by proxy or exercise any other right conferred by membership in relation to general meetings of the company in respect of some or all of the shares held by him, if he or any person with an interest in such shares has been duly served with a notice under section 793 of the Companies Act 2006 and is in default for the prescribed period in supplying to the company the information required or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material particular.

Agreements which may restrict the transfer of shares or exercise of voting rights

The company is not aware of any arrangements which may restrict the transfer of any of its shares or the exercise of any voting rights.

Appointment and removal of directors and the articles of association

The appointment and replacement of directors is governed by the company's articles of association and prevailing company law.

The articles of association provide that at every annual general meeting one-third of the directors, or if not a multiple of three, the number nearest to one-third, shall retire by rotation and therefore be required to seek re-election by shareholders. New directors may be appointed by the board, but are subject to election by shareholders at the next annual general meeting of the company following their appointment. However, to comply with the provisions of The UK Corporate Governance Code, which applies to the company from 1 April 2011, the company now requires that all directors should be subject to annual election by shareholders. Shareholders may also appoint new directors by ordinary resolution. The articles of association limit the number of directors to not less than two and not more than twelve, unless the shareholders resolve otherwise.

A director may be removed from office if requested to resign by not less than three-quarters of the other directors or by an ordinary resolution of the shareholders.

Any amendment of the articles of association requires the approval of shareholders by a special resolution.

Authority to allot and purchase shares

At the annual general meeting of the company held on 21 July 2010, shareholders granted to the directors authority to allot ordinary shares up to a nominal amount of £970,375, representing approximately one-third of the ordinary share capital then in issue, excluding ordinary shares held in treasury, with authority to allot additional ordinary shares up to a nominal value of £970,376, representing approximately a further one-third of the issued ordinary share capital then in issue, excluding ordinary shares then held in treasury, by way of pre-emptive rights issues only, in accordance with guidance issued by the Association of British Insurers. The directors were further authorised to issue ordinary shares up to a nominal amount of £145,556 other than pro rata to existing ordinary shareholders. These authorities last until 21 October 2011 or, if earlier, the conclusion of the next annual general meeting.

At the annual general meeting held on 21 July 2010, shareholders also granted authority for the company to make market purchases of up to 5,822,255 of its own ordinary shares, being approximately 10% of the ordinary share capital then in issue, excluding ordinary shares held in treasury, at a price not more than the higher of (a) 5% greater than the average of the middle market quotations for such ordinary shares during the five business days preceding any such purchase; and (b) the higher of (i) the price of the last independent trade in such ordinary shares; and (ii) the highest current independent bid relating thereto on the trading venue where the purchase is carried out, nor at a price less than 5p, being the nominal value of an ordinary share. This authority lasts until 21 October 2011 or, if earlier, the conclusion of the next annual general meeting. At the same time, shareholders who were not members of the Cayzer family concert party ('Cayzer Concert Party') gave their approval for a waiver by the Panel on Takeovers and Mergers of the obligation that could arise on the Cayzer Concert Party under Rule 9 of the City Code on Takeovers and Mergers to make a general offer for Caledonia on the implementation by the company of the above authority to purchase its own shares. The approval was subject to the maximum percentage of voting rights in which the Cayzer Concert Party is interested not exceeding 49.9% as a result of purchases by the company. This waiver expires on 21 October 2011 or, if earlier, the conclusion of the next annual general meeting.

Change of control agreements

There are no special control rights in relation to the company's shares.

Options granted under the company's executive share option schemes and awards made under the company's deferred bonus plan may become exercisable or vest as a result of a change of control, although the number of shares comprised in those options or awards may be reduced. The service contracts of certain directors and associate directors also contain provisions whereby a liquidated sum is payable by the company in the event of termination within one year following a change of control. Any such liquidated sum would be equivalent to no more than one year's total emoluments.

Customers and suppliers

The group's policy in relation to all of its suppliers is to settle the terms of payment when agreeing the terms of the transaction. The group will abide by those terms on condition that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The group does not follow any code or statement on payment practice and Caledonia itself does not have any trade payables.

Directors' report
continued

Statement of directors' responsibilities
The directors are responsible for preparing the annual 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 that law, the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law, the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping proper 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 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 directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern
The company's and group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's report on pages 4 to 6 and the investment review on pages 8 to 16. The financial position of the company and group, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 17 to 18. In addition, note 21 to the financial statements includes the company's and group's objectives, policies and processes for managing capital, financial risk management objectives, details of financial instruments and hedging activities, and exposures to currency risk, interest rate risk, price risk, credit risk and liquidity risk.

The company and group have cash resources and committed bank facilities available to meet existing and new investment commitments. As a consequence, the directors believe that the company and group are well placed to manage business risks successfully.

The directors have a reasonable expectation that the company and group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Auditors
Resolutions will be proposed at the annual general meeting to re-appoint Deloitte LLP as auditors of the company and to authorise the directors to agree their remuneration. A description of how the Audit Committee ensures the objectivity and independence of the auditors is set out on page 28 within the corporate governance report.

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

By order of the board
Graeme Denison
Secretary
25 May 2011

Directors' statement of responsibility

We confirm that, to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Signed on behalf of the board by:

Will Wyatt
Chief Executive
25 May 2011

Stephen King
Finance Director
25 May 2011

Corporate governance report

Statement of compliance
The board recognises the importance of good corporate governance and this report describes how the company has applied the main principles of good corporate governance as set out in section one of the Combined Code issued in June 2008 (the 'Combined Code') throughout the year. It also identifies, and provides an explanation for, those provisions of section one of the Combined Code with which the company did not comply for the whole of the year.

Shareholders registered on the company's New Zealand branch register should note that the principles of good corporate governance set out in the Combined Code may materially differ from the New Zealand Exchange Ltd's corporate governance rules and the principles of its Corporate Governance Best Practice Code.

A copy of the Combined Code is available on the website of the Financial Reporting Council at www.frc.org.uk/corporate/combinedcode.cfm.

The board

Overall responsibility and operation
The board as a whole is collectively responsible for the success of the company. It has adopted a Schedule of Authorities which sets out those matters which it specifically reserves for its own decision and those which are delegated to board committees and to executive management. The roles of the Chairman and the Chief Executive are separated and clearly defined in the Schedule of Authorities adopted by the board. The Chairman is primarily responsible for the efficient operation of the board and the Chief Executive for the implementation of the board's strategy and policies and the management of the company's activities, other than those matters specifically reserved to the board. The Schedule of Authorities is reviewed annually by the board.

All directors receive detailed papers in advance of board meetings to enable them to discharge their duties and also have unlimited access to senior management should further information be required. Presentations by senior executives of investee companies are also arranged periodically to enable the board, and the non-executive directors in particular, to gain a closer understanding of some of the company's significant investments.

Appointment, induction and training
Under the Combined Code, all new directors appointed by the board were required to seek election by shareholders at the next annual general meeting of the company following their appointment and subsequently all directors were required to retire by rotation at least every three years. Any non-executive director who had served on the board for over nine years was subject to annual re-election. The company complied with these provisions for its year ended 31 March 2011, however for its 2011 annual general meeting and for future years, it will adopt the recommendation of The UK Corporate Governance Code issued in June 2010 that all directors of FTSE 350 companies should be subject to annual election by shareholders.

On appointment, new directors are offered induction and training considered appropriate by the board and subsequently as necessary. The Company Secretary provides details of, and where requested arranges attendance at, external courses to assist in directors' professional development.

Board composition
The biographies of the directors appear on pages 22 and 23.

The board currently comprises eleven directors. Excluding the Chairman, five of the directors are executive and five non-executive. The board considers all of the non-executive directors to be independent. In assessing Mr Goblet d'Alviella's independence, the board took account of his position as Chief Executive Officer of Sofina S.A., whose wholly-owned subsidiary, Rebelco S.A., has a 4.9% shareholding in Caledonia. Mr Goblet d'Alviella's position at Sofina has not given rise to any conflicts of interest and his circumstances very much accord with the importance that Caledonia attaches to its own executives having board positions at investee companies. On 27 November 2010, Mr Allen-Jones reached the point where he had served as a non-executive director for nine years and on 27 May 2011 Mr Davies will achieve the same milestone. The board (with neither director taking any part in the discussions) has specifically considered each of these non-executive directors' independence in the context of the Combined Code and The UK Corporate Governance Code and does not believe that either's status is compromised simply by length of service. Rather, the experience, character and conduct of each director were the board's determinants of their independence. The board has recognised that succession planning is of particular importance in the context of their long service, however, as stated in the Chairman's statement, there have been a number of changes in key positions on the board in the past two and a half years. Accordingly, the Nomination Committee intends to undertake a process of gradual refreshment of the non-executive representation on the board, whilst balancing the need for continuity and stability.

Prior to 21 July 2010, the board, excluding the Chairman, comprised six executive directors and five independent non-executive directors and therefore did not comply with provision A.3.2 of the Combined Code which requires that, excluding the Chairman, at least half of the board should comprise non-executive directors determined by the board to be independent. The retirement of Mr Ingram as Chief Executive at the annual general meeting held on 21 July 2010 meant that, from that date, the composition of the board has complied with provision A.3.2.

Board committees
The board has delegated certain specific areas of responsibility to the following standing committees, the terms of reference of which are reviewed annually and are available on the company's website. The current membership of these committees, which has remained unchanged throughout the year, is noted on page 65.

Nomination Committee
The Nomination Committee, chaired by Mr Loudon, is responsible for the regular review of the structure, size and composition (including the skills, knowledge and experience) of the board and for giving consideration to succession planning for directors and, if requested by the board, for other senior executives. It is responsible for identifying, using external search consultants where necessary, candidates to fill board vacancies as and when they arise, for making recommendations to the board in relation thereto and for keeping under review the leadership needs of the company, both executive and non-executive. It reviews the time required of the non-executive directors and ensures that they receive formal letters of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings.

The Nomination Committee met twice during the year and the principle business undertaken included a formal review of the size and composition of the board following the 2010 annual board performance evaluation and consideration of the contribution of the non-executive directors retiring at the 2010 annual general meeting, prior to giving recommendations for their election and re-election.

Remuneration Committee
The Remuneration Committee, chaired by Mr Davies, is responsible for the review of executive remuneration policy. Within that policy, the Remuneration Committee determines the remuneration packages of executive directors and reviews those of other senior executive management. It is also responsible for the design of, and grant of awards under, the company's share incentive schemes and for the determination of the policy for and scope of pension arrangements, service agreements, termination payments and compensation commitments for executive directors and, if requested by the board, for other senior executives.

Corporate governance report

continued

The Remuneration Committee met four times during the year. The matters considered by the Remuneration Committee included:

- the approval of the 2010 directors' remuneration report
- the grant of options under the company's executive share option scheme
- the determination of Mr Wyatt's remuneration on his appointment as Chief Executive
- the exercise of discretions in respect of Mr Ingram's share awards on his retirement in accordance with the rules of the company's executive share option scheme and deferred bonus plan
- the determination of basic salaries for executive directors and review of salaries for other senior executives for the year commencing 1 April 2011
- consideration of a review of the company's executive remuneration structures and approval of revised arrangements in relation thereto.

Further information on the company's executive remuneration policy and the work of the Remuneration Committee is included in the directors' remuneration report set out on pages 31 to 38.

Audit Committee

The Audit Committee, currently chaired by Mr Allen-Jones, although Mr Thompson will be appointed as Chairman of this committee for the 2012 financial year, is responsible for the monitoring of the integrity of the financial statements of the company and any announcements relating to the company's financial performance and for reviewing any significant financial reporting judgements contained therein. It also reviews the company's systems of internal control and risk management procedures and considers annually whether an internal audit function is required. The Audit Committee believes that, in the context of the company's business as an investment trust, the key issues on which it has to satisfy itself are the integrity of the application of the company's policy for the valuation of its investments, particularly those which are unlisted, and the robustness of the group's internal controls. The valuations of the company's unlisted investments are subject to formal six monthly reviews by an internal Challenge Committee, independent of the relevant investment executives, whose meetings are also attended by the Chairman of the Audit Committee and the auditors. The Audit Committee then selects a number of valuations for specific review. A 'risk dashboard' highlighting the key business risks facing the company and the controls, monitoring procedures and further actions needed to mitigate these is maintained by the Finance Director and reviewed by the Audit Committee every six months. A formal report on the effectiveness of the group's internal controls and risk management procedures is prepared annually for the board by the company's Risk Manager. It is the Audit Committee's current opinion that, in view of these control processes, the size of the entities controlled by Caledonia and the relatively straightforward control considerations in relation to other investments, a separate internal audit function is not necessary.

It is also the Audit Committee's responsibility to review and monitor the independence and objectivity of the external auditors and the effectiveness of the audit process and to develop and implement policy on the engagement of the external auditors to supply non-audit services. In this regard, the Audit Committee has approved a schedule of specific non-audit activities which may not be undertaken by the external auditors, within the broad principles that the external auditors should not audit their own work, should not make management decisions on behalf of the company, should not be put into the role of advocate for the company and that no mutuality of interest should be created between the company and the external auditors. The Audit Committee believes that, by applying these principles, the objectivity and independence of the auditors is maintained, notwithstanding that non-audit work may be undertaken. On an annual basis, the Audit Committee considers and makes a recommendation to the board as to the appointment, re-appointment or removal of the external auditors. The Audit Committee is also responsible for the company's formal whistle blowing arrangements, whereby members of staff may raise any issues of concern regarding possible impropriety in the conduct of the company's business and whereby any such concerns are properly investigated and appropriate action taken.

The Combined Code recommends that at least one member of the Audit Committee should have recent and relevant financial experience and the Financial Services Authority's Disclosure Rules and Transparency Rules similarly require that one member should have competence in accounting and/or auditing. The Audit Committee considers that Mr Allen-Jones has met these requirements, given his extensive involvement in financial transactions as a corporate lawyer and that he is a member of the Financial Reporting Review Panel and was previously a member of the Financial Reporting Council.

The Audit Committee met three times during the year, and each of the meetings included a discussion with the auditors without any of the executive directors present. During the year, the business undertaken by the Audit Committee included:

- a review of the performance of the external auditors, Deloitte LLP, and the level of fees charged for their services
- scrutiny of valuations of unlisted investments selected by the Audit Committee following the half-year and full-year Challenge Committee meetings
- consideration of the reports from the external auditors concerning their audit of the 2010 annual financial statements of the company and their review of the 2010 half-year report
- consideration of the financial disclosures contained in the 2010 annual and half-year reports to shareholders and financial reporting issues for the 2010 annual report
- consideration of the scope of the 2011 annual audit and agreement with the external auditors of the key areas of focus
- the review of the risk dashboard and reports from the company's Risk Manager on the effectiveness of the group's internal controls and risk management procedures for the year ended 31 March 2011
- consideration of the need or otherwise for an internal audit function
- a review of the independence and objectivity of the external auditors, including their system of quality controls and the level and nature of non-audit services provided by them
- an evaluation of the performance of the Audit Committee itself including a review of its role and responsibilities
- consideration of the Bribery Act 2010 and the company's proposed anti-bribery and corruption policy procedures
- assurance of the company's compliance with the requirements for approval as an investment trust.

Governance Committee

The Governance Committee, chaired by Mr Allen-Jones, keeps under review corporate governance issues relating to the company and is responsible for the monitoring and review of the ability of each director to act in the interests of shareholders as a whole and to exercise independence of judgement free from relationships or circumstances which are likely to, or could appear to, affect his judgement. The Governance Committee also reviews conflict or potential conflict situations relating to directors which may require the prior authorisation of the board under the Companies Act 2006 (the 'Act') and makes recommendations to the board as to whether such conflict or potential conflict situations should be authorised and, if so, whether any conditions, such as duration or scope of the authority, should be attached. The Governance Committee reviews annually all authorisations previously granted by the board to ensure that they remain appropriate. If the Governance Committee believes that a director may be subject to a conflict of interest which may prejudice his ability to exercise independence of judgement, it may make such recommendations to the board as it may think fit, including that the director abstains from participating in any decision of the board or any of its committees on the matter concerned.

The Governance Committee met twice during the year, principally to review and approve the corporate governance report for the year ended 31 March 2010, to review potential conflict situations notified by directors in accordance with the Act and to make recommendations to the board in relation thereto. The Governance Committee also formally considered whether the influence of the Cayzer Concert Party on Caledonia's board was in the general interest of the non-Concert Party shareholders and concluded that it was.

Attendance at meetings

The following table identifies the number of board and committee meetings held in the year to 31 March 2011 and the attendance record of individual directors.

		Committees			
	Board	Nomination	Remuneration	Audit	Governance
Number of meetings	11[1]	2	4	3	2
Attendance by					
J R H Loudon	11	2	–	–	–
W P Wyatt	11	–	–	–	–
S A King	11	–	–	–	–
The Hon C W Cayzer	10	–	–	–	–
J M B Cayzer-Colvin	10	–	–	–	–
J M May	11	–	–	–	–
C M Allen-Jones	11	2	4	3	2
M E T Davies	10	2	4	–	2
R Goblet d'Alviella	9	–	–	2	–
C H Gregson	9	1	3	3	1
D G F Thompson	11	2	4	3	2
T C W Ingram[2]	4	–	–	–	–

1. Scheduled board meetings.
2. Mr Ingram retired as a director on 21 July 2010, but attended all board meetings held prior to that date.

Board performance evaluation

The board conducts an annual formal evaluation of its performance and that of its committees and individual directors. For the year ended 31 March 2011, the evaluation of the board as a whole and of its committees was led by the Chairman and was conducted by inviting individual board members to complete a questionnaire regarding the operation and effectiveness of the board as a whole and of its committees, the responses from which were collated by the Company Secretary and discussed. The evaluation of the performance of the Chairman was led by the Senior Independent Non-Executive Director and involved individual private discussions with all other members of the board (and, in particular, members of the Governance Committee) on his performance, the results of which were then considered at a meeting of the non-executive directors, without the Chairman present. The evaluation of the performance of the Chief Executive was undertaken by the Chairman and the non-executive directors. The performance of the non-executive directors was reviewed by the Chairman, the Chief Executive and the Senior Independent Non-Executive Director, with the Senior Independent Non-Executive Director absent in respect of his own performance appraisal. As part of this review, non-executive directors were invited to complete self-assessment questionnaires in relation to their own effectiveness. The performance of the executive directors, which included further consideration of that of the Chief Executive, was undertaken by the Remuneration Committee as part of the annual executive salary review process.

