CALEDONIA INVESTMENTS

Annual report 2012

Year ended 31 March 2012

www.caledonia.com

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Caledonia is a self-managed investment company with net assets of £1.1bn, listed on the London Stock Exchange. Acquired by the Cayzer family in 1951 as a holding company for their various shipping interests, Caledonia came into its own as an investment company in 1987. It still enjoys the backing of the Cayzer family, who collectively own some 47% of the share capital and from whom it derives its unique long term investment horizon.

Our investment proposition

- We take significant holdings in a range of assets.
  - Listed equities
  - Private companies
  - Funds
- We manage the investments in six distinct pools that reflect our skills and portfolio.
  - Quoted
  - Unquoted
  - Asia
  - Property
  - Funds
  - Income & Growth
- We take a long term investment approach – often over ten years.
- We have a predominantly 'value' style of investing, providing development capital for growing companies at sensible prices.
- We have a global outlook with a spread of currencies and economic exposures.

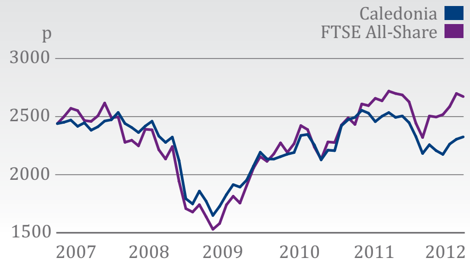
We aim to be a core investment

- For those seeking capital growth coupled to an increasing income stream over the long term.
- Caledonia has paid an increased annual dividend every year for 45 years.

Our investment approach is underpinned by our extensive network from which we derive proprietary deal flow at prices that reflect good value for our shareholders. We often involve ourselves with the boards of investee companies and always approach investments with a co-operative and long term mind-set.

Company highlights

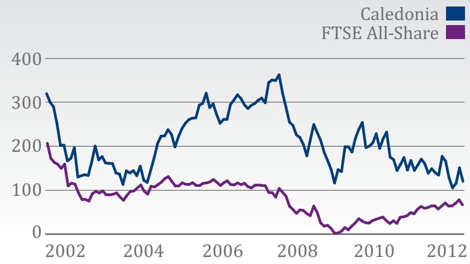
NAV total return over five years



Results summary

	31 March 2012	31 March 2011	Change %
Net asset value	£1,134m	£1,259m	(9.9)
NAV per share	1977p	2165p	(8.7)
Annual dividend per share	42.9p	37.1p	15.6
Debt to net assets	4.0%	–	
Share price	1486p	1725p	(13.9)
Discount	24.8%	20.3%	
FTSE All-Share index	3003	3068	(2.1)

Rolling ten year TSR

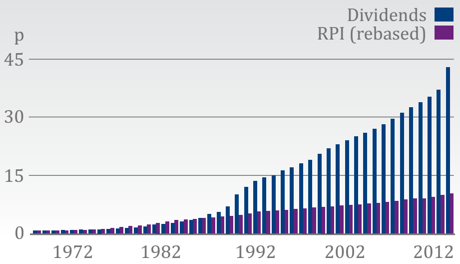


NAV total return

	1 year %	3 years %	5 years %	9 years[1] %
Caledonia	(7.0)	34.0	(4.6)	153.7
FTSE All-Share	1.4	67.9	9.5	135.8
Out/(under) performance	(8.4)	(33.9)	(14.1)	17.9

1. Since becoming an approved investment trust.

Annual dividends over 45 years



Total shareholder return

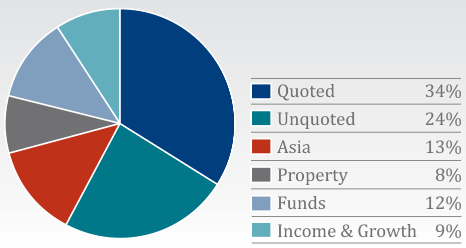
	1 year %	3 years %	5 years %	10 years %
Caledonia	(11.9)	23.2	(20.4)	118.9
FTSE All-Share	1.4	67.9	9.5	65.5
Out/(under) performance	(13.3)	(44.7)	(29.9)	53.4

Dividend growth

	1 year %	3 years %	5 years %	10 years %
Caledonia	15.6	8.3	6.6	5.5
Retail Prices Index ('RPI')	3.6	4.5	3.3	3.3
Increase over RPI	12.0	3.8	3.3	2.2

Compound annual growth rates.

Pool distribution



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.

Chairman's statement

"I am confident that the initiatives already undertaken by our management will enable Caledonia to perform well. Those moves, coupled with the higher intrinsic value than current market prices of several of our larger quoted investments, will deliver our shareholders a good return over the longer term."

James Loudon Chairman

Results

Caledonia's net asset value per share on a total return basis has underperformed the FTSE All-Share by 8.4% over the past 12 months and by 14.1% over the past five years. With a concentrated and long term portfolio such as ours, deviation in our performance from the index over any one year is not surprising. However, the underperformance over five years is disappointing. Our total shareholder return performance has also been significantly affected by the widening of our share price discount to net asset value. We have increasingly bought in our own shares as the discount has widened, as we believe that this represents good value for our shareholders, but ultimately we believe it will be investment performance, rather than share buy-backs, which will cause our discount to narrow. The extent of our buy-backs is limited by the shareholding of the Cayzer concert party.

The future outlook is much more positive. One of the cornerstones of the strategy set out in last year's annual report was to increase, without undermining our core objective of long term capital growth, the yield flowing from our portfolio, in order to enable us in turn to enhance the income element of the total return for our shareholders. The re-shaping of our portfolio over the past year has laid the foundation to achieve this and the board's confidence in a steadily rising trend in income over the next few years has enabled it to make the recommendation for a significant increase in the final dividend as set out below.

In addition, I am pleased to report that, within Caledonia's established investment model, the other strategic initiatives highlighted in last year's annual report are starting to bear fruit, including a refined investment process, improved deal flow, attractive new investments and the sale of non-core and subscale investments. These are described in more detail in the Chief Executive's report.

Dividend

In view of its confidence in the future benefits of the strategic initiatives being undertaken, and in particular in relation to Caledonia's foreseeable income prospects, the board has proposed raising the final dividend by 20.0% from 26.0p to 31.2p per share, payable on 9 August 2012. The total dividend for the year will therefore amount to 42.9p per share, an increase of 15.6% over the previous year.

The board's objective is to continue with a higher rate of increase in the dividend as income from the portfolio grows. Once we have reached a new base level, we intend to pursue a progressive dividend policy bearing in mind our record of increasing dividends every year for the last 45 years, but without detracting from our fundamental aim of providing capital growth.

Board
In my statement in last year's annual report, I advised that the board intended to undertake a process of gradual refreshment and in September 2011 we were pleased to announce the appointments of Rod Kent and Robert Woods as additional independent non-executive directors. John May retired as an executive director at the half-year, with our grateful thanks for his contribution to Caledonia's affairs over his eight years on the board.

I myself have served on the board for nearly 17 years, the last three and a half of which as Chairman following Peter Buckley's sudden death in December 2008. Having overseen the transition of Chief Executive from Tim Ingram to Will Wyatt and the adoption of a revised strategy, I feel that it is an appropriate time for me to relinquish the Chairmanship and to step down from the board, which I propose to do at the conclusion of the AGM in July. The board has decided to appoint Rod Kent as my successor, a choice with which I am delighted. Having been Managing Director for many years and Chairman of Close Brothers from 2006 to 2008, as well as chairman or a non-executive director of a number of other major companies during his career, Rod brings a wealth of experience to Caledonia and I wish him all the very best for the future.

Charles Cayzer will be succeeding Michael Wyatt as Chairman of the Cayzer Trust Company ('CTCo') when Michael retires at CTCo's AGM in December 2012. Charles will then retire as an executive director of Caledonia, but will remain on the board as a non-executive director. He will have been an executive director for 27 years, having been appointed in 1985, and he has given valuable service to the company over all those years. As Chairman of CTCo, which holds 34.2% of Caledonia's shares, together with other interests, he will be taking a leading role in the Cayzer family's affairs. We are delighted that Caledonia will also benefit from his continued membership of its board.

Mark Davies, who has been a non-executive director of Caledonia since 2002, has also signalled his wish to retire from the board before the end of this calendar year. However, as this is my last statement as Chairman, I would personally like to thank Mark enormously on behalf of shareholders for his wise counsel over the past decade, which will be very much missed.

Staff
As in past years, I thank all the members of Caledonia's management team for their diligent contribution to Caledonia's business and also all of our staff for their dedicated work throughout the year.

Outlook
Caledonia's stated strategy is being successfully implemented by our management team. By the nature of our business and our longer term attitude to investment, this is a continuing process. For example, the divestment of non-core assets that are both subscale and relatively illiquid, together with the subsequent redeployment of the capital realised at attractive valuations, requires patience. The current economic climate and outlook, especially in Western economies, is not an easy backcloth against which to achieve these strategic shifts.

I am confident that the initiatives already undertaken by our management will enable Caledonia to perform well. Those moves, coupled with the higher intrinsic value than current market prices of several of our larger quoted investments, will deliver our shareholders a good return over the longer term.

James Loudon
Chairman

Chief Executive's report

"Markets remain only fairly valued and are likely to show volatile movement for some time to come. We will continue to invest Caledonia's balance sheet with great care and allocate our most precious commodity, our capital, only to well run and attractively priced companies."

Will Wyatt Chief Executive

Results

The economic backdrop of recession in Europe – in particular, artificially low interest rates combined with the unprecedented fiscal problems of many EU countries – has caused investors rightly to be nervous. This was demonstrated by a flight to the relative safety of cash and bonds in the autumn of last year, which has left several of our investments trading at significantly lower valuations as investors have been cautious in respect of equities. More positively, this has allowed us to deploy capital into our new Income & Growth pool at reasonable prices.

Caledonia's long term investment approach of taking large stakes in companies has often resulted in uneven performance, especially when compared with an index whose composition is less concentrated than our portfolio. Short term swings in valuation within the portfolio are to be expected and are acceptable, provided there is not an underlying diminution in intrinsic valuation of the respective investment. However, a decrease in the net asset value per share total return ('NAV TR') of 7.0% over the past year has had a large proportional effect on our five year NAV TR, which has underperformed our benchmark, the FTSE All-Share TR, by 14.1% over the same period. We have continued, however, to outperform this index over the past ten years. The majority of the five year underperformance is due to Caledonia's dividend pay-out being below that of the market. We are addressing this strategically through our increased emphasis on income from the portfolio, which should be reflected in increased dividends to shareholders.

Discount

The discount at which our shares trade compared with our underlying NAV has widened, ending the year at 25%. This is approaching the level at which many private equity investment trusts trade and is considerably wider than the average of the Global Growth sector in which we are categorised. We purchased £12.6m of shares during the year and we continue to believe that investing in the existing portfolio through share buy-backs at such a wide discount is both accretive and good value for all shareholders. We will once again ask for the necessary permissions to buy in shares at the AGM, though our ability to conduct such a strategy for a sustained period is constrained by the holding of the Cayzer Concert Party. However, the real driver of the discount is the underlying performance of the portfolio which, in recent years, has been weak. The strategic initiatives to address this were outlined a year ago and are well underway. We are particularly pleased with the strong performance of some of the newer investments, which outperformed the benchmark by 5%. I am confident that this trend will continue and that shareholders will benefit from an overall improvement in performance.

Strategy

I laid out our strategy in my report a year ago. The core message was that Caledonia's excellent model of long term supportive capital was as relevant and fit for purpose as ever, but was in need of certain adjustments.

Our strategy review identified four key areas where we would focus our attention:

- *The yield derived from the portfolio was too low.* We have addressed this both by creating an internally managed Income & Growth pool and through a more stringent yield requirement. I am pleased to report good progress with underlying income rising as the portfolio is realigned. We envisage further progress over the next two years without detracting from Caledonia's core approach, which seeks to invest in growth, rather than dedicated income, companies. This supports our stated intention to pay a higher dividend to shareholders, as outlined by the Chairman.

- *We had too many subscale investments*. Since the strategy was adopted, we have sold, or are in the process of selling, eight subscale investments and have identified a further seven for disposal. In addition, management of three subscale businesses has been transferred to a private equity firm. This will leave us with a core portfolio of 40-50 investments, which is optimal for our current management resource and will allow us to keep our ongoing charges ratio to around 1%. We have implemented a minimum size threshold for new investments of £10m overall, though listed stakes may be built up over time, and £20m for unquoted companies. This does not apply to purchases by the Income & Growth pool, for which the portfolio criteria are by their nature different.