The results of the evaluation of the board as a whole and of its committees for the year ended 31 March 2011 were presented in a report to the board. The main action points arising from the evaluation process were the need to undertake a gradual refreshment of the board and to improve the company's total return performance as described in the Chairman's statement and Chief Executive's report. The Nomination Committee also reviewed the size, structure and composition of the board in the light of the report to the board but in the context that the need for a gradual refreshment had already been agreed.

Directors' conflicts of interest

Each director has a duty under the Act to avoid a situation where he has, or could have, a direct or indirect interest which conflicts, or may possibly conflict, with the company's interests. The Act however allows directors of public companies to authorise conflicts and potential conflicts where the articles of association contain a provision to this effect. The Act also allows the articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

There are safeguards in the company's articles which apply when the directors decide whether to authorise a conflict or potential conflict of interest. First, only independent directors, being those who have no interest in the matter being considered, are able to take the relevant decision and, second, in taking the decision, the directors must act in a way which they consider, in good faith, will be most likely to promote the success of the company. The directors are able to impose time limits or conditions when giving authorisations if they think this is appropriate.

The board has adopted procedures to address the requirements of the Act in relation to directors' conflicts of interest. Each director is required to declare any potential conflict situations which may relate to him and his connected persons. If necessary, these are reviewed by the Governance Committee (with each member taking no part in the consideration of his own declaration), which then puts forward recommendations to the board as to whether these situations should be authorised and, if so, whether any conditions to such authority should be attached. The board then considers and approves these recommendations, again with each director taking no part in relation to his own potential conflict situations.

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Each board meeting includes a standing agenda item on conflicts of interest to ensure that directors disclose any new potential conflict situations. These are then reviewed, if necessary also by the Governance Committee, and authorised by the board as appropriate. A register of directors' conflicts of interest is maintained by the Company Secretary and reviewed annually by the Governance Committee.

Internal control

The board has overall responsibility for the group's systems of risk management and internal control, although the detailed review of risk management procedures and internal controls is delegated to the Audit Committee. The group's system of internal control is designed to manage, rather than eliminate, risk of failure to achieve business objectives. It is recognised that such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss. The board confirms that the system of internal control operated by the group accords with the Turnbull Guidance 2005 and has been in place throughout the year and up to the date of approval of these financial statements.

The board monitors the key risks facing the company through a 'risk dashboard' maintained by the Finance Director, which identifies the significant business risks to which the company is exposed at any particular time (broadly categorised under company strategy, market risk, operational risk, financial risk and subsidiary company risk) and the controls and monitoring procedures in place to mitigate these, together with any outstanding actions and progress undertaken in relation thereto. Each risk is scored according to potential impact and likelihood, from which an overall risk factor is derived and compared against a target score, with changes in the risk assessment continuously updated by way of an agenda item at the weekly meetings of the Investment Management Committee. The risk dashboard is formally reviewed in detail by the Audit Committee and then by the board on a six monthly basis.

Major business risks facing group and key investee companies are identified and assessed by local management and procedures are agreed to address these as appropriate. The boards of these companies review business risk and controls regularly to ensure the system of risk management operates effectively. Caledonia's investment executives then confirm, through Caledonia's Risk Manager, to the Audit Committee that the system of risk management is operating effectively for these group companies and key investments.

Key investment and market risks identified are regularly monitored at company level by members of the Investment Management Committee, who have clear mandates to assess and report on risk in their particular areas of responsibility. All of the company's significant investments are reviewed at least annually by the board and the smaller portfolio holdings reviewed at least annually by the Investment Management Committee. The Risk Manager produces reports for the Audit Committee on specific risk areas as and when requested.

Specific control procedures are in place to ensure that the company continually monitors and complies with the requirements for investment trust status. The board receives monthly compliance reports evidencing that the company is meeting the various tests for investment trust status and also confirming that the investment activities undertaken by executive management are within the policy limits set by the board. A Compliance Committee, comprising the Company Secretary (Chairman), the Finance Director, the three associate directors with responsibility for tax, treasury and finance and the Group Financial Controller/Risk Manager, meets weekly to review the company's ongoing compliance with its investment trust status and to review and approve all investment activity from an investment trust compliance perspective. The Compliance Committee also monitors the potential impact of legal and regulatory reforms.

Financial performance is continuously measured by comparing total shareholder returns and net asset value movements against the FTSE All-Share index. Performance statistics are reported monthly to the board. Income and expenses are monitored by the board against an approved annual budget and regularly updated forecasts. Valuations of unlisted investments are subject to a rigorous six monthly review process undertaken by a Challenge Committee independent of the relevant investment executives, whose meetings are also attended by the Chairman of the Audit Committee and auditors, and a selection of valuations are then reviewed by the Audit Committee. Where appropriate, adjustments are made to the valuations of unlisted investments on a monthly basis. All new investment activity and disposals are subject to formal approval by an Approvals Committee comprising the Chairman, the executive directors and the Company Secretary.

Since the year end, the directors have concluded their annual review of the operation and effectiveness of the group's system of internal control. No material control failings or weaknesses were identified.

Relations with shareholders

The company welcomes dialogue with institutional shareholders in order to achieve a mutual understanding of objectives. The Chief Executive and the Finance Director seek meetings with larger institutional shareholders and private client stockbrokers after the announcement of year end and half-year results. The Senior Independent Non-Executive Director attends some of these meetings. The annual general meeting also provides a forum for shareholders to meet the directors, both formally and informally.

The Chairmen of all of the board's committees will be available to answer questions at the annual general meeting of the company.

Directors' remuneration report

This report has been prepared in accordance with Part 15 of the Companies Act 2006 and related regulations. The tables included in the statements below on directors' remuneration, pensions, share options and deferred share awards have been audited.

The Remuneration Committee
The Remuneration Committee is a standing committee of the board whose current members are Mr Davies (Chairman), Mr Allen-Jones, Mr Gregson and Mr Thompson. All of the members served throughout the year.

The Remuneration Committee, whose written terms of reference are published on the company's website, has been established for the following purposes:

- To determine and agree with the board the framework and broad policy for the remuneration of the executive directors and such other members of the executive management as it is requested by the board to consider and to review the on-going appropriateness and relevance of the remuneration policy.
- To approve the design of, and determine targets for, any performance related pay schemes operated by the company and to approve the total annual payments made under such schemes.
- To review the design of all share incentive plans for approval by the board and shareholders and, for any such plans, to determine each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used.
- Within the terms of the agreed policy, to determine the total individual remuneration packages of each executive director and, if requested by the board, other senior executives, including, where appropriate, bonuses, incentive payments, share options and other awards.
- To determine the policy for, and scope of, pension arrangements, service agreements, termination payments and compensation commitments for executive directors and, if requested by the board, other senior executives.
- To review and assess annually the remuneration trends across the company.

The Remuneration Committee also determines the fees of the Chairman.

During the year, the Remuneration Committee received advice from Towers Watson, independent remuneration consultants appointed by the Remuneration Committee, who undertook a review of the company's executive remuneration structures in the context of current market practice, which included an assessment of the comparability of senior executive remuneration packages with the market place for the purpose of setting executive directors' salaries for the year commencing 1 April 2011. In addition, Towers Watson undertook a review of the company's long term incentive arrangements as described further below. Towers Watson principally advised in relation to the remuneration of executive directors and senior management. The Remuneration Committee also consulted with the Chairman and the Chief Executive in relation to the remuneration of the executive directors. Internal support was provided to the Remuneration Committee by the Company Secretary.

Remuneration policy for executive directors
During the year, the Remuneration Committee conducted a review of the company's executive remuneration arrangements with the assistance of its independent remuneration consultants, Towers Watson. The purpose of the review was (a) to ensure that the company's remuneration structures remained aligned to the risk/reward characteristics of Caledonia's objective of providing a long term store of wealth for its shareholders, (b) to continue to provide a suitable framework to incentivise the company's senior executive team and (c) to reflect current market practice, but within its existing policy that:

- Performance related remuneration should seek to align the interests of the executive directors with those of the shareholders.
- A significant portion of the executive directors' remuneration packages should be linked to the performance of the company.
- Remuneration packages for the executive directors should be competitive, but not excessive, in terms of market practice, in order to attract, retain and motivate executive directors of the quality needed to manage and grow the company successfully.

As a result of this review, the Remuneration Committee is proposing to replace the current executive share option scheme and deferred bonus plan with a new performance share scheme and an updated deferred bonus plan, shareholder approval for both of which will be sought, under separate resolutions, at the forthcoming annual general meeting.

In order to align further the interests of the executive directors with those of shareholders, the Remuneration Committee has adopted guidelines for minimum shareholdings which executive directors will be expected to attain over a reasonable period of time. For these purposes, shareholdings include the value to executive directors, net of associated income tax and national insurance, of options granted under the company's executive share option schemes for which the performance targets have been met and bonus deferred into shares, both compulsorily and voluntarily, under the company's deferred bonus plan. For the Chief Executive, the minimum guideline shareholding has been set at a value of 200% of basic salary and for all other executive directors 150% of basic salary. The current shareholdings of all of the executive directors meet these guidelines, other than of Mr King, who has only recently joined the company.

In determining executive directors' remuneration, consideration is given to matters specific to the company, such as the performance of its net asset value ('NAV') per share, both in absolute terms and as measured against the FTSE All-Share index, to the experience and performance of individual directors and to their areas of responsibility. The Remuneration Committee also gives consideration to a report prepared by the Company Secretary on pay and employment conditions through the Caledonia group, although, given that Caledonia's trading subsidiaries operate in a number of diverse industries and geographical locations using both skilled and unskilled workforces, the executive directors' pay is principally set by the Remuneration Committee in the context of that of Caledonia's head office staff. Comparable external market data is also taken into account as a point of reference to determine appropriate remuneration packages for specific roles.

It is currently intended that the policy statement set out in this report will apply for the year to 31 March 2012 and for subsequent years. However, the Remuneration Committee considers that an effective remuneration policy needs to be sufficiently flexible and kept under review in order to take account of future changes in the company's business environment and in remuneration practice. Accordingly, the policy may be amended in future years. Any changes in policy for financial years after 31 March 2012 will be described in future directors' remuneration reports, which will continue to be subject to an advisory vote of shareholders. All statements in this report in relation to remuneration policy for years after 31 March 2012 should be read in this light.

Directors' remuneration report
continued

Policy on individual components of executive directors' remuneration

Basic salary
Basic salary is determined by the Remuneration Committee by reference to the experience and responsibilities of the director concerned and taking into account external market research. The company's policy is to pay salaries and other benefits which are competitive, but not excessive, in relation to the marketplace.

Benefits
The company provides a range of benefits, including cash allowances in lieu of company cars, life insurance, permanent health insurance and private medical cover.

Bonus
The company operates a discretionary annual bonus scheme for executive directors, which takes into account both the performance of individual directors and the performance of the company. At the determination of the Remuneration Committee, and subject to the compulsory deferral provisions of the company's deferred bonus plan, bonuses may either be paid in cash or as employer contributions to registered pension schemes.

The maximum potential bonus that may currently be awarded is 100% of basic salary, of which a maximum of 50% of basic salary is determined by reference to the company's performance and 50% by reference to individual performance. The company performance related element of bonus is determined by reference to the performance of the company's diluted NAV per share compared with that of the FTSE All-Share index over the financial year. Bonus payments commence if the performance of the company's NAV per share matches that of the FTSE All-Share index, increasing incrementally to the maximum entitlement payable if NAV per share outperforms the FTSE All-Share index by 6% or more. The individual performance element is measured by reference to performance objectives set at the start of the financial year.

For the financial year ending 31 March 2012, and for future years, the Remuneration Committee intends to change the existing bonus arrangements in two respects – first by adopting the relative performance of the company's diluted NAV per share on a total return basis against the FTSE All-Share Total Return index as the measure of the company performance related element and second, for executive directors with responsibility for specific pools of capital, to link a significant proportion of bonus to the performance and objectives of their individual pools. For these directors, the maximum potential bonus of 100% of basic salary will be determined as to 25% by reference to the company's performance, 60% to pool performance and objectives and 15% to individual performance.

All bonus payments are subject to the overriding discretion of the Remuneration Committee and circumstances where such discretion may be used to reduce the amount of bonus payable include where NAV per share growth in the financial year is negative and/or NAV per share outperformance over the relevant financial year merely represents recovery from previous underperformance. In exceptional circumstances, the Remuneration Committee may also award bonuses outside the terms of the company's annual bonus scheme. No bonus payments are pensionable.

Deferred bonus plan
The company's bonus arrangements are also designed to align the interests of directors with those of shareholders and to encourage retention by requiring, in the Remuneration Committee's absolute discretion, that a proportion of any bonus paid to a director is compulsorily invested in shares under the company's deferred bonus plan. The Remuneration Committee's current policy is that any annual bonus paid, the amount of which is above 50% of a director's basic salary for the financial year to which the bonus relates, must be so compulsorily invested. Shares derived from the compulsory deferral of bonus are matched on a one for one basis, the vesting of which is subject to the satisfaction of performance conditions over a period of three years.

In addition, the deferred bonus plan entitles directors to convert voluntarily a proportion of any remaining cash bonus to an entitlement to shares. The Remuneration Committee's current policy is that up to half of any bonus not subject to compulsory deferral may be voluntarily converted into shares. The shares awarded for voluntary bonus deferral are also eligible for matching, on a one for one basis, the vesting of which is subject to the satisfaction of performance conditions over a period of three years. Bonuses awarded for the 2012 financial year will be subject to a new deferred bonus plan, if approved by shareholders, details of which are set out below. Awards under the deferred bonus plan are not pensionable.

In connection with the review of the company's executive remuneration structures, the Remuneration Committee wishes to obtain shareholder approval for a new deferred bonus plan ('2011 Plan') to replace the existing deferred bonus plan operated by the company. The 2011 Plan will first be used in 2012 in relation to bonuses awarded for the 2012 financial year and, if the 2011 Plan is approved by shareholders, no further awards will be granted under the existing deferred bonus plan. The terms of the 2011 Plan will be the same as the current deferred bonus plan (details of which are set out on pages 35 to 36) but the 2011 Plan will introduce revised performance targets for the matching share awards which are considered to be more relevant to Caledonia's current strategy and objectives. Under these targets, the vesting of matching shares will be dependent on the company's performance over a three year period by reference to two separate performance conditions. Both conditions will relate to the performance of Caledonia's diluted NAV per share on a total return basis over the three financial years starting with the year in which the award is made. For two-thirds of the matching shares awarded, the performance of diluted NAV per share on a total return basis will be compared against the FTSE All-Share Total Return index and, for the other one-third, the comparison will be against the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index. Vesting of matching shares will be on a graduated basis, commencing with 10% vesting on the achievement of 0.5% outperformance of the relevant index, rising on a straight line basis to 100% vesting on 3.5% outperformance of the relevant index. There will be no re-testing of either of the performance conditions.

The Remuneration Committee may amend the performance targets if events occur that would make the amended targets a fairer measure of performance and provided that any amended targets are no more difficult to satisfy. The Remuneration Committee will also have the ability to impose different performance targets in the future, provided that any targets imposed are no less demanding than described above. Any such amended or different performance targets will be described in the directors' remuneration report for the relevant year. A detailed summary of the 2011 Plan is set out in the circular to shareholders containing the notice of the annual general meeting and which accompanies this annual report.

Pensions

The company's policy on pensions is to provide a means whereby executive directors either receive a pension at retirement age from the company, or are funded to operate their own personal pension plans or other arrangements. The Hon C W Cayzer is a member of the Caledonia Pension Scheme, which is a defined benefits scheme and is contributory for employees who joined the company after 1 April 1988, but which is now closed to new members. This scheme provides a pension of up to two-thirds of final pensionable salary on retirement dependent on length of service and age and also provides for dependants' pensions. The Hon C W Cayzer transferred into the scheme from The Union-Castle Line Superannuation Scheme which was non-contributory, and this status has been preserved.

None of Messrs King, May or Wyatt participate in a company pension scheme, but instead a fixed percentage of basic salary is paid into personal pension arrangements or may, at their choice, be paid as a cash supplement, which is reduced by such amount as is necessary to ensure that the cash payment is cost neutral for the company after taking into account the company's national insurance contributions. The percentage of basic salary for the year ended 31 March 2011 was 12.5% for each director, although Mr Wyatt's contribution was increased to 20% of basic salary on his appointment as Chief Executive on 21 July 2010. Mr Cayzer-Colvin participates in the Caledonia Group Personal Pension Plan ('GPPP'), a defined contribution scheme into which employer contributions of 12.5% of basic salary were made on his behalf. For the portion of the financial year until his retirement on 21 July 2010, Mr Ingram was entitled to receive an employer pension contribution or cash alternative based on 25% of his basic salary. For the year ending 31 March 2012 onwards, the Remuneration Committee has agreed that the employer pension contributions or cash alternatives should be based on 22.5% of basic salary for Mr Wyatt and 17.5% for Messrs Cayzer-Colvin, King and May.

It is the company's policy that any future executive directors recruited from outside the company will be funded to operate their own pension arrangements or offered participation in a company sponsored defined contribution scheme and that the company will not offer participation in any defined benefits arrangements.

Share options

A key objective of the company's remuneration policy is to motivate executive directors to deliver long term shareholder value. The Remuneration Committee believes that this is best achieved through the grant of share options, exercisable only if demanding performance conditions are met. The grant of options is considered to be a key element of the remuneration package, alongside annual salary, annual bonus and the deferred bonus plan.

Under the 2005 executive share option scheme (under which the exercise price is equal to a share's market value at the date of grant), the maximum value of options that may be granted in any year to a director is 150% of basic salary, measured by reference to the aggregate exercise price of such options. The Remuneration Committee may exceed this limit for individual directors where it considers it necessary to do so to secure their appointment, provided that the maximum value that may be granted in such circumstances shall not exceed 250% of basic salary. No options are granted at a discount.

As a consequence of its review of Caledonia's executive remuneration structures, the Remuneration Committee is seeking shareholder approval to establish a new executive performance share scheme '2011 Scheme') to replace the existing executive share option scheme which was established in 2005. The 2011 Scheme is proposed in order to bring the company's long term incentive arrangements more into line with current market practice and also to address the key conclusions of the review that:

- the structure and level of grants made under the 2005 executive share option scheme (under which the exercise price is equal to the share's market value at the date of grant) is out of line with market practice and that the performance targets applicable to those options are such that there is a low likelihood of options vesting
- the company should move to a performance share scheme, under which, to the extent that a performance condition is satisfied, shares could be called (without payment) under a nil-cost option
- the expected value of options granted under the 2005 executive share option scheme (that is, taking account of the intrinsic value of the options) was too low when set against market comparables.

To address this, the Remuneration Committee intends to increase the expected value of the long term incentive element of the remuneration package.

Under the 2011 Scheme, participants will be awarded nil-cost options over shares, rather than options based on the current market value of those shares. The maximum value of nil-cost options that may be granted in any year will be increased to 200% of basic salary, although, because nil-cost options have a higher expected value than market-value options, the Remuneration Committee's policy will be typically to grant awards of no more than 125% of basic salary.

Nil-cost options awarded under the 2011 Scheme will be subject to performance targets related to the company's diluted NAV per share on a total return basis measured against a benchmark index. For two-thirds of the shares comprised in a nil-cost option, the benchmark will be the FTSE All-Share Total Return index and, for the remaining one-third, the benchmark will be the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index. In each case the performance period will be a period of three financial years measured at the end of the third financial year following the date of grant of the nil-cost options. Nil-cost options will vest on a graduated basis, with 10% vesting on 0.5% outperformance of the relevant benchmark, rising on a straight line basis to maximum vesting on 3.5% outperformance of the relevant benchmark. There will be no re-testing of either performance target and, to the extent that a performance target is not met, the relevant nil-cost options will lapse.

The Remuneration Committee may amend the performance targets if events occur that would make the amended targets a fairer measure of performance and provided that any amended targets are no more difficult to satisfy. The Remuneration Committee will also have the ability to impose different performance targets in the future, provided that any targets imposed are no less demanding than described above. Any such amended or different performance targets will be described in the directors' remuneration report for the relevant year.

To the extent that a performance target is met, nil-cost options may be exercised between the date of vesting and the tenth anniversary of the date of grant, except that only two-thirds of the shares that have vested may normally be exercisable after three years from grant, with the remaining one-third normally becoming exercisable five years after grant. On exercisable, the participant will also receive an amount equal to the dividends that would have accrued on the shares comprised in the nil-cost options during the relevant three or five year period.

A detailed summary of the terms of the 2011 Scheme is set out in the circular to shareholders containing the notice of the annual general meeting and which accompanies this annual report.

Directors' remuneration report

continued

Policy on executive directors' service contracts

It is the policy of the company that no executive director should be offered a service contract that cannot be terminated on more than one year's notice or which contains provision for predetermined compensation in excess of one year's total emoluments. All existing directors' service contracts comply with this policy. The Remuneration Committee has regard to compensation commitments and believes that these are best addressed by restricting the term of the contract. In the event of a termination, the Remuneration Committee would consider all the relevant factors and circumstances and seek a just solution. It is the Remuneration Committee's intention that all future executive directors' service contracts should include provisions enabling the company to reduce compensation payments in the event that the director takes up alternative employment within the notice period to which such payments relate.

Policy on external non-executive directorships held by executive directors

It is the company's policy to allow executive directors to hold external non-executive directorships unrelated to the company's business, provided that the time commitment required is not material. Normally the company will retain any fees arising from such non-executive directorships, but may permit the executive director to retain fees in certain circumstances. Details of any such fees retained by executive directors are disclosed in the statement on directors' remuneration below.

Policy on the Chairman's and non-executive directors' terms of appointment and remuneration

It is the company's policy that the Chairman and the non-executive directors should be appointed for fixed periods of no more than three years (from the next annual general meeting following initial appointment in the case of new appointments) and that re-appointment at the end of such periods should not be automatic.

The Chairman receives an annual fee determined by the Remuneration Committee but does not receive any other emoluments. Non-executive directors are paid an annual fee determined by the board within the overall limit contained in the articles of association, but do not receive any other benefits from the company for their services as non-executive directors. For the year ended 31 March 2011, the fee for the Chairman was £162,000. The basic fee for the non-executive directors was £35,000 and additionally fees of £4,900 and £4,300 respectively were paid to the Chairmen of the Audit and Remuneration Committees and £2,000 and £1,400 respectively to the other members of those committees. A further £4,500 was paid to Mr Allen-Jones for his roles as Senior Independent Non-Executive Director and Chairman of the Governance Committee. For the year ending 31 March 2012, the basic non-executive directors' fee will be £36,250, the fee for the Chairmen of the Audit and Remuneration Committees will be £5,100 and £4,450 respectively and membership fees for these Committees will be £2,100 and £1,450 respectively. The Senior Independent Non-Executive Director/Governance Committee Chairman's fee will be £4,650.

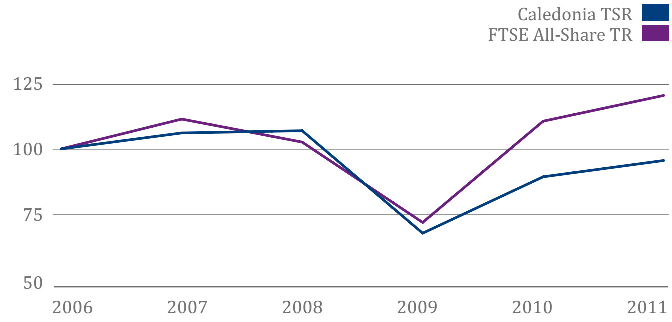
Non-executive directors may also be paid additional fees agreed by the board where they have performed services that, in the opinion of the board, are over and above their normal duties.

The company is entitled to terminate the Chairman's or a non-executive director's appointment at any time without compensation.

Performance graph

The graph below shows the company's total shareholder return ('TSR') against that of the FTSE All-Share Total Return index for the five financial years ending on 31 March 2011. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The FTSE All-Share Total Return index has been chosen as it is the benchmark by which the company measures its delivery of shareholder value over the longer term.

Total return growth over five years



Statement on directors' remuneration (audited)

Total emoluments of the directors were as follows:

	2011 £'000	2010 £'000
Emoluments	3,293	3,553
Gains on exercise of share options	–	1,858
	3,293	5,411

Statement on directors' emoluments (audited)

The emoluments of individual directors were as follows:

	Fees and salaries £'000	Benefits £'000	Cash bonus £'000	Deferred shares[1] £'000	Total 2011 £'000	Total 2010 £'000
J R H Loudon	162	–	–	–	162	150
W P Wyatt	420	18	210	73	721	386
The Hon C W Cayzer	270	18	135	27	450	360
J M B Cayzer-Colvin	270	18	135	41	464	379
S A King	319	1	160	56	536	140
J M May	356	18	89	125	588	511
C M Allen-Jones	46	–	–	–	46	42
M E T Davies	39	–	–	–	39	36
R Goblet d'Alviella	37	–	–	–	37	34
C H Gregson	38	–	–	–	38	19
D G F Thompson	38	–	–	–	38	35
T C W Ingram[2]	168	6	–	–	174	803
Former director	–	–	–	–	–	658
	2,163	79	729	322	3,293	3,553

1. Deferred shares, forming part of the bonus, comprise the amounts compulsorily and voluntarily deferred under the company's deferred bonus plan, which are satisfied in shares shortly after the announcement of the company's final results for the particular year, as described below.
2. Mr Ingram retired as a director on 21 July 2010.

In addition to the amounts shown in the table above, Messrs Wyatt, King and May respectively were paid amounts of £17,655, £35,383 and £39,411 before tax (2010 – £nil, £10,704 and £37,677 respectively) in lieu of contributions to their personal pension arrangements as described in the statement on directors' pensions below. Mr King also held an external non-executive directorship of Weir Group during the year, which was unrelated to the company's business and where it had been agreed that he could retain the fees arising therefrom, as he took up the appointment before he joined Caledonia. Mr King received fees from Weir Group of £52,500 (2010 – £16,523 from date of appointment as a director of Caledonia).

For the part of the year until his retirement on 21 July 2010, in addition to the emoluments shown in the table above, Mr Ingram was paid an amount in lieu of pension contributions of £18,419 (2010 – £68,521). Mr Ingram was also a non-executive director of Sage Group during this period, an external directorship from which he received and retained fees of £19,945 (2010 – £65,000).

Directors' deferred share awards

The deferred bonus column in the table of directors' emoluments shows the amount (if any) of bonus to be compulsorily and voluntarily deferred into shares under the company's deferred bonus plan. The number of shares awarded for both the compulsory and voluntary deferral of bonus is determined by reference to the market value of a share at the time the award is made, which occurs shortly after the announcement of the company's results for the financial year to which the bonus relates (or following the occurrence of exceptional circumstances justifying the making of awards). In both cases, the number of shares is set on a pre-tax basis (as the shares will be subject to income tax and national insurance on release). Matching shares are awarded in respect of compulsory and voluntary deferral of bonus on a one for one basis.

Compulsorily deferred share awards

The shares comprised in a compulsory deferral will normally only vest (together with an amount equal to the dividends that would have accrued on those shares) if the director remains an employee of the Caledonia group for a three year period commencing on the first day of the financial year in which the award is made. The vesting of these shares is not subject to a further performance condition.

Voluntarily deferred share awards

The shares comprised in a voluntary deferral are not subject to a performance condition and will vest (together with an amount equal to the dividends that would have accrued on those shares) at the earlier of three years from the first day of the financial year in which the award is made or the date the director ceases to be an employee of the Caledonia group for any reason.

Matching share awards

The vesting of the matching shares is dependent on the company's performance over a three year period, by reference to two separate performance conditions. Both performance conditions relate to the performance of Caledonia's NAV per share over the three financial years starting with the year in which the award is made ('Prescribed Period'). This performance of NAV per share will be compared against different indices as follows:

- 50% of the matching shares will only vest if NAV per share over the Prescribed Period outperforms the Retail Prices Index by at least 9%
- 50% of the matching shares will only vest if NAV per share over the Prescribed Period outperforms the FTSE All-Share index by at least 3%.

There will be no re-testing of either performance condition.

The Remuneration Committee may amend the performance target if events occur that would make the amended target a fairer measure of performance and provided that any amended target is no more difficult to satisfy. The Remuneration Committee will also have the ability to impose different performance targets in the future, provided that any targets that are imposed are no less demanding than those described above. Any such amended or different performance targets will be described in the directors' remuneration report for the relevant year.

Deferred share awards held as at 31 March 2011 (or date of retirement if earlier) by directors who served during the year are shown in the following table. Other than in respect of Mr Ingram, the awards shown as lapsed are all of the matching awards granted on 3 June 2008 and 29 July 2008 which failed to meet their performance targets tested as at 31 March 2011. In the case of Mr Ingram, the Remuneration Committee determined at his retirement on 21 July 2010 that, based on the measurement of the performance targets from the relevant grant date to his retirement, all of his matching awards granted in 2008 should lapse.

There have been no changes in directors' deferred share awards up to the date of this report.

Name	Award type	Award date	Number of shares: Opening balance	Awarded	Lapsed	Closing balance	Market price at award (p)	Market price at call (p)	Value at call 2011 £'000	2010 £'000
W P Wyatt	Matching	03.06.08	833	–	(833)	–	1980	–	–	
	Matching	29.07.08	4,722	–	(4,722)	–	1980	–	–	
			5,555	–	(5,555)	–			–	101
The Hon C W Cayzer	Matching	29.07.08	2,323	–	(2,323)	–	1980	–	–	
			2,323	–	(2,323)	–			–	70
J M B Cayzer-Colvin	Matching	29.07.08	2,500	–	(2,500)	–	1980	–	–	
			2,500	–	(2,500)	–			–	51
J M May	Matching	03.06.08	4,040	–	(4,040)	–	1980	–	–	
	Matching	29.07.08	6,464	–	(6,464)	–	1980	–	–	
	Voluntary	21.05.10	–	4,945	–	4,945	1547	–	–	
	Matching	21.05.10	–	4,945	–	4,945	1547	–	–	
			10,504	9,890	(10,504)	9,890			–	210
T C W Ingram[1]	Matching	03.06.08	6,060	–	(6,060)	–	1980	–	–	
	Matching	29.07.08	10,303	–	(10,303)	–	1980	–	–	
			16,363	–	(16,363)	–			–	277
Former director			–	–	–	–			–	157
			37,245	9,890	(37,245)	9,890			–	866

1. Mr Ingram retired as a director on 21 July 2010.

Directors' remuneration report

continued

Statement on directors' pensions (audited)

Pension benefits accrued by The Hon C W Cayzer during the year under the company's defined benefits scheme were as follows:

	Row ref	£
Accrued pension at 31 March 2011	a	149,143
Increase in accrued pension during the year	b	18,476
Increase in accrued pension during the year, net of inflation	c	13,180
Transfer value of increase in accrued pension over the year, net of inflation	d	169,834
Transfer value of accrued pension at 31 March 2011	e	2,077,903
Transfer value of accrued pension at 31 March 2010	f	1,791,350
Change in transfer value over the year	g	286,553

1. The accrued pension shown in row (a) was the amount which would be paid at normal retirement age, ignoring any revaluation, if The Hon C W Cayzer had left service at 31 March 2011.
2. The transfer value shown in row (d) represented the value of the increase in accrued pension (net of inflation) during the year, as set out in row (c).
3. The change in transfer value over the year shown in row (g) (calculated as row (e) less row (f)) reflected the impact on the transfer value of factors beyond the control of the company and the directors, such as movements in stock markets. These can cause transfer values at different points in time to fluctuate significantly. Disclosed changes in value may therefore be subject to a large degree of volatility and may even be negative.
4. The transfer value was the present value of the accrued deferred pension and associated benefits at 31 March 2011, calculated using the transfer basis then in force. Transfer values are calculated using the transfer value basis as determined by the trustees of the Caledonia Pension Scheme.

Mr Wyatt has established his own money purchase pension arrangements, into which the company made employer contributions of £55,275 (2010 – £30,625) and in addition to which, and in accordance with his service contract, he was paid cash in lieu of pension contributions of £17,655. In accordance with their service contracts, Mr King and Mr May elected to receive their pension entitlements by way of cash payments in lieu of pension contributions of £35,383 and £39,411 respectively (2010 – £10,704 and £37,677 respectively). Mr Cayzer-Colvin is a member of the GPPP, a defined contribution scheme into which employer contributions of £33,750 (2010 – £30,625) were paid during the year on his behalf. For the part of the year until his retirement on 21 July 2010, and in accordance with his service contract, the company paid £20,000 into Mr Ingram's personal pension plan, in addition to which he was paid cash in lieu of pension contributions of £18,419 (2010 – £55,208 and £68,521 respectively).

Statement on directors' share options (audited)

Options to acquire ordinary shares in the company held by those directors who served during the year ended 31 March 2011, or to date of retirement if earlier, and gains on the exercise of share options were as shown in the following table. The options shown as lapsed are those granted on 3 June 2008 which failed to meet either of their performance targets, tested as at 31 March 2011. In the case of Mr Ingram, the lapsed options also include HMRC approved options over 864 shares granted on 29 May 2009 which the Remuneration Committee determined should lapse at the date of his retirement on 21 July 2010, based on the performance targets measured up to that date.

In respect of Mr Ingram's retirement, the Remuneration Committee exercised its discretion under the 2005 executive share option scheme such that all of the share options granted to him up to 2006, which had satisfied their performance targets prior to his retirement date (being an aggregate of 52,848 shares), would become fully exercisable for a period of one year following his retirement date. The Remuneration Committee further agreed that unapproved options over a total of 93,401 shares granted to Mr Ingram in 2008 and 2009 should, subject to satisfying their performance targets at the end of their normal three year performance measurement period, be exercisable within one year from the date on which the performance targets calculations are determined. As stated above, the performance targets for options granted in 2008 were tested as at 31 March 2011 and were not achieved. Accordingly, the options over 40,151 shares granted to Mr Ingram on 3 June 2008 have lapsed. The Remuneration Committee also exercised its discretion in respect of HMRC approved options over 1,729 shares granted to Mr Ingram on 29 May 2009 and, based on the measurement of the performance targets up to the date of his retirement, determined that options over 865 shares should become fully exercisable within twelve months of his retirement date and the balance, being options over 864 shares, should, as stated above, lapse.

There have been no changes in directors' options to acquire ordinary shares up to the date of this report.

The company currently has two executive share option schemes – a 1998 scheme under which option grants were made from September 1998 to May 2004 and a 2005 scheme under which option grants commenced in August 2005.

Under the terms of both schemes, options may be exercised between three and ten years after the date of grant, although only one-third of the shares comprised in an option may be exercised after three years from grant, with the remaining two-thirds becoming exercisable six years after grant. Options may only be exercised if performance targets are met. On 25 March 2010, the Remuneration Committee amended the rules of the 1998 scheme such that certain options granted on 26 May 2004 (which had already met their performance targets and would ordinarily have become fully exercisable on 26 May 2010), became exercisable on or after 25 March 2010 and therefore shortly before their normal sixth anniversary date.

For options granted in 2002 and 2003 under the 1998 scheme, the performance target requires the company's adjusted NAV per share to outperform either the Retail Prices Index by 9%, or the FTSE All-Share index, over any consecutive three financial years prior to expiry. For options granted in 2004, the performance target is such that 50% of the shares comprised in an option will vest if the company's NAV per share outperforms the Retail Prices Index by at least 9% over the relevant measurement period, with the other 50% vesting if the company's NAV per share outperforms the FTSE All-Share index over the relevant measurement period. The performance measure has to be achieved either over the first three years, or over the first four years, after the date of grant. If the performance measure is not achieved four years after the date of grant, the options will lapse.