- *A change in the way we manage our portfolio.* The portfolio has been reorganised into six distinct pools of capital managed by investment executives with relevant experience and skill. There is necessarily an element of matrix management as several of the pools contain both unquoted and quoted investments. There is clearer accountability and responsibility as a result of these changes.
- *Our investment and divestment process required refining.*
  - Our new management structure has strengthened our decision making process.
  - The pool structure has added focus and responsibility.
  - The investment size limits have helped refine our research and investment towards fewer but more suitable opportunities.
  - Our deal flow has been enhanced through increased marketing and specialist resource.

The yield requirement has seen a subtle shift in our ideal target portfolio company, resulting in less early stage investments and a move towards a more mature profile than in the recent past. Our investment criteria are now focused on a strong market position, strong margins and cash flows, and high barriers to entry, combined with an established and proven management team. Companies that possess such qualities are an excellent fit with our style of investing and will result in less risk with equally attractive return characteristics, if bought at reasonable valuations.

We have moved away from an absolute requirement for a board seat, particularly through the Quoted pool. This will result in an increased level of liquidity as well as holdings in companies with larger market capitalisations.

The board has signalled its confidence in this strategy by substantially increasing the final dividend and its intention is to continue Caledonia's progressive dividend policy, but from a higher level, in the future.

Investment activity

During the year, we invested £248m and realised £130m of assets. The Income & Growth pool was the principal recipient of funds during the course of the year, investing £111m at opportune moments in what was a volatile year for markets. Our strategic aim is to increase the size of this pool to 15-20% of the portfolio, representing up to a little over £200m, over the next two years. Excluding the Income & Growth pool, we made eight new and eleven follow-on investments and fully or partially sold twelve holdings during the year. Over the year, the returns from all but the Income & Growth pool were disappointing though, in a volatile market, a concentrated portfolio such as ours will inevitably experience a greater degree of fluctuation in value. The underlying financial performance of most of our investments has remained healthy, so we expect that value will accrue to investors in due course.

The following table summarises the portfolio movements and performance by pool. The time weighted return takes account of the timing of investments, disposals and income receipts throughout the year.

Pool	Value 2011 £m	Investments £m	Disposals £m	Change in value £m	Value 2012 £m	Investment income £m	Time weighted return %
Quoted	427.0	34.9	(14.6)	(44.6)	402.7	12.4	(7.5)
Unquoted	281.2	37.9	(9.2)	(29.5)	280.4	10.5	(6.5)
Asia	159.0	29.8	(20.5)	(20.6)	147.7	2.0	(11.4)
Property	105.3	6.7	(5.5)	(9.8)	96.7	2.3	(7.0)
Funds	198.6	27.2	(64.6)	(15.3)	145.9	3.3	(6.3)
Income & Growth	12.1	111.3	(15.3)	2.5	110.6	2.8	7.8
Portfolio	1,183.2	247.8	(129.7)	(117.3)	1,184.0	33.3	(6.7)

Pool commentary

Quoted pool. Our solid, bottom-up analysis, married to a value oriented style, is tailored to the identification of long term equity growth stories. Four new investments in Spirax-Sarco, The Weir Group, Hill & Smith and Greggs were made during the year.

Unquoted pool. The portfolio holdings have shown a healthy 16% growth in underlying profits overall in the year, though valuation metrics have reduced. We have witnessed excellent deal flow with over 200 opportunities assessed and have made one new investment – in Bowers & Wilkins, an audio equipment manufacturer. We have been granted exclusivity in a further deal and have a healthy pipeline of opportunities.

Asia pool. In the quoted arena, we made investments in Jardine Matheson and one of its associated companies. In India, our shareholding in First Blue Home Finance will be merged with another of our holdings, Dewan Housing Finance, during the next year. We made a new commitment to an Asian fund of private equity funds.

Property pool. We sold several Edinmore Investments property companies and assets during the year, whilst Brookshire, the specialist industrial property team, made several new acquisitions. We added to our holding in London & Stamford.

Funds pool. We will select managers with top quartile performance records for both private equity and quoted funds to give us targeted geographical and sector exposure with a controlled risk/reward profile. We have made further commitments to private equity funds in the UK and US.

Income & Growth pool. This pool has produced an impressive first year outperformance, laying solid foundations for future yield and capital appreciation as well as enhancing our global exposure.

Chief Executive's report continued

The pool reviews that follow this report provide further details of our portfolio of investments.

Asset class

We retain an approximate 60:40 split between listed and unlisted companies, which is a slightly higher exposure to listed companies than last year, but not dissimilar to our long term average.

	2012		2011	
Asset class	£m	%	£m	%
Listed equities	718.1	61	719.3	57
Unlisted companies	333.3	28	338.8	27
Private equity funds	130.5	11	117.3	9
Hedge funds	2.1	–	7.8	1
Portfolio	1,184.0	100	1,183.2	94
Cash and other	(5.0)	–	75.5	6
Total assets	1,179.0	100	1,258.7	100
Borrowings	(45.0)		–	
Net assets	1,134.0		1,258.7	

Top five investments

Our largest five investments are shown in the table below. Caledonia has always taken substantial stakes in companies, often built up over a period of time. Retaining our successful investment for the longer term has been a key plank of our investment style, so usually there is relatively little change in the composition of the top five or ten holdings from year to year. We did however sell down some of our holding in British Empire Securities during the year and transferred the funds to the Income & Growth pool. Cobehold is a privately held Belgian investment vehicle with net assets of approximately €1.2bn in which Caledonia owns a 10% holding. It has invested in a high quality portfolio of about 15 growth orientated companies, mostly in continental Europe. It has grown to be our second largest investment and we continue to see substantial underlying growth from its portfolio, which bodes well for the future.

Name	Value £m	Total assets %	Years in the portfolio
Close Brothers	154.2	13.1	25
Cobehold	85.0	7.2	8
Bristow Group	72.9	6.2	20
British Empire Securities	50.0	4.3	21
AG Barr	40.2	3.4	35
	402.3	34.2	

Geography

In previous years, we have set out our desire to increase overall exposure to Asian economies. We have been investing in India for a number of years, but lacked exposure to the rest of South East Asia. We have therefore selected two Asian funds of private equity funds to complement our investment in Capital Today China and have made initial investments in Jardine Matheson and Hongkong Land. We have also deliberately increased exposure to North America during the year.

We have followed closely the disturbing announcements by the Indian government regarding potential retrospective taxation charges. This rhetoric is making India a less attractive country in which to invest and foreign investment flows have slowed considerably. We will continue to monitor events closely, though we view India as a strong long term structural growth story, albeit with many of the normal attributes of an emerging economy, both good and bad.

	2012		2011	
Region	£m	%	£m	%
United Kingdom	679.9	58	723.9	58
Continental Europe	183.8	15	184.8	15
North America	125.6	11	95.0	7
Asia	171.9	14	179.2	14
Other countries	22.8	2	0.3	–
Portfolio	1,184.0	100	1,183.2	94
Cash and other	(5.0)	–	75.5	6
Total assets	1,179.0	100	1,258.7	100
Borrowings	(45.0)		–	
Net assets	1,134.0		1,258.7	

Outlook

The corporate sector continues to produce strong results and to nurture healthy balance sheets. This is in direct contrast to many Western economies, which are over indebted, underperforming and being kept alive with artificially created money. Markets remain only fairly valued and are likely to show volatile movement for some time to come. We will continue to invest Caledonia's balance sheet with great care and allocate our most precious commodity, our capital, only to well run and attractively priced companies.

I would like to end by expressing, on behalf of the board, our sincerest thanks to James Loudon for his hugely significant contribution to the company over a long period of time and, particularly, for stepping up to Chairman on the untimely death of Peter Buckley three and a half years ago. We wish him a long and fulfilling retirement.

Will Wyatt
Chief Executive

Investment model

Our investment model has been successfully developed and deployed over many years to build 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 and an active monitoring of investment performance and value.

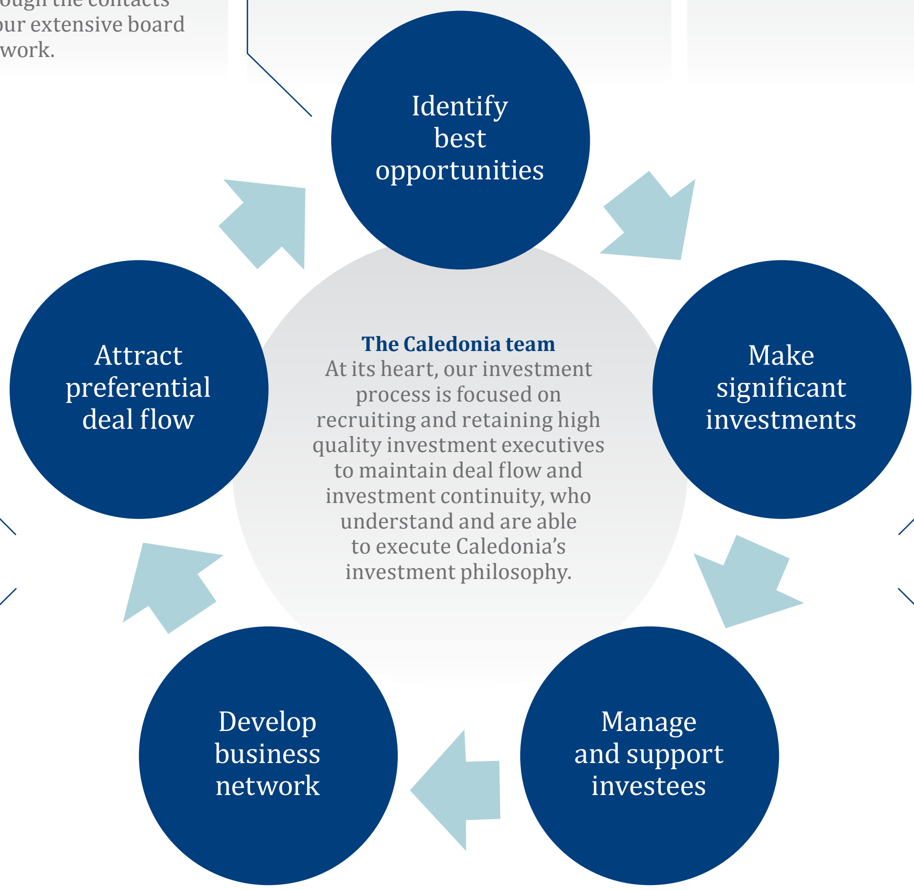
We invest in both listed and unlisted securities, predominantly equities, with around 60% of our investment portfolio normally being held in listed equities. We may utilise derivatives to hedge risk exposures, but do not use these as an active investment class. We look to provide appropriate diversity in our portfolio across sectors, geography and currencies and further mitigate risk by not investing more than 15% of our net asset value in any one company, at the time of initial investment or subsequent purchase.

Our objective is to generate returns over the medium and long term in excess of the FTSE All-Share through a combination of capital growth and a progressive income return. The execution of this investment objective is summarised in the following processes.

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.

Make significant investments
We invest directly in both listed and unlisted opportunities around the world. Our minimum investment size is £10m and we are willing to invest between £20m and £50m for significant equity interests in companies.



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.

Manage and support investees
We manage our investments as pools of capital, focusing ownership and responsibility on our executive team. Where we take a board seat, we can both actively monitor the development of our investment and contribute long term support and governance.

Investment review

Over the year, we made significant progress in realigning our portfolio across the new pools of capital and in reducing the number of subscale investments, in accordance with the aims of our recent strategy review.

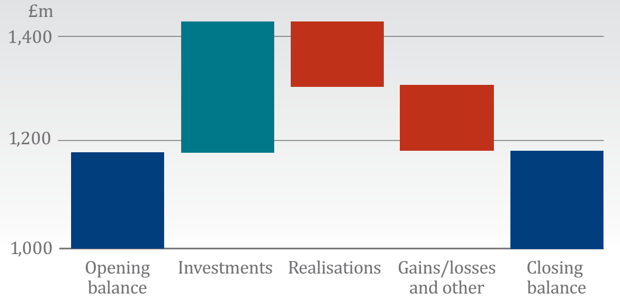
The year ended 31 March 2012 again saw significant volatility in equity markets. World markets peaked in April 2011 and then fell as the eurozone crisis escalated and the US's credit rating was downgraded in August 2011. From December 2011, markets have generally improved, but volatility has remained. Our portfolio is designed to seek longer term value from concentrated holdings in a range of both listed and unlisted investments, but performance in the last year has been significantly impacted by volatility and market sentiment.

In addition to the financial events and natural disasters of the previous year, the world news has been focused on North Africa and the Middle East, with the end of Colonel Gaddafi's rule in Libya and the 'Arab Spring' uprisings in a number of other states. This backdrop has similarly contributed to increased risk and volatility.

Portfolio movement

At the beginning of the year, the value of our investment portfolio (including derivatives) was £1,183.2m. This increased marginally to £1,184.0m at the year end, primarily reflecting the investment in the year of net cash realised during the previous year. The following chart illustrates the components of this movement:

Movement in the investment portfolio

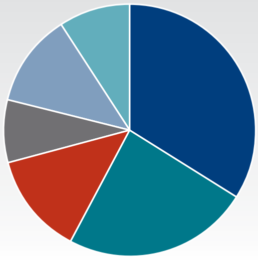


During the year, we made significant progress in realigning our portfolio across the new pools of capital, as set out in our strategy review last year. In particular, we invested £111.3m through the Income & Growth pool into a diversified range of global equities. We sold our holding in Novae Group and part of our holding in British Empire Securities to reduce our allocation to the Quoted and Funds pools, again in line with our strategic realignment goals.

Pools

Last year, the company re-categorised its investments into pools of capital, reflecting its principal areas of interest. The following chart shows the distribution of total assets (net assets with borrowings added back) between the pools.

Pool distribution



	2012	2011
Quoted	34%	34%
Unquoted	24%	22%
Asia	13%	13%
Property	8%	8%
Funds	12%	16%
Income & Growth	9%	1%
Cash and other	–	6%

The reduction in the Funds pool and cash over the year reflected the process of investing in a diversified portfolio within the Income & Growth pool. The following pages provide further analysis and results, based on the pool structure.

Investments

Total investments during the year were £247.8m (2011 – £106.7m), summarised as follows:

Name	Pool	Cost £m
New investments		
Bowers & Wilkins	Unquoted	24.1
Weir Group	Quoted	9.2
Hongkong Land	Asia	9.0
Spirax-Sarco Engineering	Quoted	6.4
Jardine Matheson	Asia	6.1
Hill & Smith Holdings	Quoted	5.6
Greggs	Quoted	5.1
JFL Equity Investors	Funds	4.9
		70.4
Follow-on investments		
Avanti Communications	Quoted	8.6
Perlus Microcap	Funds	8.1
Eredene Capital	Asia	6.5
Income & Growth pool		111.3
Other follow-on investments		42.9
		177.4
Total investments		247.8

The additional £111.3m invested through the Income & Growth pool has built a portfolio of 47 companies at 31 March 2012, in a range of sectors across the globe, with not more than £3.0m invested in any one company.

Realisations

As part of our strategic realignment, we have focused on both rebalancing our investment pools of capital and at the same time reducing the number of smaller, subscale investments. We wholly or partially sold a total of 12 investments during the year, with proceeds totalling £82.4m, excluding fund distributions and Income & Growth pool sales.

Total proceeds from realisations (including derivatives) during the year totalled £129.7m (2011 – £180.1m), summarised as follows:

Name	Pool	Proceeds £m
British Empire Securities	Funds	40.2
Novae Group	Quoted	14.6
Nova Springboard	Funds	10.6
Alok Industries	Asia	10.1
Ermitage	Unquoted	3.3
Income & Growth pool		15.3
Other realisations		35.6
Total realisations		129.7

Gains and losses

The time weighted return on our portfolio over the year (primarily comprising gains and losses on investments and income receivable) was -6.7%. The following table highlights the principal contributors to this performance:

Name	Gain or loss £m	Income £m	Total return £m	Time weighted return %
Capital Today China	11.7	–	11.7	60.3
British Empire Securities	(13.0)	2.2	(10.8)	(11.2)
Melrose Resources	(15.0)	0.4	(14.6)	(50.2)
Avanti Communications	(24.6)	–	(24.6)	(42.5)
Income & Growth pool	2.5	2.8	5.3	7.8
Other investments	(80.6)	27.9	(52.7)	
	(119.0)	33.3	(85.7)	(6.7)

The overall underperformance primarily arose from three investments, Avanti Communications, Melrose Resources and British Empire Securities. In the case of Avanti and Melrose, our judgement is that the underperformance in the year reflected market sentiment in a risk averse market, rather than intrinsic value.

Avanti is in an early stage of development as a satellite communications service provider and is in the process of building income following the successful launch of its first satellite in November 2010. We have been investors since the outset of this company and remain confident in its offering.

Melrose Resources is an oil and gas exploration and production company, with one of its core areas of operation in Egypt. We are confident that stability in that country, following recent political changes and civil unrest, will reflect in Melrose's rating.

British Empire Securities is a UK investment trust, predominantly investing in Continental Europe, Asia and North America. We have sold down a substantial part of our holding in this company during the year.

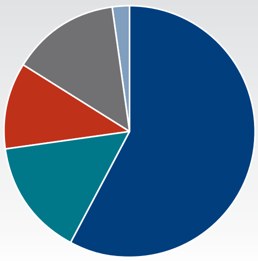
Portfolio analysis

Geography

The following chart shows the distribution of total assets (net assets with borrowings added back) between regions. The basis of this analysis is the country of listing, country of residence for unlisted investments and underlying regional analysis for funds.

Investment review continued

Geographic distribution



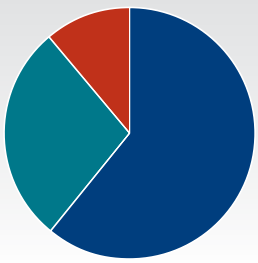
	2012	2011
United Kingdom	58%	58%
Continental Europe	15%	15%
North America	11%	7%
Asia	14%	14%
Other countries	2%	–
Cash and other	–	6%

Investment in global equities through the Income & Growth pool and other investments and realisations during the year has resulted in an increased proportion of investments in North America and other countries.

Asset class

The following chart shows the distribution of total assets (net assets with borrowings added back) by asset class. Listed securities represented 61% of total assets at the year end and unlisted investments (companies and funds) in total accounted for 39%.

Asset class distribution



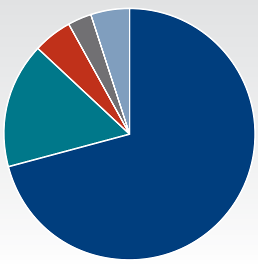
	2012	2011
Listed equities	61%	57%
Unlisted companies	28%	27%
Private equity funds	11%	9%
Hedge funds	–	1%
Cash and other	–	6%

The reduction in cash and increase in listed companies principally reflected the activity through the Income & Growth pool during the year.

Currency

The following chart analyses total assets (net assets with borrowings added back) by currency exposure, based on the currency in which securities are denominated or traded, net of any currency hedges.

Currency exposure



	2012	2011
Pound sterling	71%	79%
US dollar	16%	11%
Indian rupee	5%	7%
Euro	3%	2%
Other currencies	5%	1%

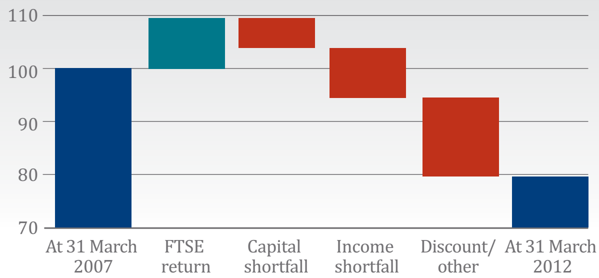
Pound sterling represented 71% of the exposure at the year end, a decrease from 79% at the end of last year. This differs from the geographic distribution and shows a larger movement partly because of the inclusion of uninvested cash at the last year end, now invested mainly in equities denominated in a range of currencies, and a £74.3m forward contract renewed during the year to provide a currency hedge against the euro denominated investment in Cobehold. In addition, the currency distribution differs from the geographic distribution as a number of investments in Asia are denominated or traded in US dollars and pound sterling.

Long term performance

Caledonia invests for the long term and aims to outperform the FTSE All-Share Total Return index over five and ten year periods. Over ten years, our total shareholder return has outperformed the index by 53.4%. However, over five years, our total shareholder return has underperformed this index by 14.1%.

The chart below illustrates the components of return contributing to the total shareholder return underperformance over five years.

Total shareholder return over five years



A factor in our underperformance is that the yield on our investments was significantly below that on the FTSE All-Share constituents. We are in the process of addressing this factor by investing in higher yielding securities through our Income & Growth pool and focusing more on yield when making investments through other pools.

Another factor in the underperformance is the widening of our discount from 8.5% to 24.8% over the five year period. We are unable to control this factor, which is, in part, a function of market sentiment and economic background.

Our underlying performance can be measured by NAV total return, which principally removes the effect of the widening discount. On this measure, our five year underperformance was reduced to 14.1%.

Portfolio summary

Holdings over 1% of total assets (net assets with borrowings added back) at 31 March 2012 were as follows:

Name	Pool	Geography[4]	Business	Value £m	Total assets %
Close Brothers[1,2]	Quoted	UK	Financial services	154.2	13.1
Cobehold[1,5]	Unquoted	Belgium	Investment company	85.0	7.2
Bristow Group[1,2]	Quoted	US	Helicopter services	72.9	6.2
British Empire Securities[2]	Funds	UK	Investment trust	50.0	4.3
AG Barr[2]	Quoted	UK	Soft drinks	40.2	3.4
Avanti Communications[1,2]	Quoted	UK	Satellite communications	39.9	3.4
London & Stamford Property[1,2]	Property	UK	Property investment	37.0	3.1
Oval[1]	Unquoted	UK	Insurance broking	32.2	2.7
Satellite Information Services[1]	Unquoted	UK	Broadcasting services	29.8	2.5
Capital Today China	Asia	China	Private equity funds	29.6	2.5
Dewan Housing Finance[1,2]	Asia	India	Housing finance	29.4	2.5
Sterling Industries[1]	Unquoted	UK	Engineering	29.0	2.5
The Sloane Club[1]	Unquoted	UK	Residential club	26.1	2.2
Bowers & Wilkins[1]	Unquoted	UK	Audio equipment manufacturer	24.0	2.0
Polar Capital[1,2]	Quoted	UK	Fund manager	21.4	1.8
Quintain Estates[1,2]	Property	UK	Property services	21.3	1.8
Perlus Microcap	Funds	US	Investment fund	19.5	1.7
Celerant Consulting[1]	Unquoted	UK	Management consultancy	16.9	1.4
TGE Marine[1]	Unquoted	Germany	LNG engineering	16.2	1.4
Pragma Capital funds	Funds	France	Investment funds	15.6	1.3
Alok Industries[2]	Asia	India	Textiles	14.6	1.2
Melrose Resources[1,2]	Quoted	UK	Oil and gas producer	14.4	1.2
First Blue Home Finance[1]	Asia	India	Housing finance	13.9	1.2
Eredene Capital[1,2]	Asia	India	Indian infrastructure investor	12.8	1.1
Buckingham Gate[1]	Property	UK	Property investment	12.7	1.1
Nova Springboard[3]	Funds	UK	Private equity fund	12.2	1.0
Other investments				313.2	26.6
Investment portfolio				1,184.0	100.4
Cash and other net liabilities				(5.0)	(0.4)
Total assets				1,179.0	100.0
Borrowings				(45.0)	
Net assets				1,134.0	

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 primary underlying region for funds.
5. Includes a forward currency derivative to hedge euro movements, valued at £2.5m.

Investment review continued
Quoted pool

The Quoted pool represents a concentrated portfolio of holdings in listed companies.

We look to back good management teams who run their companies along prudent financial lines but with ambition for good returns.

The investment strategy is to identify good quality businesses, invest at opportunistic entry points and develop supportive relationships with the companies to provide a solid income platform combined with strong value characteristics.

These investments typically offer substance, brand, intellectual property and market position. We target opportunities that either have a good record of re-investing retained profit or returning money to shareholders or both. In common with the wider Caledonia philosophy, we look to back good management teams who run their companies along prudent financial lines but with ambition for good returns.