The performance target for the 2005 scheme requires that 50% of the shares comprised in an option will vest if Caledonia's NAV per share outperforms the Retail Prices Index by at least 9% over the measurement period. The other 50% of the shares comprised in the option will vest if NAV per share outperforms the FTSE All-Share index by at least 3% over the measurement period. The measurement period for these purposes is the period of three financial years measured at the end of the third financial year following the date of grant of the options. There is no re-testing of the performance targets. To the extent that the performance target is not met over this three year period, the options will lapse.

Name	Grant date	Number of options: Opening balance	Granted	Lapsed	Closing balance	Exercise price (p)	Gains on exercise: 2011 £'000	2010 £'000	Exercisable from date	Expiry date
W P Wyatt	05.07.02	6,000	–	–	6,000	782.5	–		05.07.05	05.07.12
	20.11.03	9,000	–	–	9,000	945	–		20.11.06	20.11.13
	26.05.04	9,500	–	–	9,500	1055	–		26.05.07	26.05.14
	19.08.05	13,290	–	–	13,290	1580	–		19.08.08	19.08.15
	01.06.06	6,789	–	–	6,789	1878	–		01.06.09	01.06.16
	03.06.08	18,560	–	(18,560)	–	1980	–			
	29.05.09	25,414	–	–	25,414	1446	–		29.05.12	29.05.19
	21.05.10	–	33,936	–	33,936	1547	–		21.05.13	21.05.20
		88,553	33,936	(18,560)	103,929		–	151		
The Hon	19.08.05	18,035	–	–	18,035	1580	–		19.08.08	19.08.15
C W Cayzer	01.06.06	8,387	–	–	8,387	1878	–		01.06.09	01.06.16
	03.06.08	18,560	–	(18,560)	–	1980	–			
	29.05.09	25,414	–	–	25,414	1446	–		29.05.12	29.05.19
	21.05.10	–	26,179	–	26,179	1547	–		21.05.13	21.05.20
		70,396	26,179	(18,560)	78,015		–	313		
J M B Cayzer-	19.08.05	13,290	–	–	13,290	1580	–		19.08.08	19.08.15
Colvin	01.06.06	6,789	–	–	6,789	1878	–		01.06.09	01.06.16
	03.06.08	18,560	–	(18,560)	–	1980	–			
	29.05.09	25,414	–	–	25,414	1446	–		29.05.12	29.05.19
	21.05.10	–	26,179	–	26,179	1547	–		21.05.13	21.05.20
		64,053	26,179	(18,560)	71,672		–	471		
J M May	19.08.05	26,815	–	–	26,815	1580	–		19.08.08	19.08.15
	01.06.06	11,681	–	–	11,681	1878	–		01.06.09	01.06.16
	03.06.08	25,757	–	(25,757)	–	1980	–			
	29.05.09	35,269	–	–	35,269	1446	–		29.05.12	29.05.19
	21.05.10	–	38,784	–	38,784	1547	–		21.05.13	21.05.20
		99,522	38,784	(25,757)	112,549		–	355		
S A King	21.05.10	–	30,959	–	30,959	1547	–		21.05.13	21.05.20
		–	30,959	–	30,959		–	–		
T C W	19.08.05	36,075	–	–	36,075	1580	–		19.08.08	21.07.11
Ingram[1]	01.06.06	16,773	–	–	16,773	1878	–		01.06.09	21.07.11
	03.06.08	40,151	–	–	40,151	1980	–		03.06.11	03.06.12
	29.05.09	54,979	–	(864)	54,115	1446	–		29.05.12	29.05.13
		147,978	–	(864)	147,114		–	292		
Former director		–	–	–	–		–	276		
		470,502	156,037	(82,301)	544,238		–	1,858		

1. Mr Ingram retired as a director on 21 July 2010. Included within the options granted on 29 May 2009 are 865 HMRC approved options which are only exercisable until 21 July 2011.

The performance targets have been met for all outstanding options shown in the table above granted up to 2006. The options granted in 2008 have failed to achieve either of their performance targets and accordingly all have lapsed.

The Remuneration Committee has selected the FTSE All-Share index as the performance measure for both the company's shorter term annual bonus scheme and its longer term share plans as it believes that this is the best way to incentivise executives to deliver continued strong NAV per share performance, which underpins Caledonia's objective of achieving TSR in excess of the FTSE All-Share Total Return index over five and ten year periods. TSR itself has not been chosen as a measure of executive management performance, as this may be affected by the level of Caledonia's share price discount, which can be influenced by factors outside the company's control. The Retail Prices Index has also been chosen as a performance measure for the company's longer term incentive plans, as the Remuneration Committee believes that this is an appropriate benchmark for the company's other objective of achieving a positive total return over rolling five year periods. As stated above, for the financial year ending 31 March 2012 and for future years, the Remuneration Committee intends to change the performance benchmark to the FTSE All-Share Total Return index for both the company's annual bonus scheme and its longer term share plans as it regards a total return basis as a more appropriate measure of the company's objectives. The Remuneration Committee is also proposing to replace the Retail Prices Index with the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index as the other benchmark for its longer term share plans as it regards the latter as more reflective of the company's aim to provide a long term store of wealth for its shareholders.

As at 31 March 2011, the market price of the company's shares was 1725p (2010 – 1625p) and the range during the year was 1532p to 1928p.

Directors' remuneration report

continued

Statement on executive directors' service contracts and the Chairman's and non-executive directors' letters of appointment

Executive directors have service contracts with Caledonia Group Services Ltd, a wholly-owned subsidiary of the company, details of which are summarised below:

Name	Date of contract	Notice period	Unexpired term
W P Wyatt	02.06.05	12 months	Rolling 12 months
The Hon C W Cayzer	11.06.02	12 months	Rolling 12 months
J M B Cayzer-Colvin	19.04.05	12 months	Rolling 12 months
S A King	19.11.09	12 months	Rolling 12 months
J M May	01.09.03	12 months	Rolling 12 months

Directors' service contracts contain provisions whereby the company may, at its discretion, terminate the contract without notice and make a lump sum payment in lieu of notice and (other than in the case of Mr King's service contract) whereby a liquidated sum is payable in the event of termination within one year following a change of control. Any such payment in lieu of notice or liquidated sum would be equivalent to no more than one year's total emoluments. Mr King's service contract contains provisions whereby, as an alternative to the payment of a lump sum in lieu of notice, the company may elect to pay the equivalent amount in equal monthly instalments, such instalments to be reduced by 50% of one-twelfth of the basic salary in excess of £20,000 that Mr King receives from any alternative employment that he takes up during the notice period.

The service contract of The Hon C W Cayzer is also subject to a provision whereby, in the event of a payment in lieu of notice or payment of a liquidated sum on termination, he would be entitled to an increase in his pensionable service equivalent to the unexpired period of notice under his contract.

The Chairman and the non-executive directors do not have service contracts, but are appointed under letters of appointment which provide for termination without notice or compensation.

Executive directors' service contracts and the Chairman's and non-executive directors' letters of appointment are available for inspection at the registered office of the company.

The directors' remuneration report was approved by the board on 25 May 2011 and signed on its behalf by:

Mark Davies
Chairman of the Remuneration Committee

Independent auditors' report to the members of Caledonia Investments plc

We have audited the financial statements of Caledonia Investments plc for the year ended 31 March 2011 which comprise the group and company statements of comprehensive income, the group and company statements of financial position, the group and company statements of changes in equity, the group and company statements of cash flows, and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the statement of directors' responsibilities, 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we became aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 and of the group's and the parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the parts 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.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 contained within the directors' report in relation to going concern;
- the part of the corporate governance report relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

C. M. Thomson

Calum Thomson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
25 May 2011

Company statement of comprehensive income

for the year ended 31 March 2011

	Note	2011 Revenue £m	2011 Capital £m	2011 Total £m	2010 Revenue £m	2010 Capital £m	2010 Total £m
Revenue							
Investment and other income	1	33.2	–	33.2	33.0	–	33.0
Gains and losses on fair value investments	8	–	72.5	72.5	–	302.8	302.8
Gains and losses on derivatives		–	(0.8)	(0.8)	–	(7.5)	(7.5)
Total revenue		33.2	71.7	104.9	33.0	295.3	328.3
Management expenses	2	(9.7)	(0.5)	(10.2)	(12.3)	(0.5)	(12.8)
Performance fees	2	–	–	–	(0.3)	–	(0.3)
Investment provisions	20	–	(10.0)	(10.0)	–	(5.4)	(5.4)
Profit before finance costs		23.5	61.2	84.7	20.4	289.4	309.8
Treasury interest receivable	3	0.7	–	0.7	0.5	–	0.5
Finance costs	4	(0.4)	–	(0.4)	(0.4)	–	(0.4)
Exchange movements		0.5	–	0.5	(0.3)	–	(0.3)
Profit before tax		24.3	61.2	85.5	20.2	289.4	309.6
Taxation	5	(0.9)	(0.5)	(1.4)	3.6	(0.8)	2.8
Profit for the year		23.4	60.7	84.1	23.8	288.6	312.4
Other comprehensive income							
Actuarial losses on defined benefit pension schemes	19	–	–	–	(1.0)	–	(1.0)
Tax on other comprehensive income	5	–	–	–	0.3	–	0.3
Total comprehensive income		23.4	60.7	84.1	23.1	288.6	311.7
Basic earnings per share	7	40.5p	105.0p	145.5p	41.2p	499.8p	541.0p
Diluted earnings per share	7	40.4p	104.7p	145.1p	41.1p	498.5p	539.6p

The total column of the above statement represents the company's statement of comprehensive income, prepared in accordance with IFRSs as adopted the European Union.

The revenue and capital columns are supplementary to the company's statement of comprehensive income and are prepared under guidance published by the Association of Investment Companies.

The accounting policies and notes to the financial statements on pages 45 to 63 are an integral part of these financial statements.

Group statement of comprehensive income

for the year ended 31 March 2011

	Note	2011 £m	2010 £m
Revenue			
Investment and other income	1	24.7	34.1
Gains and losses on investments held at fair value through profit or loss		62.9	294.2
Gains and losses on derivatives used to hedge the fair value of investments		(0.2)	(19.2)
Revenue from sales of goods and services		118.2	116.0
Total revenue		205.6	425.1
Investment management expenses	2	(10.2)	(12.8)
Investment performance fees	2	–	(0.3)
Trade operating expenses	2	(126.2)	(111.5)
Gain on disposal of operations	24	10.6	1.4
Gain/(loss) on investment property	11	(0.3)	0.3
Share of results of joint ventures	12	(3.8)	(0.3)
Profit before finance costs		75.7	301.9
Treasury interest receivable	3	0.4	0.3
Finance costs	4	(2.4)	(2.6)
Exchange movements		0.1	(0.5)
Profit before tax		73.8	299.1
Taxation	5	(6.2)	(0.7)
Profit for the year		67.6	298.4
Other comprehensive income			
Exchange differences on translation of foreign operations		(1.3)	(1.2)
Transfer to profit or loss on disposal of foreign operations	24	0.1	(1.1)
Actuarial gains/(losses) on defined benefit pension schemes	19	0.7	(0.4)
Tax on other comprehensive income	5	(0.2)	–
Total comprehensive income		66.9	295.7
Profit for the year attributable to			
Owners of the parent		68.8	299.3
Non-controlling interest		(1.2)	(0.9)
		67.6	298.4
Total comprehensive income attributable to			
Owners of the parent		68.2	296.6
Non-controlling interest		(1.3)	(0.9)
		66.9	295.7
Basic earnings per share	7	119.0p	518.4p
Diluted earnings per share	7	118.7p	517.0p

The accounting policies and notes to the financial statements on pages 45 to 63 are an integral part of these financial statements.

Statement of financial position

at 31 March 2011

	Note	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Non-current assets					
Investments held at fair value through profit or loss	8	1,183.2	1,183.8	1,095.5	1,105.7
Investments in subsidiaries held at cost	8	0.8	0.8	–	–
Available for sale investments	8	–	–	0.8	0.8
Intangible assets	9	–	–	7.6	25.0
Property, plant and equipment	10	–	–	81.1	87.0
Investment property	11	–	–	20.5	12.3
Interests in joint ventures	12	–	–	2.7	7.6
Deferred tax assets	13	–	–	4.7	6.0
Non-current assets		1,184.0	1,184.6	1,212.9	1,244.4
Current assets					
Inventories	14	–	–	16.6	14.7
Trade and other receivables	15	3.6	5.2	29.1	32.5
Current tax assets	5	–	0.7	0.2	2.6
Cash and cash equivalents	16	101.2	8.3	121.5	30.5
Current assets		104.8	14.2	167.4	80.3
Total assets		1,288.8	1,198.8	1,380.3	1,324.7
Current liabilities					
Interest-bearing loans and borrowings	17	–	–	(48.2)	–
Trade and other payables	18	(10.2)	(7.3)	(31.8)	(27.9)
Employee benefits	19	–	–	(3.7)	(3.9)
Current tax liabilities		(0.5)	–	(2.6)	(0.5)
Provisions	20	(18.9)	(8.9)	(4.1)	(4.0)
Current liabilities		(29.6)	(16.2)	(90.4)	(36.3)
Non-current liabilities					
Interest-bearing loans and borrowings	17	–	–	(30.8)	(86.2)
Employee benefits	19	–	–	(7.9)	(9.0)
Deferred tax liabilities	13	(0.5)	(1.0)	(2.0)	(2.2)
Non-current liabilities		(0.5)	(1.0)	(40.7)	(97.4)
Total liabilities		(30.1)	(17.2)	(131.1)	(133.7)
Net assets		1,258.7	1,181.6	1,249.2	1,191.0
Equity					
Share capital	22	3.3	3.3	3.3	3.3
Share premium	22	1.3	1.3	1.3	1.3
Capital redemption reserve	22	1.2	1.2	1.2	1.2
Capital reserve	22	992.8	932.1	–	–
Retained earnings	22	288.3	271.7	1,267.7	1,206.4
Foreign exchange translation reserve	22	–	–	4.3	5.4
Own shares	22	(28.2)	(28.0)	(28.2)	(28.0)
Equity attributable to owners of the parent		1,258.7	1,181.6	1,249.6	1,189.6
Non-controlling interest	22	–	–	(0.4)	1.4
Total equity		1,258.7	1,181.6	1,249.2	1,191.0
Undiluted net asset value per share	7	2180p	2047p		
Diluted net asset value per share	7	2165p	2034p		

The financial statements on pages 40 to 63 were approved by the board and authorised for issue on 25 May 2011 and were signed on its behalf by:

Will Wyatt
Chief Executive

Stephen King
Finance Director

The accounting policies and notes to the financial statements on pages 45 to 63 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 March 2011

	Share capital £m	Share premium £m	Capital redemption reserve £m	Capital reserve £m	Retained earnings £m	Currency translation reserve £m	Own shares £m	Non–controlling interest £m	Total equity £m
Company									
Balance at 1 April 2009	3.3	1.3	1.2	643.5	281.5	–	(24.6)	–	906.2
Total comprehensive income	–	–	–	288.6	23.1	–	–	–	311.7
Share-based payments	–	–	–	–	1.1	–	–	–	1.1
Exercise of share options	–	–	–	–	–	–	3.8	–	3.8
Own shares purchased	–	–	–	–	–	–	(7.2)	–	(7.2)
Dividends paid	–	–	–	–	(34.0)	–	–	–	(34.0)
Balance at 31 March 2010	3.3	1.3	1.2	932.1	271.7	–	(28.0)	–	1,181.6
Total comprehensive income	–	–	–	60.7	23.4	–	–	–	84.1
Share-based payments	–	–	–	–	(0.4)	–	–	–	(0.4)
Own shares purchased	–	–	–	–	–	–	(0.2)	–	(0.2)
Dividends paid	–	–	–	–	(6.4)	–	–	–	(6.4)
Balance at 31 March 2011	3.3	1.3	1.2	992.8	288.3	–	(28.2)	–	1,258.7
Group									
Balance at 1 April 2009	3.3	1.3	1.2	–	940.4	7.7	(24.6)	2.7	932.0
Total comprehensive income	–	–	–	–	298.9	(2.3)	–	(0.9)	295.7
Share-based payments	–	–	–	–	1.1	–	–	–	1.1
Exercise of share options	–	–	–	–	–	–	3.8	–	3.8
Own shares purchased	–	–	–	–	–	–	(7.2)	–	(7.2)
Capital contributed	–	–	–	–	–	–	–	0.5	0.5
Dividends paid	–	–	–	–	(34.0)	–	–	(0.9)	(34.9)
Balance at 31 March 2010	3.3	1.3	1.2	–	1,206.4	5.4	(28.0)	1.4	1,191.0
Total comprehensive income	–	–	–	–	69.3	(1.1)	–	(1.3)	66.9
Share-based payments	–	–	–	–	(0.4)	–	–	–	(0.4)
Own shares purchased	–	–	–	–	–	–	(0.2)	–	(0.2)
Capital contributed	–	–	–	–	–	–	–	0.6	0.6
Non-controlling interest acquired	–	–	–	–	(1.2)	–	–	(0.8)	(2.0)
Dividends paid	–	–	–	–	(6.4)	–	–	(0.3)	(6.7)
Balance at 31 March 2011	3.3	1.3	1.2	–	1,267.7	4.3	(28.2)	(0.4)	1,249.2

The accounting policies and notes to the financial statements on pages 45 to 63 are an integral part of these financial statements.