The pool started the year with investments valued at £427.0m and ended the year with a value of £402.7m. During the year, we invested £34.9m of new capital to the portfolio, as we either added new or follow-on holdings, and realised £14.6m with the sale of our holding in Novae Group.

All of the new companies added to the pool were made at points in time when the market offered us good entry prices.

Spirax-Sarco is the global leader in the supply of engineered solutions for the design, maintenance and operation of efficient industrial and commercial steam systems and also in the manufacture of peristaltic pumps. The group is headquartered in Cheltenham and has been well run by an experienced management team for a number of years, without taking on debt whilst maintaining good returns on equity. We believe that this continues to be a good growth story and have invested £6.4m during the year into this company.

Greggs is the leading bakery retailer in the UK, operating through a vertically integrated business model, which buys the raw commodities and turns them into value food products. Greggs has an enviable track record in growing both its estate and like for like sales. The business has also always delivered good returns on the considerable capital it has invested in its operations and maintained good dividend progression. The business is led by a Tesco trained CEO, who has ambitious plans to grow the portfolio from 1,500 to 2,000 shops in the next few years. Whilst the consumer environment is as tough as anyone can remember, we are confident that over the medium to longer term their plans will deliver attractive growth. We invested £5.1m during the year into this company.

The Weir Group is an international engineering group serving the growing minerals, oil, gas and power markets. Its main product lines are slurry handling equipment, pumps, valves and associated equipment. Weir offers a number of attractions. It provides exposure to growing energy markets via the 'picks and shovels' route, rather than investment in risky projects. The company's products are used in harsh environments and provide an attractive aftermarket. The group has benefited in the past from a refined footprint and improved operational skills within the business and has demonstrated clear vision to grow both by acquisition and organically within its chosen markets. We invested £9.2m during the year.

Hill & Smith is an international engineering group that operates in the galvanising and infrastructure markets. Its products and services are necessary in the engineering industry, with a broad spread of end customers and industries across Europe, America and Asia. The company has a heritage of managing both its capital and operations very efficiently, which has been maintained by the current management. We are confident that the current team will continue to manage the business as well as in the past, with cash generation and sensible re-investment providing a good basis for shareholder returns. We invested £5.6m during the year into this company.

In addition, we invested a further £8.6m into Avanti Communications, in support of a placing to fund the continued expansion of its satellite fleet. Avanti has the rights to three geostationary slots, which cover Europe, the Middle East, Africa, India and parts of Latin America and South East Asia and its service is of significant interest to consumers and operators who lack access to cable, to the cellular backhaul market and to the military.

The mark to market reduction of £42.0m in the year was mainly attributable to Close Brothers (£11.8m from a 7% fall in its share price), Avanti Communications (£24.6m from a 42% fall in its share price) and Melrose Resources (£15.0m from a 51% fall in its share price). Our judgement is that these reductions in price reflected sentiment in a risk averse market, rather than intrinsic value. The impact of these reductions on overall market performance was reduced by improvements in Tribal Group (£4.1m from a 107% increase in its share price) and Polar Capital (£7.0m from a 48% increase in its share price).

Top investments

Name	Business	Geography	First invested	Equity held %	Residual cost £m	Value £m	Pool %	Income/(expense) recognised in the year Revenue £m	Capital £m
Close Brothers	Financial services	UK	1987	13.4	43.1	154.2	38.3	8.0	(11.8)
Bristow Group	Helicopter services	US	1991	6.7	36.8	72.9	18.1	0.8	0.9
AG Barr	Soft drinks	UK	1977	8.8	1.2	40.2	10.0	0.9	(1.8)
Avanti Communications	Satellite communications	UK	2005	13.7	43.0	39.9	9.9	–	(24.6)
Polar Capital	Fund manager	UK	2001	13.5	0.7	21.4	5.3	0.8	7.0
Melrose Resources	Oil and gas producer	UK	2003	10.3	28.1	14.4	3.6	0.4	(15.0)

The table above shows pool holdings of over 1% of the company's total assets at 31 March 2012.

Investment review continued
Quoted pool

Close Brothers

Close Brothers is a UK listed specialist financial services group, making loans, trading securities and providing advice and investment management services. The underlying business performed well in 2011, but earnings included exceptional restructuring charges as it exited from non-core activities.

Year end 31 July	2011	2010
Revenue	£548.5m	£531.7m
Earnings	£14.6m	£65.9m
Net assets	£728.3m	£754.4m

Bristow Group

Bristow is now the world's largest provider of helicopter transportation services and is quoted on NYSE. Caledonia initially invested in Bristow in the UK in 1991. Bristow merged with the US-based Offshore Logistics in 1996, which globalised its services. Caledonia retained a long term interest in the combined operations.

Year end 31 March	2011	2010
Revenue	$1,232.8m	$1,167.8m
Earnings	$132.3m	$105.7m
Net assets	$1,518.8m	$1,356.6m

AG Barr

Founded in 1875, AG Barr is the largest manufacturer of soft drinks in the UK. Based in Scotland, the company is particularly notable for the manufacture of Irn-Bru. The company continues to report revenue and earnings growth and to build its brands. AG Barr is UK listed.

Year end 28 January	2012	2011
Revenue	£237.0m	£222.4m
Earnings	£28.1m	£22.6m
Net assets	£127.0m	£116.7m

Avanti Communications

Avanti Communications is an AIM traded company supplying satellite broadband services to telecoms companies across Europe. Avanti launched its first satellite in November 2010, its second is due to launch in 2012, with a third currently in design. The company is now in a position to build its revenue.

Year end 30 June	2011	2010
Revenue	£5.5m	£5.8m
Earnings	-£9.7m	-£1.9m
Net assets	£207.4m	£152.2m

Business review

Melrose Resources

Melrose Resources is a UK listed oil and gas exploration and production company with interests in Egypt, Bulgaria, United States, France and Turkey. Melrose saw excellent results in 2011, aided by new Bulgarian gas production.

Year end 31 December	2011	2010
Revenue	$291.0m	$240.4m
Earnings	$51.6m	-$11.7m
Net assets	$362.5m	$315.0m

Polar Capital

Polar Capital is an AIM traded investment manager, offering a range of geographical and sector funds. Caledonia provided initial capital for this business in 2001, which has now grown to 76 employees and $5.1bn under management.

Year end 31 March	2011	2010
Revenue	£39.1m	£21.7m
Earnings	£6.3m	£2.2m
Net assets	£43.4m	£36.1m

Investment review continued
Unquoted pool

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

Tangible progress was made in realigning the pool, improving our investment proposition, building a consistent stream of quality deal flow and executing new investments.

The pool strategy is to make investments of a scale of £20m to £50m in businesses operating within attractive markets, supporting double digit operating margins and having sound management teams. The pool will invest both as a minority and majority investor, but always with board representation and shareholder protections commensurate with this type of investing.

Headline performance for the pool was disappointing in the year, but belies the level of activity and re-shaping that went on. Tangible progress was made in realigning the pool, improving our investment proposition, building a consistent stream of quality deal flow and executing new investments.

By the year end, we had disposed of three of the smaller unquoted investments (Cazenove Capital, Wedbush and Berkshire Securities), with offers for another two progressing towards completion. Whilst small in the overall scheme, these realisations, along with a secondary transaction with Nova Capital to transfer the management of the remaining three smaller investments (Omniport, TCL Holdings and Seven Publishing Group), have freed up a considerable amount of management time, which is being utilised to focus on the larger investments in the portfolio, as well as new business generation. At the end of this process, the Unquoted pool will consist of nine investments (31 March 2011 – 18).

Cobehold, the Belgian private investment company, in which we hold a 10.2% shareholding, had another strong year, as had Sterling Industries, the wholly owned industrial engineering business. The Sloane Club, our wholly owned residential club, is established as one of the leading premium private clubs in London. Its financial performance reflects this fact and is further enhanced by the rising value of the property the club occupies in Lower Sloane Street, London.

We have marked down our investment in Oval, the UK regional insurance broker in which we hold a 23.7% stake, this year as a management restructuring was on-going, which has now completed. The profits of the business have stabilised and we expect 2012 to be a record year for Oval. Celerant Consulting had a good start to the year, but was impacted by a lack of confidence that permeated markets during the second half. They continue to impose their own business model. Against this background, we have marked down our investment in Celerant. Satellite Information Services has enjoyed strong profit growth, though this has not been reflected in an increased valuation, as falling markets have impacted multiples.

Overall, the pool is in good shape, with investment strategies in place to build capital value. Our board presence and shareholder rights allow Caledonia to play an important role in shaping these businesses and building incremental capital value for shareholders.

At the start of 2011, we undertook a re-launch of the Caledonia unquoted investment offering, focusing on driving appropriate deal flow from both intermediaries and corporates directly using the extensive Caledonia network. This has generated 215 introductions for the period, of which we reviewed 85 and made offers to fund on five. We have started the new financial year with a good pipeline of opportunities, a number of which may result in new investments being made in the coming year.

In December 2011, Caledonia made a £24.1m investment in the Bowers & Wilkins, which manufactures and distributes premium audio equipment. The business has traded well since our investment and continues to enjoy year on year growth, although the UK and European retail environments are tough currently. Our investment is in preferred ordinary shares, which provides us with significant downside protection as well as allowing us to participate fully in any capital appreciation that the business generates.

Top investments

								Income/(expense) recognised in the year	
Name	Business	Geography	First invested	Equity held %	Residual cost £m	Value £m	Pool %	Revenue £m	Capital £m
Cobehold	Investment company	Belgium	2004	10.2	35.2	85.0	30.3	1.7	0.6
Oval	Insurance broking	UK	2003	23.7	41.3	32.2	11.5	1.3	(10.7)
Satellite Information Services	Broadcasting services	UK	2005	22.5	16.7	29.8	10.6	2.7	(8.8)
Sterling Industries	Engineering	UK	1989	100.0	5.3	29.0	10.3	3.3	3.6
The Sloane Club	Residential club	UK	1991	100.0	–	26.1	9.3	–	5.9
Bowers & Wilkins	Audio equipment	UK	2011	20.0	24.1	24.0	8.6	–	(0.1)
Celerant Consulting	Consultancy	UK	2006	47.3	10.3	16.9	6.0	–	(7.0)
TGE Marine	LNG engineering	Germany	2006	49.9	9.9	16.2	5.8	0.7	(3.3)

The table above shows pool holdings of over 1% of the company's total assets at 31 March 2012.

Investment review continued
Unquoted pool

Cobehold

Cobehold is a Belgian investment company, with a history back to 1957. It seeks to invest in companies with long term growth prospects throughout Europe and its shareholder base of longer term, family-backed investors gives it the flexibility to take a medium term approach. NAV held up well in 2011, amidst the market turmoil, with performance driven principally by International SOS.

Year end 31 December	2011	2010
Net assets	€1,148.2m	€1,101.6m

Satellite Information Services

Satellite Information Services is a long-established media business focusing on television production, broadcasting and the provision of live pictures and data via satellite. It is the foremost supplier of television programming and data services to the UK and Irish betting industries.

Year end 31 March	2011	2010
Revenue	£255.6m	£198.2m
Earnings	£9.1m	£15.7m
Net assets	£49.1m	£39.4m

Oval

Oval is a leading provider of insurance broking and financial services in the UK. It has created a national group by acquiring some of the UK's best regional companies, with excellent reputations in their areas, strong relationships with providers, and sector-leading specialists on their teams.

Year end 31 March	2011	2010
Revenue	£97.5m	£96.0m
Earnings	-£3.0m	-£6.2m
Net assets	£38.8m	£40.4m

Sterling Industries

Sterling Industries is an international engineering business, specialising in the global supply of combustion and heat transfer technology and services. It designs and manufactures custom engineered burners and ancillary equipment, bespoke specialised combustion systems, and heat exchangers and flare services to process industries worldwide.

Year end 31 March	2012	2011
Revenue	£65.1m	£49.5m
Earnings	£4.8m	£3.3m
Net assets	£22.3m	£22.4m

Bowers & Wilkins

Bowers & Wilkins is a global, premium audio manufacturer headquartered in Worthing, West Sussex. The business produces a range of loud speakers for the premium audiophile market as well as a series of market leading products based around the Apple ecosystem, most well known of which is the iconic Zeppelin docking station.