Statement of cash flows

for the year ended 31 March 2011

		Company		Group	
	Note	2011 £m	2010 £m	2011 £m	2010 £m
Operating activities					
Dividends received		30.3	27.2	21.6	24.9
Interest received		2.3	3.3	2.7	3.3
Cash received from customers		–	–	123.6	125.8
Cash paid to suppliers and employees		(13.8)	(12.0)	(123.6)	(119.9)
Taxes received/(paid)		(0.1)	0.7	(0.6)	(3.5)
Group relief paid		(0.1)	(0.4)	–	–
Net cash flow from operating activities		18.6	18.8	23.7	30.6
Investing activities					
Purchases of investments		(112.9)	(109.9)	(91.4)	(100.3)
Proceeds from disposal of investments		195.5	81.1	173.4	66.0
Proceeds from disposal of money market funds		–	–	–	1.0
Net receipts/(payments) from derivatives		–	(0.9)	(0.2)	9.2
Purchases of property, plant and equipment		–	–	(3.0)	(3.4)
Purchases of investment property		–	–	(8.8)	(12.1)
Purchases of joint ventures		–	–	(0.2)	–
Proceeds from disposal of joint ventures		–	–	1.2	0.2
Purchases of subsidiaries net of cash acquired	23	–	–	(2.2)	(3.1)
Proceeds from disposal of subsidiaries net of cash disposed	24	–	–	15.4	0.7
Net cash flow from/(used in) investing activities		82.6	(29.7)	84.2	(41.8)
Financing activities					
Interest paid		(0.3)	(0.3)	(2.2)	(2.2)
Dividends paid to owners of the company		(6.4)	(34.0)	(6.4)	(34.0)
Distributions paid to non-controlling interest		–	–	(0.3)	(0.9)
Proceeds from new borrowings		–	–	0.3	8.2
Repayment of borrowings		–	–	(6.8)	(1.5)
Capital contribution by non-controlling interest		–	–	0.6	0.5
Exercise of share options		–	3.8	–	3.8
Purchase of own shares		(1.6)	(5.8)	(1.6)	(5.8)
Net cash flow used in financing activities		(8.3)	(36.3)	(16.4)	(31.9)
Net increase/(decrease) in cash and cash equivalents		92.9	(47.2)	91.5	(43.1)
Cash and cash equivalents at year start		8.3	55.5	30.5	73.9
Exchange movements on cash and cash equivalents		–	–	(0.5)	(0.3)
Cash and cash equivalents at year end	16	101.2	8.3	121.5	30.5

The accounting policies and notes to the financial statements on pages 45 to 63 are an integral part of these financial statements.

Accounting policies

General information
Caledonia Investments plc is an investment trust company domiciled in the United Kingdom and incorporated in England in 1928, under the Companies Acts 1908 to 1917. The address of its registered office is Cayzer House, 30 Buckingham Gate, London SW1E 6NN. The ordinary shares of the company are listed on the London Stock Exchange and the New Zealand Exchange.

These financial statements were authorised for issue by the directors on 25 May 2011.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which Caledonia operates.

In the current year, the group has adopted:

- IFRIC 17 'Distributions of Non-cash Assets to Owners', providing guidance on accounting for such transactions.
- IFRIC 18 'Transfers of Assets from Customers', providing guidance on accounting for such transactions.

The adoption of these Interpretations had no impact on these financial statements.

At the date of authorisation of these financial statements, the following Standard and Interpretation, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS 9 'Financial Instruments: Classification and Measurement'
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'.

The directors anticipate that the adoption of the Standard and Interpretation in future periods will have no material impact on the financial statements of the company.

Significant accounting policies
Basis of accounting
These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted for use in the EU and therefore the group financial statements comply with Article 4 of the EU IAS Regulation. IFRSs comprise accounting standards issued by the International Accounting Standards Board and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee and its predecessor body.

Caledonia is an investment trust company. However, because it holds majority stakes and therefore has the power to control, it is required to prepare group accounts that consolidate the results of such investments. In order to present information that is comparable with other investment trust companies, Caledonia also publishes financial statements of the company, which include investments in subsidiaries regarded as part of the company's investing business at fair value.

The financial statements have been prepared on an historical cost basis, except for the revaluation of certain financial instruments and properties. Where presentational guidance set out in the *Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts* ('SORP') issued by the Association of Investment Companies in January 2009 is consistent with the requirements of IFRSs as adopted by the European Union, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP. The recommendations of the SORP have been applied to the company, but not to the group, financial statements, as the directors believe that it would be misleading to present a three column income statement for the group. 2011 is the first year in which the presentational guidance in the SORP has been adopted.

Under the Combined Code and applicable regulations, the directors are required to satisfy themselves that it is reasonable to presume that the company is a going concern. The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future, as discussed in the directors' report on page 26. Accordingly, they continue to adopt the going concern basis of preparing the financial statements.

The principal accounting policies are set out below.

Foreign currency translation
Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair values were determined.

In the company financial statements, foreign exchange gains or losses are recognised in capital or revenue reserve depending on whether the gain or loss is of a capital or revenue nature respectively.

Assets and liabilities of the group's overseas operations are measured using their functional currency, being the currency of the primary economic environment in which they operate.

On consolidation, the assets and liabilities of the group's overseas operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the group's foreign exchange translation reserve. Such exchange differences are recognised in the statement of comprehensive income in the period in which the operation is sold.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the reporting date.

Investments
Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, excluding transaction costs.

Investments held as part of the group's business of investing in financial assets are designated as measured at fair value through profit or loss in both the consolidated financial statements and the company financial statements. Other investments held by subsidiaries are designated as available for sale in the consolidated financial statements. Other investments in subsidiaries held by the company are accounted for at cost in the financial statements of the company.

Investments designated as held at fair value through profit or loss or as available for sale are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in the value of investments designated as held at fair value through profit or loss, including foreign exchange movements, are included in net profit or loss for the period as a capital return. For available for sale investments, gains and losses arising from changes in fair value are recognised in other comprehensive income until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the net profit or loss for the period. If, in the subsequent period, the fair value of the available for sale investments, for which impairment was previously recognised, increases in value, the impairment loss is reversed through the statement of comprehensive income.

Accounting policies
continued

Listed investments are valued at bid price or the last traded price when a bid price is not available. Unlisted investments are valued using recognised valuation methodologies, based on the International Private Equity and Venture Capital Guidelines, which reflect the amount for which an asset could be exchanged between knowledgeable, willing parties on an arm's length basis. The portfolio valuation methodology is detailed on page 21.

Distributions from investment limited partnerships are treated as disposal proceeds or income in accordance with the nature of the distribution. Any surplus capital distributions after repaying any partner's loans and capital are treated as realised gains.

Income
Dividends receivable on equity shares are recognised as revenue when the shareholders' right to receive payment has been established, normally the ex-dividend date. Where no ex-dividend date is available, dividends receivable on or before the period end are treated as revenue for the period. Provision is made for any dividends not expected to be received.

The fixed returns on debt securities, loans and non-equity shares are recognised on an effective interest rate basis, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

For trading subsidiaries, revenue comprises the fair value of the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the group. Sales of goods are recognised when goods are delivered and title has passed. Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of the total services to be provided.

The company's share of net income from limited partnerships is recognised as revenue when received.

Where uncertainty arises over the collectability of an amount already included in income, the uncollectible amount or the amount in respect of which the recovery has ceased to be probable, is recognised as an expense. When the uncertainty over collectability is removed, normally on receipt, the income is recognised in the statement of comprehensive income.

Expenses
All expenses are accounted for on an accrual basis. In the company financial statements, management expenses and performance fees are included in revenue reserves. Expenses of acquisition of an investment designated as held at fair value through profit or loss or expenses of an aborted acquisition or disposal of an investment are presented as transaction costs or deducted from the proceeds of sale as appropriate and included in capital reserves.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that were applicable at the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Investment trust companies that have approval as such under section 1158 of the Corporation Tax Act 2010 (formerly section 842 of the Income and Corporation Taxes Act 1988) are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each reporting date and adjusted to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Dividend distribution
Dividends are recognised in the period in which they are appropriately authorised and no longer at the discretion of the entity. For interim dividends, this will normally mean the date on which they are paid and, for final dividends, the date on which they are approved in general meeting.

Employee benefits
Pension schemes
Payments to defined contribution schemes are charged as an expense as they fall due.

For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised in other comprehensive income and presented in the statement of comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Profit-sharing and bonus plans
The group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based payments
The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant and the fair value is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Where employees of a subsidiary are granted rights to the equity instruments of its parent as consideration for the services provided to the subsidiary, the subsidiary recognises an equity settled share-based payment transaction expense with a corresponding increase recognised in equity representing a contribution from the parent.

An employee share trust is used for distributing option shares and deferred bonus awards to employees under Caledonia's share remuneration schemes. The trustee purchases shares with money lent interest free by Caledonia and transfers shares to participating employees on receipt of the requisite consideration or calling of awards.

The transactions the employee share trust undertakes are considered to be performed by the trust as an agent for Caledonia. The transactions of the employee share trust are included in the separate financial statements of the parent company and, following the requirements of SIC 12, in the consolidated financial statements as if they arose in that company. Own shares held by the employee share trust as at the reporting date are accounted for as if they were treasury shares.

National insurance on share option scheme gains and deferred bonus awards
National insurance payable on the exercise of certain employee share options at the date of exercise and deferred bonus awards at the date of call have been charged as an expense spread over the respective vesting periods. The charge is based on the difference between the market value of the underlying shares at the reporting date and the exercise price for share options or £nil for deferred bonus awards and calculated at the latest enacted national insurance rate.

Capital reserve
The company maintains a capital reserve, which it is prohibited from distributing by virtue of its articles of association. The following items are transferred into the capital reserve from profit or loss:

- gains and losses on investments held at fair value through profit or loss
- gains and losses on derivatives used to hedge the fair value of investments
- expenses and finance costs incurred directly in relation to capital transactions
- taxation on items recognised in the capital reserve.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, other than land or properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Property	25-40 years
Plant	10-15 years
Equipment	3-8 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

Investment property
Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the reporting date. Gains and losses arising from changes in the fair value of investment property are included in the statement of comprehensive income for the period in which they arise.

Intangible assets
Brands, trademarks, computer software and customer relationships
Brands, trademarks, computer software and customer relationships acquired by the group are stated at cost less accumulated amortisation and impairment losses. Where such items are not deemed to have an indefinite life, amortisation is expensed on a straight-line basis over their estimated useful lives.

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Impairment of assets
At each reporting date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, intangible assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Properties that are held for sale in the ordinary course of business or are being developed for future sale are classified as inventories.

Receivables
Receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents
Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the statement of comprehensive income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. The effective interest method allocates the interest expense over the life of the instrument so as to reflect a constant return on the carrying amount of the liability.

Borrowings include a component of the company's deferred ordinary shares and preference shares in subsidiaries held by third parties that fall under the definition of financial liabilities under IAS 32.

Provisions
A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

In the company financial statements, provisions recognised for investments are recognised in the statement of comprehensive income as a capital return.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Accounting policies

continued

Lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis.

Lessee

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Share capital

Equity instruments issued by the company are recorded as the proceeds received, net of direct issue costs.

Where any group company and the Caledonia Investments plc Employee Share Trust purchases the company's equity share capital or the company buys shares into treasury, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's owners until the shares are cancelled or transferred. Where such shares are subsequently transferred, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's owners.

Derivative financial instruments and hedge accounting

Derivatives are recognised at fair value on the date a contract is entered into and are subsequently re-measured at their fair value.

Hedge accounting is not applied. Changes in the fair value of derivative financial instruments are recognised in the statement of comprehensive income as they arise.

Operating segments

Operating segments are based on the financial information reported to the chief operating decision maker.

Basis of consolidation

Subsidiaries

The consolidated financial statements include the financial statements of the company and entities controlled by the company (its subsidiaries) made up to the reporting date. Control is achieved where the company has the power to govern the financial and operating policies of the investee entity so as to obtain economic benefits from its activities.

On acquisition, the identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency in the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the statement of comprehensive income in the period of acquisition. The interest of non-controlling shareholders is stated at the non-controlled proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Associates

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through the financial and operating policy decisions of the investee entity.

As Caledonia is an investment trust company, and its investments held in associates are designated as held at fair value through profit or loss, the provisions of IAS 28 'Investments in Associates' do not apply. Such investments are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they occur.

No other group company held investments in associates.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is the subject of joint control.

As Caledonia is an investment trust company, and its interests in joint ventures are designated as held at fair value through profit or loss, the provisions of IAS 31 'Interests in Joint Ventures' do not apply. Such interests are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they occur. However, the provisions of IAS 31 do apply to interests in joint ventures held by other companies in the group, as set out below.

The results and assets and liabilities of joint ventures held by subsidiaries are incorporated in these financial statements using the equity method of accounting, except when classified as held for sale. Interests in joint ventures are carried in the statement of financial position at cost as adjusted by post-acquisition changes in the group's share of net assets of the joint ventures, less any impairment in the value of individual investments. Losses of the joint ventures in excess of the group's interest in those joint ventures are not recognised.

Any excess of the cost of acquisition over the group's share of the fair values of the identifiable net assets of the joint ventures at the date of acquisition is recognised as goodwill. Any deficiency in the cost of acquisition below the group's share of the fair values of the identifiable net assets at the date of acquisition is credited in profit or loss in the period of acquisition.

Where a group company transacts with joint ventures of the group, profits and losses are eliminated to the extent of the group's interest in the relevant joint ventures. Losses may provide evidence of an impairment of the asset transferred, in which case appropriate provision is made for impairment.

Notes to the financial statements

1. Investment and other income

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Investment income				
Dividends from equity shares				
Listed UK	13.3	18.5	13.3	18.5
Listed non-UK	1.4	1.5	1.4	1.5
Unlisted	6.7	5.6	6.7	5.6
Subsidiaries	8.9	2.3	–	–
Interest on loan investments				
Unlisted	2.6	3.5	3.3	7.3
Subsidiaries	0.3	0.4	–	–
	33.2	31.8	24.7	32.9
Other income				
Sub-underwriting commission	–	1.2	–	1.2
	33.2	33.0	24.7	34.1

2. Expenses

Investing operations
Management expenses

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Personnel expenses	6.4	8.8	6.4	8.8
Depreciation	0.1	0.1	0.1	0.1
Auditors' remuneration	0.1	0.1	0.1	0.1
Other administrative expenses	3.0	3.1	3.0	3.1
Other expenses	0.1	0.2	0.1	0.2
	9.7	12.3	9.7	12.3

Caledonia Group Services Ltd, a wholly-owned subsidiary, provides management services to the company and charges for its services on the basis of net expenses incurred. The table above includes both an analysis of this expense and Caledonia's own management expenses.

Other expenses

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Transaction costs	0.5	0.5	0.5	0.5
Performance fees	–	0.3	–	0.3
	0.5	0.8	0.5	0.8

Transaction costs were expenses incidental to the acquisition of investments held at fair value through profit or loss and expenses incurred as part of aborted investment purchases or sales and were allocated to the capital reserve.

Trading operations
Operating expenses

	Group 2011 £m	Group 2010 £m
Cost of sales	68.9	67.5
Distribution expenses	11.6	13.0
Administrative expenses	45.7	31.0
	126.2	111.5

Operating expenses included the following items:

	Group 2011 £m	Group 2010 £m
Depreciation	4.5	4.4
Amortisation	2.5	1.4
Impairment loss on goodwill	12.9	–
Impairment loss on customer relationships	2.0	1.9
Direct operating expenses of investment property that generated rental income	0.1	0.1
Operating lease rentals (note 25)	2.3	2.5
Auditors' remuneration	0.2	0.2

Further information
Auditors' remuneration
Fees payable to Deloitte LLP were as follows:

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Audit services				
Company audit	0.1	0.1	0.1	0.1
Consolidation audit	–	–	0.1	0.1
Annual report	0.1	0.1	0.2	0.2
Subsidiaries' audit	–	–	0.1	0.1
	0.1	0.1	0.3	0.3
Other services				
Taxation advice	0.3	0.2	0.3	0.2
	0.4	0.3	0.6	0.5

Personnel expenses

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Wages and salaries	5.9	6.2	36.4	36.6
Compulsory social security contributions	0.7	0.7	5.5	5.1
Contributions to defined contribution plans	0.2	0.2	0.8	0.6
Defined benefit pension plans expense (note 19)	–	0.2	0.3	1.0
Increase in liability for long service leave	–	–	–	0.1
Equity-settled share-based payments (note 19)	(0.4)	1.1	(0.4)	1.1
National insurance on share awards	–	0.4	–	0.4
	6.4	8.8	42.6	44.9

The average number of employees, including executive directors, throughout the year was as follows:

	Company 2011 No	Company 2010 No	Group 2011 No	Group 2010 No
Average number of employees	41	42	797	790

Notes to the financial statements
continued

3. Treasury interest receivable

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Interest on bank deposits	0.2	0.1	0.3	0.2
Other interest receivable	0.1	–	0.1	0.1
Guarantee fees	0.4	0.4	–	–
	0.7	0.5	0.4	0.3

4. Finance costs

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Interest on bank loans and overdrafts	0.4	0.4	2.3	2.5
Other interest costs	–	–	0.1	0.1
	0.4	0.4	2.4	2.6

5. Taxation

Recognised in comprehensive income

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Current tax expense				
Current year	(1.5)	(1.8)	1.2	1.2
Adjustments for prior years	3.4	(3.5)	4.3	(2.9)
	1.9	(5.3)	5.5	(1.7)
Deferred tax expense				
Origination and reversal of timing differences	(0.5)	2.5	1.2	3.5
Benefit of tax losses recognised	–	–	(0.5)	(1.1)
	(0.5)	2.5	0.7	2.4
Total tax expense/(income)	1.4	(2.8)	6.2	0.7

Reconciliation of effective tax expense

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Profit before tax	85.5	309.6	73.8	299.1
Tax at the domestic rate of 28%	23.9	86.7	20.7	83.7
Effect of tax rate in foreign jurisdictions	–	–	6.3	2.3
Non-deductible expenses	0.1	0.1	–	0.9
Utilisation of tax losses	–	–	(1.4)	(1.6)
Losses for the year unrelieved	0.3	–	2.0	1.0
Non-taxable gains on investments	(17.8)	(78.5)	(21.1)	(75.1)
Non-taxable UK dividend income	(7.6)	(7.3)	(5.1)	(6.7)
Tax exempt revenues	(0.9)	(0.3)	(0.9)	(0.3)
Other timing differences	–	–	1.4	(0.6)
Under/(over) provided in prior years	3.4	(3.5)	4.3	(2.9)
Tax expense/(income)	1.4	(2.8)	6.2	0.7

Recognised in other comprehensive income

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Deferred tax expense				
Relating to actuarial gains/(losses) on defined benefit pension schemes	–	(0.3)	0.3	–
Relating to share options and deferred bonus awards	–	–	(0.1)	–
	–	(0.3)	0.2	–

Current tax assets
Current tax assets of £0.2m in the group (2010 – £0.7m and £2.6m in the company and group respectively) represented the amount of income taxes recoverable in respect of current and prior years that exceeded payments.