Year end 31 March	2011	2010
Revenue	£133.3m	£114.5m
Earnings	£8.9m	£4.2m
Net assets	£27.7m	£21.0m

The Sloane Club

The Sloane Club is a premium residential club situated in central London. Along with 138 bedrooms and 20 serviced apartments, it offers a restaurant and private event facilities.

Year end 31 March	2012	2011
Revenue	£8.1m	£7.9m
Earnings	£1.5m	£1.4m
Net assets	£2.3m	£1.4m

Investment review continued

Asia pool

The Asia pool consists of investments in listed and unlisted companies and funds which are either based in Asia or have the main focus of their activity there.

Our London managed Indian investments are designed to represent a deeper participation in long term value, reflecting development of the domestic Indian economy. Our investments in other parts of Asia are generally made through funds and major trading houses.

Caledonia began investing directly in India in 2004. Tracing our roots back to Bombay in 1878, we found that our traditional long term investment model struck a chord with management teams who had demonstrated the ability to make money and needed capital to progress further. Operating from London, we have taken significant minority stakes in listed and unlisted companies, which we have identified with help from local contacts, in some cases having a seat on the board. Unlike many India funds, our portfolio does not replicate the Sensex (which is largely composed of global companies) but is designed to represent a deeper participation in long term value, reflecting the development of the domestic Indian economy.

The advantages of the Indian economy are well known, including excellent demographics (a young population and a burgeoning middle class with prosperity trickling down to the rural poor), democracy and the rule of law, English language, GAAP accounting, wise and conservative regulation by the Reserve Bank of India, which avoided the excesses seen in the West – and much more.

On the other hand, we never expected the secular upward growth path to be without the occasional dip, which India is currently experiencing. The government is politically paralysed and with it the stream of legislation needed to follow through the liberalisation of the economy has dried up. In spite of a worsening balance of payments, there are unacceptable populist attempts to extract more tax revenue from foreign institutional investors, who finance much of India's growth. GDP growth has slowed to about 7% and the Rupee inflation rate likewise. Energy is a long term problem and although progress is being made, the country's infrastructure is still inadequate. We expect little improvement before the next national elections in 2014. These may well spark the next sharp rise.

In the past year, we acquired the 60% of IAP Group that we did not already own. This business, which manages India Capital Growth Fund ('ICGF') and Gateway to India (Mauritius) ('GTIM'), was then re-branded as 'Ocean Dial' and, under new management, continues to provide valuable advice from Mumbai. Through another wholly-owned subsidiary, we acquired ICGF's stake in Marwadi, a Gujarat based company providing equities and commodities broking and portfolio management services, taking our total holding in this company to 31%.

ICGF and GTIM both had a difficult year and our investments were down 29% and 21% to £6.5m and £7.1m respectively at 31 March 2012.

A merger was agreed between Dewan Housing Finance and First Blue Home Finance, a Delhi based business in which we invested in the prior year. Our holding in Dewan, once the merger has passed through the Indian court procedure, will be kept below 10%. We continued to reduce our exposure to Alok Industries.

We remain committed to our Indian portfolio. Although the last year was tough for the public equity markets, we believe that the long term fundamentals remain good.

Our traditional direct investment model is less suited to China. From a distance, our small team in London would not have the resources to assess, monitor or manage a portfolio of direct investments in China or in other parts of Asia. We have therefore invested through fund managers, who have successfully demonstrated their abilities, or in major trading houses.

Capital Today manages mid-market China-focused private equity funds. Its strategy is to invest in businesses with equity values ranging from $20m (early stage companies) to $300m (late stage companies) serving China's growing middle class, particularly in the consumer product and services sectors. These include investments in e-commerce companies such as JingDong, an Amazon equivalent, and Ganji, akin to craigslist in the US. Caledonia was the cornerstone investor in Fund I, which was launched in 2006, and our original commitment of $20m has been fully drawn and the total return to date stands at $54m (2.7x). In 2011, we committed a further $20m to Fund II, of which $6m has been drawn to date.

In February 2012, we committed $5m to the Axiom Asia Private Capital Fund III. This is one of the two planned commitments to Asian funds of private equity funds and is one of the largest independent managers with a primarily ex-GIC (Singaporean Sovereign Wealth fund) senior team. This funds of funds programme is designed to give us access to additional regional intelligence and resource and help establish a platform to build direct relationships with local private equity funds.

We invested a total of £15.1m in Hongkong Land and Jardine Matheson, which have proved highly successful at delivering shareholder value from their operations in South East Asia.

Business review

Top investments

Name	Business	Geography	First invested	Equity held %	Residual cost £m	Value £m	Pool %	Income/(expense) recognised in the year Revenue £m	Capital £m
Capital Today China	Private equity funds	China	2006		8.1	29.6	20.0	–	11.7
Dewan Housing Finance	Housing finance	India	2005	8.6	11.5	29.4	19.9	0.5	(8.1)
Alok Industries	Textiles	India	2004	7.7	20.2	14.6	9.9	0.3	(4.1)
First Blue Home Finance	Housing finance	India	2011	13.9	20.6	13.9	9.4	0.5	(7.1)
Eredene Capital	Infrastructure investor	India	2006	21.6	21.2	12.8	8.7	–	(4.3)

The table above shows pool holdings of over 1% of the company's total assets at 31 March 2012.

Investment review continued
Asia pool

Capital Today China

The China Growth funds, totalling $680m, are managed by Capital Today and provide growth capital to medium-sized Chinese companies. Capital Today has focused on the consumer retail and internet sectors. The particular success of JingDong 360 has led to a significant increase in the valuation.

Year end 31 December	2011	2010
Net assets	$821.1m	$519.8m

Alok Industries

Alok Industries is a fully integrated textile company and one of India's largest textile manufacturers. Headquartered in Mumbai, the company produces cotton yarn, apparel fabric, home textiles, garments and polyester yarn. Alok Industries is listed in India. Revenue and profits were up around 45% in the last year, although the company continues to be highly geared.

Year end 31 March	2011	2010
Revenue	Rs63.8bn	Rs43.0bn
Earnings	Rs4.0bn	Rs2.5bn
Net assets	Rs31.0bn	Rs27.2bn

Dewan Housing Finance

Dewan Housing Finance is an Indian listed company providing house financing to lower and middle income purchasers. Its recent acquisition of the majority of First Blue Home Finance ('FBHF') and proposal to merge the businesses further strengthens its position in the market. The business continues to progress with revenue and profits (excluding FBHF) up by some 50%.

Year end 31 March	2011	2010
Revenue	Rs145.1bn	Rs99.3bn
Earnings	Rs26.5bn	Rs15.1bn
Net assets	Rs154.8bn	Rs87.3bn

First Blue Home Finance

We invested in FBHF alongside Dewan Housing Finance in March 2011. The intention is that Dewan and FBHF will merge in 2012 to form a business covering all segments of the market. FBHF focuses on providing house financing to middle and upper income purchasers. FBHF has enjoyed a good year with revenue and earnings up by almost 30%.

Year end 31 March	2012	2011
Revenue	Rs7.5bn	Rs5.8bn
Earnings	Rs1.0bn	Rs0.8bn
Net assets	Rs5.9bn	Rs5.8bn

Eredene Capital

Eredene Capital, an AIM traded company, is a specialist investor in Indian infrastructure with a focus on ports, logistics and transportation. Eredene has had a positive 2011/12 with progress on the Ennore Container Terminal project and resolution of a long running dispute over its low cost housing development in Matheran Realty.

Year end 31 March	2011	2010
Revenue	£3.5m	£1.7m
Earnings	£1.9m	£2.7m
Net assets	£67.3m	£64.4m

Investment review continued
Property 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 reduced in value by £8.6m, reflecting both the planned sale of £5.0m of Edinmore Investments assets and underperformance of the listed investments, Quintain Estates and London & Stamford. Both have suffered from the softening of the property market, driven by the release of assets by the banks and by the reduced availability and higher cost of debt.

Quintain Estates has made good progress to improve cash flow and has progressed its projects at Wembley and Greenwich. It has also reduced and lengthened its debt profile to 2016. It trades at a 67% discount to the September 2011 NAV. We believe this will reduce as it achieves more of its stated milestones and offers good value.

London & Stamford has had an active year, buying opportunistically and also trading other interests. It is not yet fully invested, has paid an increasing dividend and remains well placed to take advantage of any market weakness. We increased marginally our holding in the company and we are now the largest shareholder at 6.2%.

Brookshire Capital is a recent investment to build a largely industrial portfolio run by an experienced team previously at Rugby Estates. They have now made four investments and continue to look for high yielding opportunities.

Top investments

Name	Business	Geography	First invested	Equity held %	Residual cost £m	Value £m	Pool %	Income/(expense) recognised in the year Revenue £m	Income/(expense) recognised in the year Capital £m
London & Stamford	Property investment	UK	2007	6.2	34.1	37.0	38.3	2.1	(4.4)
Quintain Estates	Property services	UK	1994	10.6	62.4	21.3	22.0	–	(3.0)
Buckingham Gate	Property investment	UK	2000	100.0	13.0	12.7	13.1	–	2.2

The table above shows pool holdings of over 1% of the company's total assets at 31 March 2012.

London & Stamford

London & Stamford Property is a UK listed company investing in commercial and residential property, principally in the UK. The company reported a strong improvement in recurring profitability in 2011, coupled with a high level of investment.

Year end 31 March	2011	2010
Revenue	£41.8m	£16.1m
Earnings	£44.5m	£106.1m
Net assets	£673.7m	£600.6m

Quintain Estates

Quintain Estates is a UK listed property company comprising fund management, investment and urban regeneration businesses, with notable development projects at Wembley City and Greenwich Peninsula. Despite property write-downs, the company made significant progress in 2011 in achieving its performance milestones.

Year end 31 March	2011	2010
Revenue	£46.9m	£56.9m
Earnings	-£34.7m	-£8.1m
Net assets	£598.6m	£622.4m

Buckingham Gate

The company holds Caledonia's head office building at 30 Buckingham Gate, London. Around 60% of the building is occupied by Caledonia and the remainder rented out to third parties. The strengthening property market in Victoria has resulted in increased earnings and net assets.

Year end 31 March	2012	2011
Revenue	£1.4m	£1.4m
Earnings	£2.4m	£0.2m
Net assets	£12.7m	£10.3m

Investment review continued
Funds pool

The Funds pool contains investments in collective investment vehicles, other than in Asia, including listed and unlisted investment companies and 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 more limited experience, such as North America.

Our objective in using fund structures is to access exceptional managers and to seek exposure to geographies where we may have more limited experience, such as North America.

During the year, we realised £64.6m from the Funds pool, of which significant elements were £40.2m from the continued sale of our holding in British Empire Securities, the UK listed investment trust, and a distribution of £10.6m from Nova Springboard, following its successful sale of MeetingZone, an audio and web conferencing service.

We invested £27.2m, of which £8.1m was continued investment in Perlus Microcap, the US micro-cap fund, taking our total stake to £16.6m. We committed $25m (£15.9m), of which £4.9m equivalent was drawn, to a new portfolio investment, JFL Equity Investors III, a defence, aerospace and marine industry focused private equity fund seeking opportunities in the US and UK. It is unique in its industry and has a strong network due to its founder, John Lehman, who was previously the Secretary of the Navy in the US. We also committed £10m to ISIS V, the UK small and mid-cap private equity fund. We have been a long term supporter of ISIS and have invested in all of its successful funds over the past ten years.

During the year, we reviewed 300 potential fund investments, taking forward 60 for more detailed study. Ten were selected for in depth due diligence, from which two new and two follow-on investments were made.

In the Funds pool, Caledonia's exposure to private equity funds is £64.2m, with £57.9m of undrawn commitments. The pool also contains £71.6m of public equity funds.

The Funds pool performance of -6.3% for the year derived mainly from a £13.0m loss in the value of British Empire Securities.

Top investments

Name	Business	Geography	First invested	Equity held %	Residual cost £m	Value £m	Pool %	Income/(expense) recognised in the year Revenue £m	Capital £m
British Empire Securities	Investment trust	UK	1991	7.6	6.6	50.0	34.3	2.2	(13.0)
Perlus Microcap	Investment fund	US	2010		16.6	19.5	13.4	–	1.1
Pragma Capital funds	Investment funds	France	2003		15.5	15.6	10.7	–	(1.4)
Nova Springboard	Private equity fund	UK	2006		3.0	12.2	8.4	–	(1.4)

The table above shows pool holdings of over 1% of the company's total assets at 31 March 2012.