6. Dividends

Amounts recognised as distributions to owners of the company in the year were as follows:

	2011 p/share	2011 £m	2010 p/share	2010 £m
Final dividend for the year ended 31 March 2009	–	–	23.5	13.6
Interim dividend for the year ended 31 March 2011 (2010)	11.1	6.4	10.6	6.1
Second interim dividend for the year ended 31 March 2010	–	–	24.7	14.3
	11.1	6.4	58.8	34.0
Proposed final dividend for the year ended 31 March 2011	26.0	15.2	–	–

The proposed final dividend has not been included as a liability in these financial statements. This dividend, if approved by shareholders at the annual general meeting to be held on 21 July 2011, will be payable on 11 August 2011 to holders of shares on the register on 8 July 2011. The ex-dividend date will be 6 July 2011.

For the purposes of section 1159 of the Corporation Tax Act 2010, the dividends payable for the year ended 31 March 2011 are the interim and final dividends for that year, amounting to £21.6m (2010 – £20.4m).

7. Earnings and net asset value per share

Basic and diluted earnings per share

The calculation of basic earnings per share of the company and of the group was based on the profit attributable to shareholders and the weighted average number of shares outstanding during the year. The calculation of diluted earnings per share included an adjustment for the effects of dilutive potential shares.

The company earnings per share figure can be further analysed between revenue and capital, as follows:

	Revenue 2011 £m	Revenue 2010 £m	Capital 2011 £m	Capital 2010 £m
Profit for the year	23.4	23.8	60.7	288.6

The profit attributable to shareholders was as follows:

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Profit attributable to shareholders (basic and diluted)	84.1	312.4	68.8	299.3

The weighted average number of shares was as follows:

	Company 2011 000's	Company 2010 000's	Group 2011 000's	Group 2010 000's
Issued shares at year start	58,795	58,795	58,795	58,795
Effect of shares held in treasury	(605)	(563)	(605)	(563)
Effect of shares held by the employee share trust	(373)	(489)	(373)	(489)
Shares held by a subsidiary	–	–	(3)	(3)
Basic weighted average number of shares during the year	57,817	57,743	57,814	57,740
Effect of share options and deferred bonus awards	144	151	144	151
Diluted weighted average number of shares during the year	57,961	57,894	57,958	57,891

Net asset value per share

The company's undiluted net asset value per share is based on the net assets of the company at the year end and on the number of shares in issue at the year end less shares held by the Caledonia Investments plc Employee Share Trust, restricted shares, shares held by a subsidiary and shares accounted as held in treasury. The company's diluted net asset value per share assumes the re-issue of shares accounted as held in treasury at the closing mid-market price on the reporting date, the exercise of all outstanding in-the-money share options and the calling of deferred bonus awards.

	2011 Net assets £m	2011 Number of shares 000's	2011 NAV p/share	2010 Net assets £m	2010 Number of shares 000's	2010 NAV p/share
Undiluted	1,258.7	57,739	2180	1,181.6	57,714	2047
Adjustments	22.8	1,463	(15)	18.3	1,278	(13)
Diluted	1,281.5	59,202	2165	1,199.9	58,992	2034

8. Investments

Company

	2011 £m	2010 £m
Non-current investments		
Investments held at fair value through profit or loss	1,183.2	1,183.8
Investments in subsidiaries held at cost	0.8	0.8
	1,184.0	1,184.6

The movements in non-current investments were as follows:

	Listed UK £m	Listed non-UK £m	Unlisted £m	Subsidiaries £m	Total £m
Balance at 31 March 2009	407.1	68.7	288.3	85.6	849.7
Purchases at cost	61.9	12.6	27.4	13.2	115.1
Disposal proceeds	(26.5)	(11.8)	(27.2)	(18.3)	(83.8)
Reclassifications	(22.8)	0.6	22.2	–	–
Gains on investments	176.2	73.5	44.5	8.6	302.8
Rolled-up interest	–	–	0.8	–	0.8
Balance at 31 March 2010	595.9	143.6	356.0	89.1	1,184.6
Purchases at cost	31.3	5.8	46.4	37.5	121.0
Disposal proceeds	(78.6)	(4.8)	(87.0)	(24.0)	(194.4)
Gains on investments	14.4	10.4	38.4	9.3	72.5
Rolled-up interest	–	–	0.3	–	0.3
Balance at 31 March 2011	563.0	155.0	354.1	111.9	1,184.0

Rolled-up interest is the movement in the fair value of loan instruments attributable to investment income.

Group

	2011 £m	2010 £m
Non-current investments		
Investments held at fair value through profit or loss		
Listed UK securities	563.0	618.7
Listed non-UK securities	164.3	143.4
Unlisted securities	368.2	343.6
	1,095.5	1,105.7
Available for sale investments		
Unlisted securities	0.8	0.8
	1,096.3	1,106.5

Notes to the financial statements

continued

9. Intangible assets

Group

	Goodwill £m	Customer relationships £m	Other £m	Total £m
Cost				
Balance at 31 March 2009	36.0	13.6	1.2	50.8
Disposal of operations	(0.4)	–	–	(0.4)
Exchange movements	(0.3)	–	–	(0.3)
Balance at 31 March 2010	35.3	13.6	1.2	50.1
Exchange movements	(0.2)	–	–	(0.2)
Balance at 31 March 2011	35.1	13.6	1.2	49.9
Amortisation and impairment				
Balance at 31 March 2009	18.2	2.8	1.0	22.0
Amortisation	–	1.2	0.2	1.4
Impairment	–	1.9	–	1.9
Exchange movements	(0.2)	–	–	(0.2)
Balance at 31 March 2010	18.0	5.9	1.2	25.1
Amortisation	–	2.5	–	2.5
Impairment	12.9	2.0	–	14.9
Exchange movements	(0.2)	–	–	(0.2)
Balance at 31 March 2011	30.7	10.4	1.2	42.3
Carrying amounts				
At 31 March 2009	17.8	10.8	0.2	28.8
At 31 March 2010	17.3	7.7	–	25.0
At 31 March 2011	4.4	3.2	–	7.6

Customer relationships primarily related to identifiable customer related intangible assets acquired on the purchase of the Ermitage group in 2007. During the year, the useful economic life of client relationships was revised down, from ten to five years.

Other intangible assets included brands and trademarks, recipes and formulae and computer software.

Impairment charge

The impairment charge for the year of £14.9m (2010 – £1.9m) was recognised in operating expenses of trading operations in the statement of comprehensive income.

Impairment tests for goodwill

The carrying amount of goodwill was predominantly attributable to a single cash generating unit, Ermitage group. The recoverable amount of the unit has been determined on the basis of the fair value less costs to sell based on recent forecasts from the unit management's business plan and comparable market transactions.

10. Property, plant and equipment

Group

	Property £m	Plant £m	Equipment £m	Total £m
Cost				
Balance at 31 March 2009	100.9	8.6	12.8	122.3
Other acquisitions	0.2	0.9	2.2	3.3
Disposal of operations	–	(0.1)	–	(0.1)
Other disposals	–	(0.2)	(0.8)	(1.0)
Exchange movements	(2.1)	(0.7)	(0.3)	(3.1)
Balance at 31 March 2010	99.0	8.5	13.9	121.4
Other acquisitions	0.8	0.7	1.3	2.8
Disposal of operations	(5.4)	(2.0)	(0.4)	(7.8)
Other disposals	(0.1)	(0.7)	(0.1)	(0.9)
Exchange movements	(0.6)	(0.4)	(0.1)	(1.1)
Balance at 31 March 2011	93.7	6.1	14.6	114.4
Depreciation and impairment				
Balance at 31 March 2009	24.0	3.9	4.0	31.9
Depreciation charge	2.0	1.3	1.2	4.5
Disposal of operations	–	(0.1)	–	(0.1)
Other disposals	–	(0.2)	(0.7)	(0.9)
Exchange movements	(0.4)	(0.4)	(0.2)	(1.0)
Balance at 31 March 2010	25.6	4.5	4.3	34.4
Depreciation charge	2.1	1.3	1.2	4.6
Disposal of operations	(2.4)	(1.6)	(0.3)	(4.3)
Other disposals	(0.1)	(0.7)	(0.1)	(0.9)
Exchange movements	(0.2)	(0.2)	(0.1)	(0.5)
Balance at 31 March 2011	25.0	3.3	5.0	33.3
Carrying amounts				
At 31 March 2009	76.9	4.7	8.8	90.4
At 31 March 2010	73.4	4.0	9.6	87.0
At 31 March 2011	68.7	2.8	9.6	81.1

Security

At 31 March 2011, properties with a carrying amount of £35.5m (2010 – £36.6m) were subject to charges to secure bank loans (note 17).

11. Investment property

Group

	2011 £m	2010 £m
Balance at the year start	12.3	0.5
Additions	8.5	11.5
Fair value adjustments	(0.3)	0.3
Balance at the year end	20.5	12.3

The carrying value of investment property was the fair value of the property as determined by a registered independent appraiser, having an appropriate recognised qualification and recent experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location. Investment property comprised commercial property that is leased out over 10 to 20 years (note 25) and vacant freehold land.

Security

At 31 March 2011, investment properties with a carrying value of £11.8m (2010 – £11.8m) were subject to charges to secure bank loans (note 17).

12. Interests in joint ventures

The group had the following interests in joint ventures:

	Country of domicile	Ownership 2011 %	Ownership 2010 %
Moredun LP	UK	33	33
Willmoreton Properties Ltd	UK	50	50

The group's share of post-acquisition total recognised profit or loss in the above joint ventures for the year ended 31 March 2011 was £3.8m loss (2010 – £0.3m loss).

Summarised financial information of joint ventures was as follows:

	Assets £m	Liabilities £m	Equity £m	Revenue £m	Profit/ (loss) £m
2011					
Moredun LP	22.8	(18.7)	4.1	2.5	(12.0)
Willmoreton Properties Ltd	5.8	(3.2)	2.6	0.9	0.1
	28.6	(21.9)	6.7	3.4	(11.9)
2010					
Moredun LP	39.0	(22.8)	16.2	2.7	1.9
Willmoreton Properties Ltd	9.9	(7.4)	2.5	0.9	(1.4)
York Investors LLP	6.6	(3.1)	3.5	0.3	(0.9)
GPG Premises LLP	0.2	(0.1)	0.1	0.4	–
	55.7	(33.4)	22.3	4.3	(0.4)

13. Deferred tax assets and liabilities

Company

Recognised deferred tax liabilities

Deferred tax liabilities were attributable to the following:

	Liabilities £m
2011	
Investments	(0.5)
2010	
Investments	(1.0)

Movement in temporary differences during the year

	Balance at year start £m	Recognised in Compre-hensive income £m	Recognised in Other compre-hensive income £m	Transfer to group company £m	Balance at year end £m
2011					
Investments	(1.0)	0.5	–	–	(0.5)
2010					
Investments	1.4	(2.4)	–	–	(1.0)
Employee benefits	0.4	(0.1)	0.3	(0.6)	–
	1.8	(2.5)	0.3	(0.6)	(1.0)

Unrecognised deferred tax assets

Deferred tax assets were not recognised in respect of the following items:

	2011 £m	2010 £m
Tax losses	2.0	–

A deferred tax asset was not recognised in respect of the tax losses because it was not probable that future taxable profits would be available against which the company could utilise the benefits.

Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities were attributable to the following:

	Assets £m	Liabilities £m	Net £m
2011			
Investments	–	(0.5)	(0.5)
Employee benefits	2.3	–	2.3
Tax losses	2.1	–	2.1
Other items	0.3	(1.5)	(1.2)
	4.7	(2.0)	2.7
2010			
Investments	–	(1.0)	(1.0)
Employee benefits	3.9	–	3.9
Tax losses	1.6	–	1.6
Other items	0.5	(1.2)	(0.7)
	6.0	(2.2)	3.8

Notes to the financial statements
continued

Unrecognised deferred tax assets
Deferred tax assets were not recognised in respect of the following items:

	2011 £m	2010 £m
Tax losses	5.3	3.3

A deferred tax asset was not recognised in respect of the tax losses because it was not probable that future taxable profit would be available against which the group could utilise the benefits.

Tax losses of £1.3m (2010 – £1.6m) expire within five years and the balance does not expire.

Movement in temporary differences during the year

	Balance at year start £m	Compre-hensive income £m	Recognised in Other comprehensive income: Taxation £m	Recognised in Other comprehensive income: Exchange movement £m	Balance at year end £m
2011					
Investments	(1.0)	0.5	–	–	(0.5)
Employee benefits	3.9	(1.2)	(0.2)	(0.2)	2.3
Tax losses	1.6	0.5	–	–	2.1
Other items	(0.7)	(0.5)	–	–	(1.2)
	3.8	(0.7)	(0.2)	(0.2)	2.7
2010					
Investments	1.4	(2.4)	–	–	(1.0)
Employee benefits	4.9	(0.8)	–	(0.2)	3.9
Tax losses	0.5	1.1	–	–	1.6
Other items	(0.4)	(0.3)	–	–	(0.7)
	6.4	(2.4)	–	(0.2)	3.8

14. Inventories

Group

	2011 £m	2010 £m
Raw materials and consumables	4.0	3.9
Work in progress	0.5	0.5
Finished goods	2.1	2.6
Properties held for sale	10.0	7.7
	16.6	14.7

15. Trade and other receivables

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Trade receivables and prepayments	3.6	5.2	28.9	32.5
Derivatives	–	–	0.2	–
	3.6	5.2	29.1	32.5

16. Net cash and cash equivalents

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Bank balances	0.1	8.3	20.4	30.5
Short term deposits	101.1	–	101.1	–
Cash and cash equivalents	101.2	8.3	121.5	30.5

17. Interest-bearing loans and borrowings

	Group 2011 £m	Group 2010 £m
Non-current liabilities		
Secured bank loans	28.0	28.9
Unsecured loans	0.3	54.7
Finance leases	–	0.2
Cumulative preference shares	0.1	0.1
Unsecured bond issues	2.4	2.3
	30.8	86.2
Current liabilities		
Current portion of secured loans	0.3	–
Unsecured loans	47.9	–
	48.2	–

Bank loans of £28.3m (2010 – £28.9m) were secured by a charge over certain properties of the group (notes 10 and 11).

18. Trade and other payables

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Trade payables	–	3.1	7.8	7.4
Non-trade payables and accrued expenses	9.4	4.2	23.2	19.9
Derivatives	0.8	–	0.8	0.6
	10.2	7.3	31.8	27.9

19. Employee benefits

	Group 2011 £m	Group 2010 £m
Current liabilities		
Short term compensated absences	(0.4)	(0.6)
Profit-sharing bonus	(3.3)	(3.3)
	(3.7)	(3.9)
Non-current liabilities		
Defined benefit pension obligations	(4.7)	(7.9)
National insurance on share options and deferred bonus awards	(0.2)	(0.2)
Profit-sharing bonus	(2.4)	(0.1)
Liability for long term service leave	(0.6)	(0.8)
	(7.9)	(9.0)
Total employee liabilities	(11.6)	(12.9)

Defined benefit pension obligations
During the prior year, the company had a constructive obligation for a defined benefit pension plan that was transferred to a group company on 31 March 2010. The group makes contributions to four (2010 – four) plans in the UK and US that provide pension benefits for employees upon retirement.

	Group 2011 £m	Group 2010 £m
Present value of funded obligations	69.1	67.9
Fair value of plan assets	(64.4)	(60.0)
Present value of net obligations	4.7	7.9

Changes in the present value of defined benefit obligations were as follows:

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Balance at year start	–	19.9	67.9	56.5
Service cost	–	0.3	0.9	0.8
Interest cost	–	1.1	3.5	3.3
Actuarial loss	–	6.1	0.3	14.9
Actual benefit payments	–	(4.8)	(2.6)	(6.8)
Exchange movements	–	–	(0.9)	(0.8)
Transferred to group company	–	(22.6)	–	–
Balance at year end	–	–	69.1	67.9

Changes in the fair value of plan assets were as follows:

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Balance at year start	–	18.4	60.0	47.4
Expected return on assets	–	1.2	4.1	3.1
Actuarial gain	–	5.1	1.0	14.5
Employer contributions	–	0.6	2.5	2.2
Actual benefit payments	–	(4.8)	(2.6)	(6.8)
Exchange movements	–	–	(0.6)	(0.4)
Transferred to group company	–	(20.5)	–	–
Balance at year end	–	–	64.4	60.0

Amounts recognised in the statement of comprehensive income were as follows:

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Current service cost	–	0.3	0.9	0.8
Interest on obligations	–	1.1	3.5	3.3
Expected return on plan assets	–	(1.2)	(4.1)	(3.1)
	–	0.2	0.3	1.0

The expense was recognised in the following lines in the statement of comprehensive income:

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Management expenses of investing activities	–	0.2	–	0.2
Operating expenses of trading activities	–	–	0.3	0.8
	–	0.2	0.3	1.0

Amounts recognised in other comprehensive income were as follows:

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Actuarial losses/(gains) in the year	–	1.0	(0.7)	0.4
Cumulative actuarial losses	–	3.2	7.4	8.1

An analysis of plan assets and expected returns at the end of the year (expressed as weighted averages) was as follows:

	Group 2011 £m	Group 2010 £m
Plan assets		
Equities	40.5	39.8
Bonds	13.0	10.2
Other assets	10.9	10.0
	64.4	60.0
Expected returns		
Equities	7.8%	8.1%
Bonds	5.0%	5.2%
Other assets	3.6%	3.9%
	6.5%	6.9%

Principal actuarial assumptions at the reporting date (expressed as weighted averages) were as follows:

	Group 2011 %	Group 2010 %
Discount rate at year end	5.4	5.5
Future salary increases	4.0	4.2
Future pension increases	3.3	3.5
Price inflation	3.1	3.3

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Mortality rates are assumed to follow the Self Administered Pension Schemes 'Series 1' light tables applicable to each member's year of birth, projected to calendar year 2009 in line with medium cohort improvements. Allowance has also been made for further improvements in line with medium cohort improvement rates with a minimum improvement of 1.5% pa. Life expectancy on retirement in normal heath is assumed to be 26.5 years for males and 28.0 years for females who are currently 62 years of age.