British Empire Securities

British Empire Securities is a UK listed investment trust company. Managed by Asset Value Investors, its investment objective is to achieve capital growth through a focused portfolio of investments, particularly in companies whose share price stands at a discount to estimated underlying net asset value.

Year end 30 September	2011	2010
Revenue	£25.9m	£19.5m
Earnings	-£77.0m	£106.1m
Net assets	£740.4m	£829.7m

Pragma Capital funds

This investment comprises two private equity funds totalling €580m managed by Pragma Capital, investing principally in majority or significant minority operations, alongside management teams with a strong entrepreneurial mind-set.

Year end 31 December	2011	2010
Net assets	€290.5m	€281.6m

Perlus Microcap

Perlus Microcap is a fund investing in US micro-cap equities. The fund's performance for 2011 was -3.8%, but it outperformed its Russell 2000 benchmark, down -7.5%. 2012 is showing a promising start to the year.

Year end 31 December	2011	2010
Revenue	$4.0m	$13.5m
Earnings	-$3.1m	$12.5m
Net assets	$62.1m	$45.9m

Nova Springboard

Nova Springboard is a fund managed by Nova Capital Management, in which Caledonia holds a 32% stake. During the year, the fund sold its holding in MeetingZone, a provider of audio and video conferencing services, at three times its original cost. Other investments in the fund are showing good increases in value.

Year end 31 December	2011	2010
Revenue	£0.1m	£0.6m
Earnings	£0.1m	£1.5m
Net assets	£14.2m	£25.1m

Investment review continued
Income & Growth pool

The Income & Growth pool was established in March 2011 and comprises investments focusing on both yield and capital appreciation from worldwide markets. The target gross yield is 4.5%. These investments are typically listed equities in large-cap companies with solid records and strong cash flows. They are multinational in nature and therefore also provide Caledonia with an increased look-through exposure to world markets. At 31 March 2012, the Income & Growth pool comprised 47 investments, with small percentage holdings and therefore also providing a highly liquid portfolio.

Companies that meet the pool criteria are leaders in their fields with strong balance sheets, above average returns on equity ('RoE') and demonstrable histories of creating shareholder value. Crucially, they have the cash flows that enable them to provide attractive cash returns to shareholders, whilst still investing to grow their businesses organically. Growth in tandem with income is a key criterion.

The first year has been a successful one with an overall gain in sterling terms of 7.4% over the twelve months. In addition, a gross dividend yield of 5.1% was achieved by the pool, comfortably in line with the target that we set at the pool's inception.

World markets peaked in April 2011 and the rest of the calendar year became increasingly difficult as the European crisis escalated. As the pool was investing from cash into higher yielding companies, this worked to Caledonia's advantage and, after the notable slide in markets last August, buying was stepped up over the ensuing months, when share prices were at their most depressed. This was a successful strategy, most notably in US stocks, and helped performance from January to March 2012 as the market recovery took hold. It was notable during the weak phase of the market that strong balance sheet and high dividend yielding stocks were seen as safe havens. This is one of the key aims of the pool, to hold growing but resilient companies that can survive economic downturns and still safely pay shareholders a good income. Caledonia is investing for the long term through economic cycles in businesses that are not just well managed, but have a structural tailwind that assists them.

Country	Weight %
United Kingdom	26.1
United States	18.7
Australia	15.8
France	4.8
Switzerland	4.8
Hong Kong	4.7
Brazil	4.7
China	4.2
Singapore	3.7
Germany	3.2
Canada	3.1
Taiwan	2.7
Finland	1.9
Norway	1.6
	100.0

The portfolio has been established with a spread of investments in countries with strong fundamentals and corporate governance. Countries outside the UK, such as Canada, Australia and those in Scandinavia, have sound finances, sound governance and a culture of paying good dividends to shareholders. Within Asia, only selective developed markets have been targeted, including Hong Kong, Singapore and Taiwan, which enables the Asian growth opportunity to be properly captured. Giant Manufacturing in Taiwan, for example, which is the world's leading bicycle manufacturer, has significant exposure not just to China, but to other emerging economies. Television Broadcasts in Hong Kong is expanding TV production into China and a number of other Asian economies.

The BRIC economies help provide growth and the pool has established positions in Brazil and China in well recognised companies. India does not provide the requisite yields and Russia does not provide governance that meets the pool's criteria. The opportunities sought out in Brazil and China are structural and include, for example, a water utility in Brazil, Copasa, where there is a decade of growth ahead connecting new homes to water supply and sewage treatment.

Name	Weight %
Pfizer	3.0
GlaxoSmithKline	2.9
Starwood Property Trust	2.8
Philip Morris International	2.8
Television Broadcasts	2.7
Giant Manufacturing	2.7
Imperial Tobacco Group	2.6
Kimberly-Clark	2.6
ASX	2.6
Sonic Healthcare	2.5

The US provides some great global brand name companies, such as Philip Morris, Mattel and Pfizer, that perfectly capture the consistent dividend yield and growth that the pool seeks. Yields in the US are not as high as ideally desired due to the growing prevalence of buy-backs, but there are nevertheless enough opportunities to compile a focused list to choose from.

Despite the economic problems in Europe, there are some world-leading companies headquartered there that are creating value for shareholders, often with very significant exposure to developing economies. For example, Nestlé and Syngenta in Switzerland both meet the pool's long term criteria and have therefore been included.

The pharma sector is also well represented in Europe and Sanofi, Bayer and GlaxoSmithKline, whose businesses are relatively immune to the peripheral economies' woes, are all included. Our home market in the UK also provides well managed, dividend growing companies, whether they be obvious choices like Imperial Tobacco or special situations, such as the repositioning of Tate & Lyle into higher added value areas. Vodafone in telecoms has been one of the more resilient high yielding names and, elsewhere, in Canadian telecoms, the British Columbia based TELUS mobile operator proved a very steady performer through a turbulent 2011.

Australia deserves a special mention as not only are yields there amongst the highest globally, but it has a AAA credit rating, decent population growth and Asia on its doorstep. Companies such as Melbourne based Amcor are tapping into growth through their customers, the global tobacco, pharma and food companies, which are themselves investing heavily in emerging markets. The global financial sector had a difficult year and Australia is notable for being one of the few countries where the pool invested defensively in banks – it stayed zero-weighted in European and UK banks throughout the year. Banks such as Commonwealth Bank of Australia are conservative, achieve a 19% RoE and, importantly, pay out a 7% dividend yield to shareholders. Avoiding holding UK and EU banks and all but one investment in southern Europe was one of the better decisions of the year and one that is still in place. Thus the spread of the pool is broad but conservative by geography and also in the currencies that it is exposed to.

It is important that dividends grow at above the rate of inflation to give real returns to shareholders and this was achieved with approximately 8% growth in the average dividend over the year. This was satisfactory and comfortably above UK inflation, which averaged about 4%, although there were sectors, such as insurance which was hit by an unusual number of natural catastrophes, where dividends were flat.

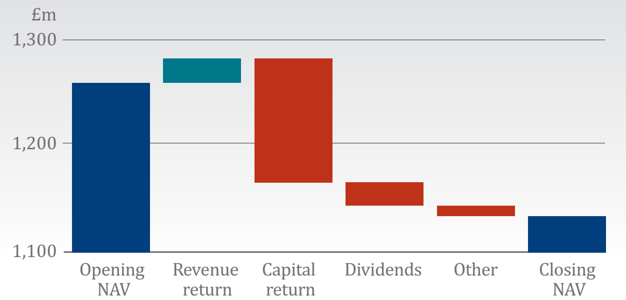
Having successfully established the pool over the last twelve months, the aim now is to grow it in size and optimise overall returns. One of our tasks for 2012/13 is to improve on the overall dividend growth rate. As part of this process, the team visits all of our portfolio companies in their home countries and meets their management teams. Caledonia is investing in businesses, not stocks. This involves a significant amount of travel, as well as meetings when the companies visit London. Caledonia believes that local due diligence is crucial and only by doing this can we properly understand the business we are investing in on behalf of our shareholders. The pool should only be investing in the 'best of the best' and, with a global perspective and opportunity set, there is a universe that allows this to be achieved.

Establishing this pool in 2011/12 demonstrated that buying high quality, strong cash-flow companies at times of opportunity is the key to building good investment returns over a period of years. A growing dividend yield of around 5% is both a support and a very important part – many studies show the majority part – of investment returns.

Financial review

Net asset value decreased over the year to £1,134.0m, from £1,258.7m.

Movements in net asset value



Company total return

The company seeks to generate total return from both revenue earnings, net of expenses, and capital growth. For the year ended 31 March 2012, the total return loss was £93.2m (2011 – £84.1m profit), of which £23.0m profit (2011 – £23.4m profit) derived from revenue and £116.2m loss (2011 – £60.7m profit) from capital.

Company revenue performance

Although investment income in the year of £33.3m was almost the same as last year's £33.2m, underlying income has increased by around 15%.

Last year's income included £10.7m of one-off items, comprising an £8.3m dividend from Amber Group, in advance of the sale of its industrial chemicals division, and a £2.4m income distribution from Penta Geronimo, on the payment of loan interest by Geronimo Inns. In the current year, such one-off items were significantly lower at £6.0m, resulting in an underlying increase in investment income of £4.9m.

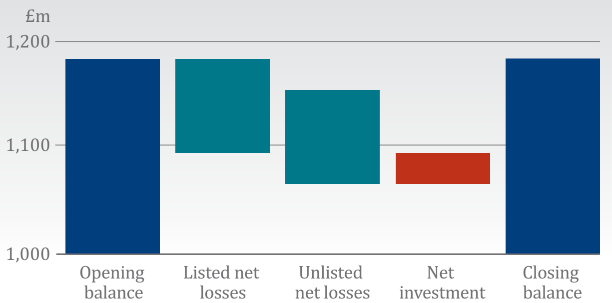
The underlying investment income represented a net yield on the portfolio of 2.3%, compared with 1.9% last year.

Company capital performance

Net losses on investments and derivatives totalled £119.0m (2011 – £71.7m gain). The principal gains were £11.7m from the Capital Today China funds, £7.0m from Polar Capital and £5.9m from The Sloane Club. In addition, a £10.0m provision for guarantee obligations made in 2011 was released during the year, following the sale of Ermitage. These gains were more than offset by losses including £24.6m from Avanti Communications, £15.0m from Melrose Resources, £13.0m from British Empire Securities, £11.8m from Close Brothers and £10.7m from Oval.

Listed investments contributed £88.3m to the decline in net valuation, and unlisted investments contributed £30.7m to the decrease. This broadly reflected the weighting given to each investment category, although unquoted investment returns tend to be lumpier in nature.

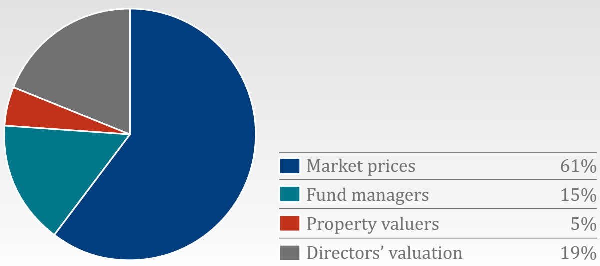
Movements in investment portfolio value



The company maintains a prudent valuation approach to investments. Unlisted property and fund investments are based on external valuations, unless of very small scale, and internal valuations of other investments conducted in accordance with the IPEV Guidelines. In accordance with these Guidelines, adjustments to PE benchmark multiples have been made – generally of around 30% – to account for points of difference between the comparator and the company being valued, including relative liquidity.

The following chart shows the source of valuations across the portfolio:

Portfolio by valuation source



Company expenses

Caledonia allocates all expenses, other than transaction costs, to revenue. Many other investment companies allocate a significant proportion of management and financing costs to capital. We intend to review our expense allocation policy in the coming year. Our ongoing charges ratio for the year was 1.02% (2011 – 0.81%), compared with the Global Growth sector average of 1.04% (2011 – 1.40%). We calculate our ongoing charges ratio on an industry standard basis, comprising published management expenses over the monthly average NAV, to aid comparability.

Overall, the company's revenue expenses were higher than last year at £11.8m (2011 – £9.7m). This primarily reflected the impact of a credit against cost in the previous year arising from the lapse of certain performance incentive awards.