Expected contributions to group post-employment benefit plans for the year ended 31 March 2011 were £3.0m (2010 – £2.4m).

Amounts for the current and previous four years were as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Company					
Present value of defined benefit obligations	–	–	19.9	20.6	23.0
Fair value of plan assets	–	–	(18.4)	(22.6)	(23.0)
Deficit/(surplus) in the plan	–	–	1.5	(2.0)	–
Experience adjustment on plan liabilities	–	(0.2)	(1.0)	(0.1)	0.9
Experience adjustment on plan assets	–	5.1	(5.5)	(1.9)	(0.6)
Group					
Present value of defined benefit obligations	69.1	67.9	56.5	57.0	60.7
Fair value of plan assets	(64.4)	(60.0)	(47.4)	(56.0)	(56.5)
Deficit in the plan	4.7	7.9	9.1	1.0	4.2
Experience adjustment on plan liabilities	(0.8)	(0.1)	(2.1)	0.2	1.0
Experience adjustment on plan assets	1.0	14.5	(16.3)	(4.6)	–

Share-based payments

The company currently has two executive share option schemes, a 1998 scheme and a 2005 scheme. These schemes entitle senior employees to purchase shares in the company at the market price of the shares at the date of grant and on similar terms, subject to service and company performance criteria. Under the terms of the schemes, options may be exercised between three and ten years after the date of grant, although only one-third of the options may be exercised after three years from grant, with the remaining two-thirds becoming exercisable six years after grant. A number of grants have been made under these schemes.

The company also has a deferred bonus plan under which senior employees compulsorily defer part of their annual bonus, being any bonus in excess of 50% of their basic salary for the bonus year, into shares and may voluntarily defer up to 50% of their remaining cash bonus into shares. The company will match the number of shares comprised in both compulsory (in respect of bonus for financial years ended 31 March 2008 and onwards) and voluntary deferral, subject to service and company performance criteria.

The terms and conditions of the grants outstanding as at 31 March 2011 were as follows, whereby all grants are settled by physical delivery of shares:

Grant date	Entitlement	Vesting conditions	Number of shares
Share options			
05.07.02	Option grant to senior staff	Note 1	9,556
20.11.03	Option grant to senior staff	Note 1	30,867
26.05.04	Option grant to senior staff	Note 2	21,196
19.08.05	Option grant to senior staff	Note 3	149,394
01.06.06	Option grant to senior staff	Note 3	72,830
29.05.09	Option grant to senior staff	Note 3	285,637
21.05.10	Option grant to senior staff	Note 3	245,617
			815,097
Deferred bonus awards to senior staff			
21.05.10	Voluntary award	Note 4	7,707
21.05.10	Matching shares	Note 5	7,707
			15,414

Vesting conditions are as follows:

1. Three/six years of service and NAV outperforms RPI by 9% or FTSE All-Share.
2. Three/six years of service and 50% vests if NAV outperforms RPI by 9% and/or 50% vests if NAV outperforms FTSE All-Share.
3. Three/six years of service and 50% vests if NAV outperforms RPI by 9% and/or 50% vests if NAV outperforms FTSE All-Share by 3%.
4. Three years of service or earlier termination of employment.
5. Three years of service and 50% vests if NAV outperforms RPI by 9% and/or 50% vests if NAV outperforms FTSE All-Share by 3%.

All share options have a life of ten years and all deferred bonus awards have a life of four years.

The number and weighted average exercise prices of share options were as follows:

	2011 Weighted average exercise price p/share	2011 Number of options 000's	2010 Weighted average exercise price p/share	2010 Number of options 000's
Outstanding at the year start	1618	796	1503	1,085
Granted during the year	1547	246	1446	287
Exercised during the year	1206	(5)	949	(400)
Lapsed during the year	1972	(222)	2149	(176)
Outstanding at the year end	1503	815	1618	796

The options outstanding at 31 March 2011 have an exercise price in the range of 782.5p to 1878p and a weighted average contractual life of ten years.

The fair value of services received in return for share options granted were measured indirectly, by reference to the fair value of share options granted. The estimate of the fair value of the services received was measured based on the Hull-White Employee Stock Option Valuation lattice model. This takes account of the impact of future events, such as early exercise by employees and employee exit rates after vesting. Also, the Hull-White model defines the conditions under which employees are expected to exercise their options after vesting in terms of the share price reaching a certain multiple of the exercise price.

The weighted average fair value at the measurement date of share options granted during the year and parameters used to derive the fair value, were as follows:

	Senior staff 2011	2010
Fair value at measurement date	468p	392p
Share price	1547p	1446p
Exercise price	1547p	1446p
Expected volatility	36.6%	32.2%
Exercise multiple	2.0	2.0
Expected dividends	2.7%	2.9%
Risk-free interest rate (based on UK Government bonds)	3.0%	3.2%

The expected volatility is based on the historic volatility, calculated as the average volatility over a period equal to the expected life of the share options.

Share options are granted under a service condition and non-market performance conditions. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

The fair value of services received in return for deferred share awards were measured directly, by reference to the fair value of services received during the period. This was based on the amount of annual bonus that was compulsorily and voluntarily deferred in accordance with the rules of the company's deferred bonus plan.

Employee expenses/(credits) were as follows:

	Company		Group	
Years ended 31 March	2011 £m	2010 £m	2011 £m	2010 £m
Share options granted in 2006	0.1	0.1	0.1	0.1
Share options granted in 2007	–	0.1	–	0.1
Share options granted in 2008	–	(0.4)	–	(0.4)
Share options granted in 2009	(0.4)	0.2	(0.4)	0.2
Share options granted in 2010	0.2	0.2	0.2	0.2
Share options granted in 2011	0.2	–	0.2	–
Deferred bonus awards for 2006	–	0.1	–	0.1
Deferred bonus awards for 2007	0.1	–	0.1	–
Deferred bonus awards for 2008	(0.5)	0.7	(0.5)	0.7
Deferred bonus awards for 2010	(0.1)	0.1	(0.1)	0.1
	(0.4)	1.1	(0.4)	1.1

20. Provisions

	Company		Group	
	2011 £m	2010 £m	2011 £m	2010 £m
Balance at the year start	8.9	3.5	4.0	4.2
Investment provisions				
Increased during the year	10.0	5.4	–	–
Other provisions				
Released during the year	–	–	–	(0.2)
Increased during the year	–	–	0.1	–
Balance at the year end	18.9	8.9	4.1	4.0
Current liabilities	18.9	8.9	4.1	4.0

During the year, the company recognised a £10.0m investment provision relating to a bank guarantee provided for subsidiary borrowings. In the prior year, a £5.4m investment provision related to a solvency guarantee given to a subsidiary was recognised. The solvency guarantee was related to the disposal of investments and was recognised in the statement of comprehensive income. Investment provisions have been allocated to the capital reserve. Other provisions in the group related to warranty claims. Provisions are based on an estimate of the expenditure to be incurred as a result of past events. The matters that gave rise to the provisions were expected to be resolved over the next year.

21. Financial instruments

Financial instruments comprise securities and other investments, cash balances, borrowings and receivables and payables that arise from operations. The investment portfolio includes listed and unlisted equity investments, debt instruments and investments in funds that are intended to be held for the long term.

Risk analysis

The main types of financial risk to which the group is exposed are market risk, credit risk and liquidity risk.

The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed are discussed below.

Market risk

Market risk embodies the potential for both losses and gains and includes price risk, currency risk, fair value interest rate risk.

The strategy for managing market risk is driven by the investment objective, which is to outperform the FTSE All-Share Total Return index over five and ten years and to achieve a positive total return over rolling five year periods. Investments are made in a range of instruments, including listed and unlisted equities, debt and non-equity investment funds, in a range of sectors and regions.

The board monitors the investment exposure against guidelines set from time to time by the board, specifying the maximum proportion of total assets that may be invested in sectors, regions and currencies. The board also reviews the position, prospects and exit strategy for all substantial investments at least once a year.

Details of the investment portfolio at the reporting date are shown on pages 8 to 16.

Price risk

Price risk may affect the value of listed and unlisted investments as a result of changes in market prices (other than arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market.

As the majority of financial instruments are carried at fair value, with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect reported portfolio returns.

Price risk is managed by constructing a diversified portfolio of instruments traded on various markets and hedging where appropriate.

The exposures of listed and unlisted equity investments, equity linked bonds, funds and options on indices to price risk were as follows:

	Company		Group	
	2011 £m	2010 £m	2011 £m	2010 £m
Investments held at fair value through profit or loss	1,126.6	1,122.9	1,041.4	1,042.2

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The following table details the sensitivity to a 10% variation in equity prices. The sensitivity analysis includes all equity and fund investments held at fair value through profit or loss and adjusts their valuation at the year end for a 10% change in value. The valuation movement is aggregated with the expected movement in the valuation of the options on indices to provide a net increase or decrease in profit or loss.

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Increase in prices	112.7	112.3	104.1	104.2
Decrease in prices	(112.7)	(112.3)	(104.1)	(104.2)

The sensitivity to equity and fund investments has increased during the year due to the market movement in the year.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent price risk as the year end exposure does not reflect the exposure throughout the year as a whole.

Currency risk
Investments in financial instruments and other transactions may be denominated in currencies other than the functional currency. Consequently, there is exposure to the risk that the exchange rate of the functional currency may change relative to other currencies in a manner that has an adverse effect on the value of that portion of assets and liabilities denominated in currencies other than the functional currency.

The company's non-functional currency denominated investments and gains/losses thereon are reviewed regularly by the directors and the currency risk is managed within parameters set by the directors on asset allocation, strategies and risk. At 31 March 2011, the company and group had a euro forward currency contract hedging a euro denominated investment.

The fair values of the monetary items that have foreign currency exposure were as follows:

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Cash and cash equivalents	0.1	0.2	1.3	1.3
Trade and other receivables	–	–	1.9	2.4
Trade and other payables	–	–	(1.4)	(0.2)

The following table details the sensitivity to a 10% variation in exchange rates. This level of change is considered to be reasonable, based on observation of market conditions and historic trends. The sensitivity analysis includes all foreign denominated debt investments.

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Sterling depreciates (weakens)	–	–	0.1	0.3
Sterling appreciates (strengthens)	–	–	(0.1)	(0.2)

The exposure to foreign currency has reduced during the year due to the reduction in foreign trade and other receivable balances and increase in foreign trade and other payables.

Interest rate risk
Interest rate movements may affect the fair value of investments in fixed interest securities and the level of income receivable from fixed income securities and cash at bank and on deposit.

The company and group held fixed rate, interest-bearing financial assets, with maturity of up to five years, cash at bank and on term deposits, with the term to maturity of up to three months, and floating rate, interest-bearing financial assets. The group also had floating rate, interest-bearing borrowings.

The exposure to interest rate risk on financial assets and liabilities was as follows:

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Fixed rate				
Investments in debt instruments	13.5	18.0	21.8	19.8
Interest-bearing loans and borrowings	–	–	(2.4)	(2.6)
Floating rate				
Investments in debt instruments	43.9	43.7	32.3	43.7
Cash and cash equivalents	101.2	8.3	121.5	30.5
Interest-bearing loans and borrowings	–	–	(76.6)	(83.6)

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date for a 50 basis point change taking place at the beginning of the financial year and held constant throughout the year. This level of change is considered to be reasonable, based on observation of market conditions and historic trends.

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Decrease in interest rates	1.4	1.5	0.8	1.0
Increase in interest rates	(1.4)	(1.5)	(0.8)	(1.0)

The sensitivity to interest rates has increased in the year due to increased cash and cash equivalents balances.

Credit risk
Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment. A credit policy is in place and exposure to credit risk is regularly monitored.

At 31 March 2011, the financial assets exposed to credit risk were as follows:

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Investments in debt instruments	63.1	96.6	59.8	98.5
Operating and other receivables	3.6	5.2	29.1	32.5
Cash and cash equivalents	101.2	8.3	121.5	30.5
	167.9	110.1	210.4	161.5

Prior to making investments in debt instruments, management has in place a process of review that includes an evaluation of a potential investee company's ability to service and repay its debt. Management reviews the financial position of investee companies, including their continuing ability to service and repay debt, on a regular basis.

The exposure to credit risk on operating and other receivables is mitigated by performing credit evaluations on investee companies as part of the due diligence process.

Credit risk arising on money market funds and cash and cash equivalents is mitigated by spreading investments and deposits across a number of investment grade banks with a credit rating of 'AA3' or 'AA- ' or better as determined by the ratings agencies, Moody's and Fitch. The company receives a monthly rating update, and relevant credit risks are reviewed accordingly.

All transactions in listed securities are settled on contract terms using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet their obligations. UK listed security trades are settled through CREST.

There were no significant concentrations of credit risk to counterparties at 31 March 2011 (2010 – £nil).

Fair value

Most of the financial instruments are carried at fair value in the statement of financial position. Usually, the fair value of the financial instruments can be reliably determined within a reasonable range of estimates. For certain other financial instruments, specifically operating and other receivables and payables, the carrying amounts approximate fair value due to the immediate or short term nature of these financial instruments.

The principal methods and assumptions used in estimating the fair value of investments are disclosed on page 21.

Liquidity risk

Liquidity risk arises as a result of the possibility that the company may not be able to meet its obligations as they fall due.

The corporate treasury function provides services to the company and group, coordinating access to domestic financial markets for both borrowing and depositing. Group companies access local financial markets when this is more favourable, in liaison with the corporate treasury function. Executive management monitors the group's liquidity on a weekly basis.

The following table shows the group's exposure to gross liquidity risks, based on the undiscounted contractual maturities of the financial liabilities:

	Up to 1 year £m	1 to 5 years £m	Over 5 years £m	Discount £m	Net total £m
2011					
Secured bank loans	1.1	28.9	–	(1.7)	28.3
Unsecured loans	49.0	0.3	–	(1.1)	48.2
Cumulative preference shares	–	–	0.1	–	0.1
Unsecured bond issues	–	2.6	–	(0.2)	2.4
	50.1	31.8	0.1	(3.0)	79.0
2010					
Secured bank loans	1.0	30.2	–	(2.3)	28.9
Unsecured loans	1.1	55.1	–	(1.5)	54.7
Finance leases	–	0.3	–	(0.1)	0.2
Cumulative preference shares	–	–	0.1	–	0.1
Unsecured bond issues	–	0.3	2.4	(0.4)	2.3
	2.1	85.9	2.5	(4.3)	86.2

Capital management policies and procedures

The company's capital management objectives are:

- to ensure that it will be able to continue as a going concern
- to maximise the income and capital return to its equity shareholders through an appropriate balance of equity capital and debt. The company's policy is to limit debt to 25% of net assets.

The company's total capital at 31 March 2011 was £1,258.7m (2010 – £1,181.6m) comprising equity share capital and reserves. The company was ungeared at the year end (2010 – ungeared).

The board monitors and reviews the broad structure of the company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account planned investment activity
- the possible buy back of equity shares for holding in treasury or cancellation, which takes account of the discount of the share price to net asset value per share
- the annual dividend policy.

The company's objectives, policies and processes for managing capital are unchanged from the preceding year.

The company is subject to the following externally imposed capital requirements:

- as a public company, the company is required to have a minimum issued share capital of £50,000
- to maintain its approval as an investment trust company, the company is required to comply with the provisions of section 1159 of the Corporation Tax Act 2010.

The company has complied with these requirements, which are unchanged since the previous year end.

Fair value hierarchy

The company's valuation methodology is disclosed on page 21. The table below analyses financial instruments held at fair value according to the subjectivity of the valuation method, according to the following hierarchy:

Level 1 Quoted prices (unadjusted) in active markets for identical assets.

Level 2 Inputs other than quoted prices included within Level 1 that are directly or indirectly observable.

Level 3 Inputs for the asset that are not based on observable market data.

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Investments held at fair value				
Level 1	718.0	739.5	727.3	739.5
Level 2	61.7	88.7	28.0	71.3
Level 3	403.5	355.6	340.2	294.9
	1,183.2	1,183.8	1,095.5	1,105.7
Available for sale investments				
Level 2	–	–	0.8	0.8
Derivatives				
Level 2	(0.8)	–	(0.8)	–

In the year, an investment with a value of £22.8m was transferred from Level 2 to Level 3 as a result of there no longer being any observable market data.

Movement in Level 3 financial instruments was as follows:

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Balance at the year start	355.6	302.7	294.9	253.3
Reclassifications	22.8	–	22.8	–
Purchases	45.5	33.0	28.8	27.4
Disposal proceeds	(71 .5)	(30.3)	(47.7)	(13.2)
Gains and losses on investments sold in the year	17.8	18.6	9.6	5.1
Gains and losses on investments held at the year end	33.3	31.6	31.8	4.3
Balance at the year end	403.5	355.6	340.2	294.9

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22. Capital and reserves

Share capital and share premium

	Ordinary shares £m	Deferred ordinary shares £m	Share premium £m	Total £m
Balance at 31 March 2009, 2010 and 2011	2.9	0.4	1.3	4.6

The number of fully paid shares issued was as follows:

	Ordinary shares		Deferred ordinary shares	
	2011 000's	2010 000's	2011 000's	2010 000's
Balance at the year start and end	58,795	58,795	8,000	8,000

The company has also issued share options and made deferred bonus awards (note 19).

As at 31 March 2011, the issued share capital of the company comprised 58,794,781 ordinary shares (2010 – 58,794,781) and 8,000,000 deferred ordinary shares (2010 – 8,000,000). The ordinary and deferred ordinary shares have a nominal value of 5p.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. In respect of the company's ordinary shares that are held by the group, all voting rights are suspended.

The deferred ordinary shares carry no voting rights and are not redeemable. They carry the right to a fixed cumulative preference dividend of 1% per annum (exclusive of any associated tax credit) of the nominal value of such deferred ordinary shares, being 0.05p per share, or £4,000 in aggregate, for all such shares currently in issue. The company is required to pay the dividend to the extent that it has distributable profits. On a winding-up or other return of capital, the deferred ordinary shares carry the right to the payment of the amount paid up on such shares only after holders of the ordinary shares have received the sum of £100,000 in respect of each such ordinary share. All of the deferred ordinary shares are held by Sterling Industries PLC, a wholly-owned subsidiary of Caledonia.

Capital redemption reserve

The capital redemption reserve comprises the nominal value of those shares purchased by the company out of its own profits and cancelled. At 31 March 2011, the capital redemption reserve was £1.2m (2010 and 2009 – £1.2m). There was no movement in the capital redemption reserve in the current or prior years.

Reserves

Company

	Capital reserve		Revenue reserve	
	2011 £m	2010 £m	2011 £m	2010 £m
Total comprehensive income	60.7	288.6	23.4	23.1
Share-based payments	–	–	(0.4)	1.1
Dividends to shareholders	–	–	(6.4)	(34.0)
	60.7	288.6	16.6	(9.8)
Balance at the year start	932.1	643.5	271.7	281.5
Balance at the year end	992.8	932.1	288.3	271.7

Group

	Currency translation reserve £m	Retained earnings £m	Non-controlling interest £m
Balance at 31 March 2009	7.7	940.4	2.7
Total comprehensive income	(2.3)	298.9	(0.9)
Capital contributed	–	–	0.5
Share-based payments	–	1.1	–
Dividends paid	–	(34.0)	(0.9)
Balance at 31 March 2010	5.4	1,206.4	1.4
Total comprehensive income	(1.1)	69.3	(1.3)
Capital contributed	–	–	0.6
Non-controlling interest acquired	–	(1.2)	(0.8)
Share-based payments	–	(0.4)	–
Dividends paid	–	(6.4)	(0.3)
Balance at 31 March 2011	4.3	1,267.7	(0.4)

The foreign exchange translation reserve comprised all foreign exchange differences arising from the translation of the financial statements of foreign operations that were not integral to the operations of the group.

Own shares

	Company		Group	
	2011 £m	2010 £m	2011 £m	2010 £m
Balance at the year start	28.0	24.6	28.0	24.6
Additions	0.2	7.2	0.2	7.2
Disposals	–	(3.8)	–	(3.8)
Balance at the year end	28.2	28.0	28.2	28.0

Company
The company own shares reserve represents the cost of shares in Caledonia purchased in the market and held in treasury, accrued shares accounted as being held in treasury, pursuant to an irrevocable instruction to J.P. Morgan Securities, and the net cost to the employee share trust of acquiring shares to satisfy employee share options and deferred bonus awards.

Group
The group own shares reserve also included Caledonia's shares held by a subsidiary company.

23. Acquisition of subsidiaries

During the year, the group paid £2.0m to acquire a non-controlling interest and £0.2m deferred consideration for the purchase of a US subsidiary in 2009. In the previous year, the group paid £3.1m of deferred consideration in respect of the acquisition of Ermitage Ltd in 2007.

	2011 £m	2010 £m
Non-controlling interest acquired	2.0	–
Deferred consideration	0.2	3.1
Consideration	2.2	3.1
Satisfied by		
Cash	2.2	3.1
Net cash outflow arising on acquisition		
Cash consideration	2.2	3.1

24. Disposal of subsidiaries

The aggregate net assets of subsidiaries sold were as follows:

	2011 £m	2010 £m
Goodwill	–	0.4
Property, plant and equipment	3.5	–
Inventories	1.3	0.1
Trade and other receivables	2.5	–
Current tax assets	0.2	–
Cash and cash equivalents	1.1	–
Interest-bearing loans and borrowings	(0.5)	–
Trade and other payables	(1.7)	(0.1)
Current employee benefits	(0.3)	–
Non-current employee benefits	(0.3)	–
	5.8	0.4
Foreign exchange loss/(gain) on disposal	0.1	(1.1)
Gain on disposal	10.6	1.4
Total consideration	16.5	0.7
Net cash inflow arising on disposal		
Cash and cash equivalents received	16.5	0.7
Cash and cash equivalents sold	(1.1)	–
	15.4	0.7

25. Operating leases

Leases as lessee
Non-cancellable operating lease rentals were payable as follows:

	Group 2011 £m	2010 £m
Less than one year	2.0	2.7
Between one and five years	4.6	4.4
More than five years	11.4	11.6
	18.0	18.7

The group leases properties and various items of equipment under operating leases. None of the leases included contingent rentals.

During the year ended 31 March 2011, £2.3m (2010 – £2.5m) was recognised as an expense in the statement of comprehensive income in respect of operating leases.

Leases as lessor
The group leases out its investment property under operating leases (note 11). The future minimum lease receipts under non-cancellable leases were as follows:

	Group 2011 £m	2010 £m
Less than one year	2.5	1.7
Between one and five years	8.1	5.7
More than five years	1.9	1.8
	12.5	9.2

During the year ended 31 March 2011, £2.2m (2010 – £1.5m) was recognised as income in the statement of comprehensive income in respect of operating leases.

26. Finance leases

Leases as lessee
Non-cancellable finance lease rentals were payable as follows:

	Group 2011 £m	2010 £m
Between one and five years	–	0.3
	–	0.3
Future finance charges	–	(0.1)
Present value of lease obligations	–	0.2
Non-current liabilities	–	0.2

Buildings and plant with a carrying value of £0.2m were sold in the year (2010 – £nil). Consequently, the carrying amount of buildings and plant held under finance leases at the year end was £nil (2010 – £0.2m).

For the year ended 31 March 2011, the average effective borrowing rate was 6.6% (2010 – 6.6%). Interest rates were fixed at the contract date. All leases were on a fixed repayment basis and no arrangements had been entered into for contingent rental payments.

The group's obligations under finance leases were secured by the lessor's rights over the leased assets.

27. Capital commitments

At the reporting date, the company and group had entered into unconditional loan commitments to limited partnerships, commitments to other investment funds and loan facilities to portfolio companies, as follows:

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Investments				
Contracted but not called	66.3	66.4	66.3	66.4
Conditionally contracted	18.6	19.6	18.6	19.6
	84.9	86.0	84.9	86.0

28. Contingencies

There were no known contingencies at the year end.

29. Related parties

Identity of related parties
The company and group had a related party relationship with its subsidiaries (note 31), associates (note 32), joint ventures (note 12) and with its key management personnel, being its directors.

Transactions with key management personnel
Certain directors of the company and their immediate relatives had significant influence in The Cayzer Trust Company Ltd, which held 33.7% of the voting shares of the company as at 31 March 2011 (2010 – 33.7%).

In addition to their salaries, the group provided non-cash and post-employment benefits to directors and executive officers. Details of directors' pension benefits are set out on page 36 in the directors' remuneration report.

Notes to the financial statements
continued

The key management personnel compensation was as follows:

	Company 2011 £m	Company 2010 £m	Group 2011 £m	Group 2010 £m
Short term employee benefits	3.3	3.1	3.3	3.1
Post-employment benefits	0.3	0.2	0.3	0.2
Termination benefits	–	0.4	–	0.4
Equity compensation benefits	(0.4)	1.1	(0.4)	1.1
	3.2	4.8	3.2	4.8

Total remuneration of directors is included in 'personnel expenses' (note 2).

During the year, the group invoiced and received £0.1m (2010 – £0.1m) in rent and administration fees from The Cayzer Trust Company Ltd.

Other related party transactions
Subsidiaries
Intra-group transactions are eliminated on consolidation and are not reported in the group accounts. Transactions between the company and its subsidiaries were as follows:

	2011 Amount of transactions £m	2011 Balance at year end £m	2010 Amount of transactions £m	2010 Balance at year end £m
Comprehensive income items				
Guarantee fees	0.4	0.1	0.4	0.2
Dividends receivable on equity shares	8.9	–	2.3	–
Capital distributions	8.3	–	18.4	–
Interest receivable on loan securities	0.3	–	0.4	–
Management fees payable	(9.1)	0.2	(11.9)	(1.2)
Taxation	(0.1)	–	(0.4)	–
Financial position items				
Investments purchased	1.8	–	–	–
Equity subscribed	14.6	–	6.5	–
Liquidations	–	–	0.9	–
Loans advanced	15.0	33.6	2.2	18.6
Guarantees	(8.2)	89.9	2.6	98.1

Associates and joint ventures
Transactions between the company and group and associates and joint ventures were as follows:

	2011 Amount of transactions £m	2011 Balance at year end £m	2010 Amount of transactions £m	2010 Balance at year end £m
Company				
Dividends receivable on equity shares	4.6	–	6.1	–
Interest receivable on loan securities	2.6	–	5.2	1.6
Share subscriptions	0.2	–	10.7	–
Loans advanced/(repaid)	(8.8)	57.5	9.2	66.3
Other group companies				
Directors' fees receivable	0.3	0.1	0.3	0.1

30. Operating segments
The chief operating decision maker has been identified as the Executive Committee, which reviews the company's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The performance of operating segments is assessed on a measure of company total revenue, principally comprising gains and losses on investments and derivatives hedging those investments and investment income. Reportable profit or loss is after 'Treasury income' and 'Other items', which comprise management and other expenses and provisions. Reportable assets equate to the company's net asset value.

Reportable results and assets view subsidiaries and joint ventures as investments held at fair value and include liabilities of the company. To reconcile to group profit or loss and total assets 'Eliminations' comprise the difference between the aggregate fair value and total assets of subsidiaries and joint ventures and the company's liabilities.

Pools	Profit or loss before tax 2011 £m	Profit or loss before tax 2010 £m	Assets 2011 £m	Assets 2010 £m
Quoted	30.2	140.9	427.0	444.2
Unquoted	57.2	35.6	281.2	264.1
Asia	3.3	64.6	159.0	125.0
Property	(7.3)	21.4	105.3	106.7
Funds	21.5	65.8	198.6	244.6
Income and Growth	–	–	12.1	–
Total revenue/investments	104.9	328.3	1,183.2	1,184.6
Cash and cash equivalents	0.7	0.5	101.2	8.3
Other items	(20.1)	(19.2)	(25.7)	(11.3)
Reportable total	85.5	309.6	1,258.7	1,181.6
Eliminations	(11.7)	(10.5)	121.6	143.1
Group total	73.8	299.1	1,380.3	1,324.7

Geographical segments
In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

	UK £m	US £m	Other £m	Total £m
2011				
Revenue	85.5	49.0	71.1	205.6
Non-current assets	60.4	4.4	47.1	111.9
2010				
Revenue	227.1	58.8	139.2	425.1
Non-current assets	60.4	4.2	67.3	131.9

Non-current assets exclude financial instruments, deferred tax and employee benefit assets.

Major clients
The group is reliant on one investment accounting for more than 10% of the group revenues, which included gains and losses on investments.

31. Group entities

Significant subsidiaries were as follows:

Name	Country of domicile	Ownership 2011 %	Ownership 2010 %
Amber 2010 Ltd	UK	100	–
Amber Chemical Co Ltd	UK	100	100
Brookshire Capital LLP	UK	80	80
Buckingham Gate Ltd	UK	100	100
Caledonia CCIL Distribution Ltd	UK	100	100
Caledonia Group Services Ltd	UK	100	100
Caledonia Treasury Ltd	UK	100	100
Easybox Sarl	Luxembourg	100	100
Edinmore Holdings Ltd	UK	100	100
Edinmore Investments Ltd	UK	100	100
Edinmore Investments Two Ltd	UK	100	100
Edinmore Investments Three Ltd	UK	100	100
Edinmore Investments Four Ltd	UK	100	100
Ermitage Ltd	Jersey	92	92
IAP Gateway to India Ltd	Mauritius	94	–
Sloane Club Holdings Ltd	UK	100	100
Sterling Industries PLC	UK	100	100
Union-Castle Mail Steamship Co Ltd	UK	100	100

A complete list of investments in subsidiaries will be submitted with the company's annual return to the Registrar of Companies.

32. Interests in associates

The company is an investment trust company and, accordingly, does not equity account for associates, which are designated as investments held at fair value through profit or loss.

Significant associates of the company were as follows:

Name	Country of domicile	Ownership 2011 %	Ownership 2010 %
Celerant Consulting Investments Ltd	UK	47	47
Empresaria Group plc	UK	23	23
Eredene Capital plc	UK	22	22
General Practice Investments Ltd	UK	25	25
India Capital Growth Fund Ltd	Guernsey	24	24
Omniport Holdings Ltd	UK	49	49
Oval Ltd	UK	24	24
Real Estate Investors PLC	UK	30	30
Satellite Information Services Ltd	UK	23	23
Seven Squared Ltd	UK	29	29
TCL Holdings Ltd	UK	50	50
TGE Marine AG	Germany	50	50

A complete list of investments in associates will be submitted with the company's annual return to the Registrar of Companies.

Aggregated amounts relating to associates, extracted on a 100% basis, were as follows:

	2011 £m	2010 £m
Assets	921.6	1,004.4
Liabilities	(611.1)	(645.4)
Equity	310.5	359.0
Revenues	729.0	740.6
Profit	20.3	10.2

33. Accounting estimates and judgements

Key sources of estimation uncertainty

Fair values of financial instruments

Many of the group's financial instruments are measured at fair value in the statement of financial position and it is usually possible to determine their fair values within a reasonable range of estimates.

For the majority of the group's financial instruments, quoted market prices are readily available. However, certain financial instruments, such as unlisted securities, are fair valued using valuation techniques, including reference to the current fair values of instruments that are substantially the same (subject to the appropriate adjustments).

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement (e.g. interest rates, volatility, estimated cash flows, etc) and therefore cannot be determined with precision.

Information for investors

Dividends, change of address and other shareholder services

UK registered shareholders

Shareholders on the UK register who wish to have dividends paid directly into a bank account, rather than by cheque to their registered address, can complete a mandate form for this purpose. Mandates may be obtained from Capita Registrars. Where dividends are paid directly into shareholders' bank accounts, dividend tax vouchers are sent directly to shareholders' registered addresses.

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment, shareholders on the UK register should notify Capita Registrars, under the signature of the registered holder, or where there is more than one registered holder, under the signature of the first named holder.

Post and telephone contact details for Capita Registrars are shown on the opposite page. Capita Registrars also provide an online facility to enable shareholders to manage securely their shareholdings via the internet. By registering to use the facility, shareholders can access a range of online services, including viewing shareholding details, transaction and dividend histories, change of address and bank mandate and use of the online proxy voting service. The online facility is available at www.capitashareportal.com.

Capita Registrars also offer a share dealing service and dividend reinvestment plan for existing shareholders. The share dealing service is available online at www.capitadeal.com or by telephone on 0871 664 0384 (calls cost 10p per minute including VAT plus network extras, with lines open Monday to Friday 8.00am to 4.30pm).

The dividend reinvestment plan provides a convenient way for shareholders to build up their shareholdings by using cash dividends to buy more shares in the company. An application form for the dividend reinvestment plan is available online at www.capitashareportal.com or by telephone from Capita IRG Trustees Ltd on 0871 664 0381 (calls cost 10p per minute including VAT, plus network extras, or +44 20 8639 3402 if calling from overseas). In each case, lines are open from Monday to Friday 8.30am to 5.30pm. Alternatively, an application form can be requested by email from shares@capitaregistrars.com.

New Zealand registered shareholders

Shareholders on the New Zealand register may arrange to receive their dividends by direct credit to a specified New Zealand bank account. New Zealand registered shareholders should contact Computershare Investor Services if they wish to set up such an arrangement.

Shareholders on the New Zealand register should also notify Computershare Investor Services if they have changed their address, but where there is more than one registered holder, all holders should sign the notification.

The contact details for Computershare Investor Services are shown on the opposite page. New Zealand registered shareholders may also change their addresses, update payment instructions and view their shareholdings, including transactions, online at www.computershare.co.nz/investorcentre. General enquiries can be directed to enquiry@computershare.co.nz. It will assist Computershare Investor Services if the CSN or shareholder number is quoted in any communication with them.

Caledonia Investments ISA

The Caledonia Investments Individual Savings Account ('ISA') is a tax efficient savings account that allows participants to invest up to an annual amount of £10,680 (for the tax year ending 5 April 2012). Lump sum payments or regular monthly deposits can be made into the ISA. Details of the ISA are available on Caledonia's website or by request to the company.

Caledonia Investments Share Savings Scheme

The Caledonia Investments Share Savings Scheme is a plan that aims to provide a simple and flexible way for investors to purchase shares in Caledonia. Lump sum payments or regular monthly deposits can be made into the Share Savings Scheme. Details of the Share Savings Scheme are available on Caledonia's website or by request to the company.

PEPs and ISAs

Caledonia's shares can be treated as qualifying investments for the purposes of the PEP and ISA rules.

Share prices

The company's ordinary shares are listed on the London Stock Exchange under the SEDOL code of 0163992 or TIDM code of CLDN. Prices are published daily in the Financial Times under the 'Investment Companies' heading and in other leading newspapers and can also be viewed on the company's website at www.caledonia.com.

The company's ordinary shares are also listed on the New Zealand Exchange under the security code of CDN. Shareholders in New Zealand are able to trade their shares locally and receive dividends in New Zealand dollars.

The ISIN code for Caledonia's ordinary shares is GB0001639920.

Monthly net asset value

The company releases a net asset value announcement and publishes a fact sheet shortly after each month end. These can be found on the company's website at www.caledonia.com.

Directors and advisers

Chairman
James R H Loudon[2]

Executive directors
William P Wyatt (Chief Executive)
Stephen A King (Finance Director)
The Hon Charles W Cayzer
Jamie M B Cayzer-Colvin
John M May

Non-executive directors
Charles M Allen-Jones (Senior Independent)[1,2,3,4]
Mark E T Davies[2,3,4]
Richard Goblet d'Alviella[1]
Charles H Gregson[1,2,3,4]
David G F Thompson[1,2,3,4]

1. Member of the Audit Committee
2. Member of the Nomination Committee
3. Member of the Remuneration Committee
4. Member of the Governance Committee

Associate directors
Graeme P Denison
Jonathan R Hale
Anthony E G Hambro
Duncan E Johnson
Mathew S D Masters
Sheena D McNeill
Stephen J Mitchell
Paul M Whiteley

Secretary
Graeme P Denison

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The Association of Investment Companies

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