Dividend

We recognise that a reliable source of growing dividends is an important part of shareholder return and are pleased to both extend our record of growing annual dividends to 45 years and to be able to increase significantly the final dividend by 20.0%, to reflect our confidence in targeting an increased underlying yield element to our portfolio return.

We paid an interim dividend of 11.7p per share on 5 January 2012 and have proposed a final dividend of 31.2p per share. The total dividend for the year of 42.9p is an increase of 15.6% on the 37.1p last year.

The dividend for the year totalling £24.6m was largely covered by the year's revenue earnings of £23.0m.

If approved by shareholders, the final dividend will be payable on 9 August 2012 to holders of shares on the register on 6 July 2012. The ex-dividend date will be 4 July 2012.

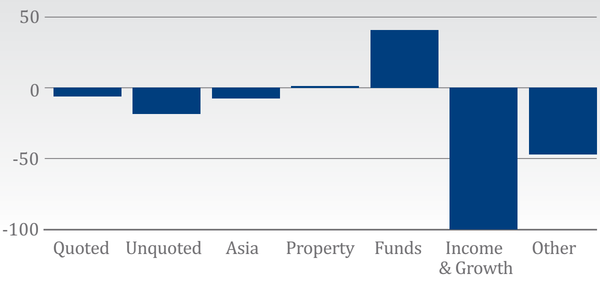
Consolidated results

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 values. The consolidated diluted loss per share was 171.2p (2011 – 118.7p earnings).

Cash flows, liquidity and facilities

During the year, opening net cash of £101.2m has been invested, primarily into the new Income & Growth pool, and £45.0m drawn against our facilities to fund other investments, which left £8.4m held in cash. Net debt at 31 March 2012 was therefore £36.6m. The total cash movement over the year of -£137.8m was analysed by investment pool as follows:

Net cash movements by pool



The company has committed bank facilities of £100m in place at the year end, expiring in July 2013, and has strong covenant cover. Caledonia uses these as short term bridging to facilitate the efficient transition from one investment to another. It had £45.0m of borrowings at 31 March 2012 (2011 – £nil), drawn against these facilities.

In addition to drawn debt facilities in the company, subsidiaries had borrowings totalling £60.5m at 31 March 2012 (2011 – £79.0m) to finance operations. Caledonia provided guarantees and letters of comfort in respect of £56.7m (2011 – £70.0m) 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 renewed a forward currency contract to sell €85.9m to hedge against the euro exposure of our investment in Cobehold. The hedge was valued at £2.5m at 31 March 2012.

Business review

Company record

	Profit/(loss) for the year £m	Earnings per share p	Annual dividend p	Net assets £m	Diluted NAV per share p	Share price p	Rolling ten years Total shareholder return	Rolling ten years FTSE All-Share Total Return
2003	(183.2)	(254.0)	26.0	651	917	643	132.7	70.9
2004	282.8	390.7	27.0	915	1265	1017	138.5	94.4
2005	171.4	260.3	28.2	978	1531	1367	229.7	118.4
2006	349.4	549.2	29.6	1,307	2044	1980	302.0	123.4
2007	136.1	226.9	31.1	1,323	2258	2066	302.9	109.2
2008	(43.9)	(76.0)	32.5	1,252	2155	2050	228.5	41.4
2009	(325.5)	(564.1)	33.8	906	1559	1289	146.4	(6.4)
2010	312.4	539.6	35.3	1,182	2034	1625	196.7	29.7
2011	84.1	145.1	37.1	1,259	2165	1725	171.5	58.0
2012	(93.2)	(161.8)	42.9	1,134	1977	1486	118.9	65.5

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 NAV per share for 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 were prepared on an undiluted basis and have been restated on a diluted basis.

Risk management

The following section sets out our approach to risk management and describes the principal risks that we believe could impact on the performance of the business.

Effective risk management is a key component of the business's operating model and assists in ensuring that the different parts of the group operate within acceptable risk parameters.

The board has overall responsibility for setting the level of risk the company is prepared to accept. The risk framework is overseen by the Finance Director and Risk Manager, who ensure the maintenance of a risk register, identify and evaluate emerging risks, review the implementation of mitigating actions and report to the board.

Principal risks	Mitigation	Key developments
Strategy Failure to formulate or deliver an appropriate strategy to allow Caledonia to meet its stated investment objectives.	The board regularly reviews the appropriateness of the company's strategy and monitors its implementation.	• Strategic focus on distinct pools of capital providing targeted total returns. • Improving the portfolio yield to support an increased dividend component of total return. • Active reduction of small, subscale, illiquid investments.
Market Caledonia invests primarily in UK and overseas equities and its principal risks are therefore market related and include currency, interest rate and other price volatilities. An explanation of these risks, along with sensitivities, is included in note 21 to these accounts.	Market risks and sensitivities are reviewed on a weekly basis and actions taken to balance appropriately risk and return.	• Management of the portfolio through distinct pools of capital targeting complementary unique risk return profiles now embedded into operations. • Detailed value analysis updated regularly for each investment.
Caledonia maintains a concentrated portfolio covering both listed and unlisted investments, with 48.3% of total assets at 31 March 2012 represented by the largest ten investments.	Our investment model emphasises the value of long term compounding through long term businesses supported by strong management teams. In a majority of cases, significant investments include board representation. This is particularly important in unquoted investments and provides direct access to the business value generation.	• Participation in investee governance, supported by system of monthly reporting of key financial information by unquoted investments. • Regular value point monitoring and top slicing of larger investments, where considered appropriate to our longer term value aims.
Investing Failure to access and convert the best opportunities.	Pool executives nurture networks over long periods of time that, together with the established brand of Caledonia equity, provide a source of quality deal flow. Database evaluation tools are also used where appropriate to identify potential investment opportunities and value points. A rigorous due diligence and approvals process is followed before transacting.	• Additional experienced resource has been recruited into the investment process over the last 18 months to support a continued and focused deal flow.

Principal risks	Mitigation	Key developments
Investing continued Failure to divest at the right time.	Target exit events and prices are regularly monitored.	• The last year has seen the sale of a number of non-strategic investments, particularly those of smaller scale, allowing resources to be reallocated in line with strategic focus.
Failure in the systems controlling the authorisation, processing and execution of investment trades.	Caledonia has appropriate back office systems which ensure all transactions are approved, executed and recorded in a timely fashion and within an appropriate structure of segregated duties and authorised approval levels.	• New software systems were implemented to improve automation of the investment process and controls. • Controls assurance programme is being implemented, reporting to the Audit Committee and providing a review of the effective operation of internal controls. This will be effective from 1 April 2012.
Operational Loss of infrastructure due to fire, flood, terrorism, IT systems failure or loss of key personnel.	A business continuity plan is in place and back-up procedures at an off-site location are undertaken daily. Appropriate insurance is in place and the close collegiate nature of Caledonia encourages a low staff turnover.	
Caledonia operates in a highly regulated environment and needs to ensure it remains compliant with existing and new tax rules, as well as the potential burden of new regulation.	A Compliance Committee (refer to page 45) meets weekly to ensure the company's continued compliance with legal and regulatory requirements. Caledonia is a member of the Association of Investment Companies ('AIC'), and meets with its fellow self-managed trusts, through the AIC self-managed trusts forum.	• Caledonia has maintained close liaison with HMRC during the process of the change in the tax rules for the investment trust industry during the last year and with the AIC relating to proposed EU and other legislation.
Financial Liquidity.	The Investment Management and Compliance Committees regularly monitor forecast liquidity against a range of potential scenarios. Available bank facilities are maintained and their adequacy reviewed by the board regularly.	• The maturing of facilities is monitored to ensure a continuous source of liquidity is maintained. • The overall portfolio has been structured to include a significant element of highly liquid investments, most recently including over £100m in the Income & Growth pool.
Valuation of unquoted investments.	Valuations are prepared by the investment executives, in line with IPEV Guidelines, considered by the Valuation Committee and presented to the Audit Committee for approval.	• The strategic focus on unquoted investments of greater substance and maturity reduces risk and makes benchmark valuation more robust. • IPEV Guidelines are followed and, where appropriate, market benchmarks are adjusted to reflect the reduced liquidity of unlisted investments.

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 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, with periodic updates 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 £86,000.

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 £106,000 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 better to 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 or 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

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01 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 69.

02 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, Cobehold, Melrose Resources, Real Estate Investors, Terrace Hill, TGE Marine and Chairman of Sterling Industries. Age 44.

03 Stephen King
Finance Director
After qualifying as a chartered accountant, he held senior financial positions with Lonhro, Lucas Industries and Seeboard. He 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 and is a non-executive director of Bristow Group and TT Electronics. Age 51.

04 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 55.

05 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's head office in 1999. He was appointed an associate director in 2002 and a director in 2005. He is Chairman of The Henderson Smaller Companies Investment Trust and a non-executive director of Celerant Consulting, Close Brothers Group, India Capital Growth Fund, Ocean Dial Group and Polar Capital Holdings. Age 47.

06 Charles Allen-Jones
Senior Independent Non-Executive Director
Appointed a non-executive director of Caledonia in 2001, he is Chairman of the Governance Committee and a member of the Audit, 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 and Vice-Chairman of the Council of the Royal College of Art. Age 72.

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07 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 64.

08 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 and Eurazeo, in which Sofina has interests. Age 63.

09 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 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 non-executive Chairman of ICAP, CPPGroup and St James's Place. Age 64.

10 Rod Kent
Non-Executive Director
Appointed a non-executive director of Caledonia in October 2011, he is a member of the Governance and Nomination Committees. He was Managing Director of Close Brothers Group for 28 years until 2002 and then a non-executive director and later Chairman from 2006 until 2008. His non-executive roles have included the Chairmanships of M&G Group, Bradford & Bingley and BT Pension Trustees, Senior Independent Director of Whitbread and a Governor of the Wellcome Trust. He is currently a non-executive director of Grosvenor Group and Chairman of the Trustees of Calthorpe Estates. Age 64.

11 David Thompson
Non-Executive Director
Appointed a non-executive director of Caledonia in 2003, he is Chairman of the Audit Committee and a member of the Governance, Nomination and Remuneration Committees. He is also Chairman of Marston's, having served as its Managing Director from 1986 to 2001, and is also Chief Executive of Anglia Maltings (Holdings). Age 57.

12 Robert Woods CBE
Non-Executive Director
Appointed a non-executive director of Caledonia in November 2011, he is a member of the Governance, Nomination and Remuneration Committees. He spent most of his working career at P&O Steam Navigation Company, joining its main board in 1996 before serving as its Chief Executive from 2004 until its takeover by DP World in 2006. He was a non-executive director of Cathay Pacific Airways from 2006 to 2010 and is currently Chairman of P&O Ferries, Southampton Container Terminal and Tilbury Container Services and is a non-executive director of John Swire & Sons. He is also Chairman of the Mission to Seafarers and was awarded the CBE in 2003. Age 65.

Directors' report

The directors present their report and accounts for the year ended 31 March 2012. 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. During the year, the company sold Ermitage, its funds of hedge funds management subsidiary, and acquired 100% ownership of Ocean Dial Group, the fund manager focusing on India, in which it had previously held a non-controlling interest. There have been no other significant changes in the activities of the company's operating subsidiaries, which principally comprised 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 2011 and continues to manage its affairs so as to comply with the requirements for investment trust status. For the company's financial year ended 31 March 2012, confirmation of investment trust status will be granted retrospectively by HMRC and an application for approval will be made subsequent to the approval of these accounts by shareholders of the company. New tax rules for investment trust companies have been introduced with effect from 1 January 2012 under which the company will be able to apply for continuing approval for its financial years from 1 April 2012 onwards and will be making a requisite application in due course.

Dividends

An interim dividend of 11.7p per share (2011 – 11.1p) was paid on 5 January 2012 and the board has proposed that a final dividend of 31.2p per share (2011 – 26.0p) be paid on 9 August 2012. This will result in total dividends for the year of 42.9p per share (2011 – 37.1p).

Annual general meeting

The eighty-third annual general meeting of the company will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN on Wednesday, 25 July 2012 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, sent to shareholders at the same time as this annual report.

Directors and their interests

The directors of the company are shown on pages 36 to 37. All of the directors served through the year, other than Mr R D Kent and Mr R B Woods, who were appointed on 1 October 2011 and 1 November 2011 respectively. Mr J M May also served as a director until his resignation on 30 September 2011.

The interests of the directors and their families in the ordinary share capital of the company as at 31 March 2012 were as follows:

	Beneficial 2012 No	Beneficial 2011 No	Non-beneficial 2012 No	Non-beneficial 2011 No
J R H Loudon[1]	13,564	13,564	9,930	9,930
W P Wyatt[2]	1,014,920	1,029,425	19,093	19,093
S A King	650	–	–	–
The Hon C W Cayzer[2]	40,892	40,892	23,985	49,012
J M B Cayzer-Colvin	408,498	408,498	7,053	7,053
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	–	–
R D Kent	–	–	–	–
D G F Thompson	3,000	3,000	3,000	3,000
R B Woods	–	–	–	–

1. Mr Loudon's beneficial interests included 322 shares (2011 – 322 shares) held by the Cayzer Family Archive, a private company limited by guarantee with charitable status, of which Mr Loudon is one of its three members.
2. Mr Wyatt's beneficial interests included 11,485 shares (2011 – 36,512 shares) in which The Hon C W Cayzer had a non-beneficial interest and 914,000 shares (2011 – 910,000) held by The Dunchurch Lodge Stud Company, a private family company controlled by Mr Wyatt and certain of his connected persons. The Hon C W Cayzer's non-beneficial interests included 12,500 shares (2011 – 12,500 shares) in which Mr Wyatt also had a non-beneficial interest.

There have been no changes in the directors' interests shown above notified up to the date of this report.

Details of the directors' options to acquire ordinary shares in the company and awards over ordinary shares under the company's performance share scheme and deferred bonus plans as at 31 March 2012 are set out in the directors' remuneration report on pages 47 to 54.

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 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 2012, 57,358,801 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 by nominal value. Of the ordinary shares in issue at 31 March 2012, 3,000 shares were held by a group company. As stated above, all voting rights are suspended on these shares.

During the year, the company purchased and cancelled 863,750 ordinary shares at a total cost of £12.7m and also cancelled 572,230 ordinary shares previously held in treasury. Since the year end, an additional 95,500 ordinary shares have been purchased and cancelled at a total cost of £1.3m. The company's issued share capital after these transactions, as at 23 May 2012, being the latest practicable date prior to signature of these accounts, was 57,263,301 ordinary shares and 8,000,000 deferred ordinary 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 (a) 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; (b) in respect of only one class of shares; and (c) 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 share concerned.

Substantial interests

As at 31 March 2012, 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	19,608,252	34.2%
Rebelco S.A.[1]	2,847,344	4.9%

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

There have been no changes in the substantial interests notified to the company up to the date of this report.

Employee share trust

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 and awards under the performance share scheme or calling for awards vesting under the company's deferred bonus plans. 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 2012, 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 removal 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 has applied to the company since 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 2011, 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 then 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 2012 or, if earlier, the conclusion of the next annual general meeting.

At the annual general meeting held on 21 July 2011, 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 then 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 2012 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 2012 or, if earlier, the conclusion of the next annual general meeting.

Change of control rights

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

Options granted under the company's executive share option schemes, awards made under its performance share scheme and awards made under its deferred bonus plans 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.

Directors' report continued

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.

Statement of directors' responsibilities in respect of the annual report and the financial statements
The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' report, Directors' remuneration report and Corporate governance report that complies with that law and those regulations.

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 29. The financial position of the company and group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 30 to 31. 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.

Auditor
Having engaged Deloitte LLP as the company's auditor since 2006, the board, on the recommendation of the Audit Committee, decided after the 2011 year end to put the group audit out to tender. Following formal proposals from three audit firms, including Deloitte, KPMG Audit Plc was successful in this process and Deloitte consequently resigned as Caledonia's auditor on 27 October 2011. The board appointed KPMG to fill the vacancy and accordingly resolutions will be proposed at the annual general meeting to re-appoint KPMG as auditor 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 auditor is set out on page 43 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 auditor is 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 auditor is aware of that information.

By order of the board
Graeme Denison
Secretary
24 May 2012

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
24 May 2012

Stephen King
Finance Director
24 May 2012

Corporate governance report

Statement of compliance

The board recognises the importance of good corporate governance and this report describes how the company has complied with The UK Corporate Governance Code issued in June 2010.

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

A copy of The UK Corporate Governance 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 and for supervising its affairs. It sets the company's strategic aims, ensures that the necessary financial and human resources are in place to enable the company to meet its objectives and reviews management performance. It also sets the company's values and standards and ensures that its obligations to its shareholders and others are understood and met. It aims to provide leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and appropriately managed.

To assist its operation, the board 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. Matters reserved for the board's own decision include the following:

- the appointment and removal of directors of the company, as prescribed by the company's articles of association, and of certain senior executive positions
- the terms of reference of board committees and the membership thereof
- the company's strategy
- annual budgets
- the company's systems of risk management and internal control
- treasury policies, banking counterparties and counterparty exposure limits
- policy on executive directors' remuneration and terms of appointment of non-executive directors
- significant capital transactions
- charitable and political donations.

The roles of the Chairman and the Chief Executive are separated and clearly defined in the Schedule of Authorities. The Chairman is primarily responsible for the leadership of the board and for ensuring that it carries out its role effectively 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 and external economic commentators 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 and to assess macro-economic trends which may affect the company's business and strategy.

Appointment, induction and training

The company complies with the recommendation of The UK Corporate Governance Code 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, and the annual performance evaluation of the board encompasses the identification of any individual training needs of board members so that these can be reviewed with the Chairman. The directors receive briefings at board meetings on regulatory and other issues relevant to the company and its business sector and, in addition, 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 36 to 37.

The board currently comprises twelve directors. Excluding the Chairman, four of the directors are executive and seven are 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 Executive Chairman 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. Mr Allen-Jones, Mr Davies and Mr Thompson have all served as non-executive directors for more than nine years. The board (with none of the relevant non-executive directors taking any part in the discussions) has specifically considered each of these non-executive directors' independence in the context of The UK Corporate Governance Code and does not believe that their status is compromised simply by length of service. Rather, the experience, character and conduct of each director are the board's determinants of their independence. The board has recognised that succession planning is of particular importance in the context of long service and, accordingly, the Nomination Committee has commenced a process of gradual refreshment of the non-executive representation on the board, whilst balancing the need for continuity and stability, given that there have been a number of changes in key positions on the board in the recent past.

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 is noted on page 85. The membership of the board's committees has remained unchanged throughout the year, other than that Mr Thompson assumed the chairmanship of the Audit Committee from Mr Allen-Jones in June 2011 and Mr Kent and Mr Woods were appointed as members of the Governance and Nomination Committees, and in Mr Woods' case also as a member of the Remuneration Committee, on their appointments as directors.

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, experience and diversity) 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.

The Nomination Committee also 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 three times during the year and the principle business undertaken included:

- a formal review of the size and composition of the board following the 2011 annual board performance evaluation
- consideration of the contributions of the non-executive directors seeking re-election at the 2011 annual general meeting, prior to giving recommendations for their re-elections
- consideration of the independence of Mr Davies in the context of his having served more than nine years on the board
- the conduct of a search for additional independent non-executive directors and the recommendations to the board that Mr Kent and Mr Woods be appointed as directors
- consideration of the review by Lord Davies of Abersoch on 'Women on boards' published in February 2011.

Neither an external search consultant nor open advertising was used for the appointments of Mr Kent and Mr Woods as non-executive directors, as the board and Nomination Committee felt able to draw up a suitable list of candidates with the required skills and attributes from their own wide sphere of contacts. Subsequent to the year end, the Nomination Committee recommended to the board that Mr Kent should succeed Mr Loudon as Chairman, with effect from the conclusion of the 2012 AGM. In making this recommendation, the Nomination Committee did not use an external search consultancy or open advertising, as it considered that Mr Kent's business career, the breadth of his previous non-executive roles and his knowledge of the company made him the most suitable candidate for the position.

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 executives. 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.

The Remuneration Committee met five times during the year. The matters undertaken by the Remuneration Committee included:

- the approval of bonus awards for the year ended 31 March 2011 for executive directors and other senior executives
- the conduct of a consultation with the company's larger institutional shareholders and investor representative bodies regarding proposed changes to the company's long term incentive arrangements
- the design and approval of the terms of the new 2011 performance share scheme and updated 2011 deferred bonus plan
- the approval of the 2011 Directors' remuneration report
- the grant of awards under the 2011 performance share scheme and 2005 deferred bonus plan
- the approval of the terms of the termination of Mr May's employment with the company
- the determination of basic salaries for executive directors and review of salaries for other senior executives for the year ending 31 March 2013.

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 47 to 54.

Audit Committee

The Audit Committee, chaired by Mr Thompson, 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 the Valuation Committee. The Audit Committee then selects a number of valuations for specific review. A register of 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 and the board every six months. A formal report on the effectiveness of the group's internal controls and risk management procedures is prepared annually for the Audit Committee by the company's Risk Manager, which is then summarised for the board. 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 auditor and the effectiveness of the audit process and to develop and implement policy on the engagement of the external auditor 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 auditor, within the broad principles that the external auditor should not audit its 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 auditor. The Audit Committee believes that, by applying these principles, the objectivity and independence of the auditor is maintained, notwithstanding that non-audit work may be undertaken. The Audit Committee considers the appointment, re-appointment or removal of the external auditor and makes recommendations to the board where necessary in relation to these matters.

Corporate governance report continued

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 UK Corporate Governance 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 was previously a member of the Financial Reporting Council and the Financial Reporting Review Panel.

The Audit Committee held four meetings during the year, three of which included a discussion with the auditor without any of the executive directors present. During the year, the business undertaken by the Audit Committee included:

- the conduct of a tender of the group audit and subsequent recommendation to the board that KPMG Audit Plc be appointed in place of Deloitte LLP
- scrutiny of valuations of unlisted investments selected by the Audit Committee following the half-year and full-year Valuation Committee meetings
- consideration of the reports from the external auditor concerning its audit of the 2011 annual financial statements of the company and its review of the 2011 half-year report
- consideration of the financial disclosures contained in the 2011 annual and half-year reports to shareholders and financial reporting issues for the 2011 annual report
- consideration of the scope of the 2012 annual audit and agreement with the external auditor of the key areas of focus
- the review of the risk register and reports from the company's Finance Director and Risk Manager on the effectiveness of the group's internal controls and risk management procedures for the year ended 31 March 2012
- approval of proposals for an enhanced internal controls assurance programme
- consideration of the need or otherwise for an internal audit function
- a review of the independence and objectivity of the external auditor, including its system of quality controls and the level and nature of non-audit services provided
- 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 anti-bribery and corruption policy and procedures adopted by the company
- 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 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 2011, to review potential conflict situations notified by directors in accordance with the Companies Act 2006 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-Cayzer Concert Party shareholders and concluded that it was.

Attendance at board and board committee meetings

The following table identifies the number of board and committee meetings held in the year to 31 March 2012 and the attendance record of individual directors.

	Board	Nomination Committee	Remuneration Committee	Audit Committee	Governance Committee
Number of meetings	10[1]	3	5	4	2
Attendance by					
J R H Loudon	10	3	–	–	–
W P Wyatt	10	–	–	–	–
S A King	10	–	–	–	–
The Hon C W Cayzer	9	–	–	–	–
J M B Cayzer-Colvin	10	–	–	–	–
C M Allen-Jones	10	3	5	4	2
M E T Davies	10	3	5	–	2
R Goblet d'Alviella	9	–	–	4	–
C H Gregson	10	3	5	4	2
R D Kent[2]	4	–	–	–	1
D G F Thompson	10	3	5	4	2
R B Woods[3]	3	–	1	–	–
J M May[4]	4	–	–	–	–

1. Scheduled board meetings.
2. Mr Kent was appointed as a director on 1 October 2011. He attended four out of the five board meetings, and all of the Governance Committee meetings, held after that date.
3. Mr Woods was appointed as a director on 1 November 2011. He attended three out of the four board meetings and all of the Remuneration Committee meetings held after that date. There were no Governance or Nomination Committee meetings held after his appointment.
4. Mr May resigned as a director on 30 September 2011, but attended four out of the five board meetings held prior to that date.

Other committees
Various other committees have been established to focus on a specific area of the company's activities, other than matters reserved to the board as a whole, as follows:

Executive Committee
The Executive Committee meets weekly and is responsible for matters relating to the day to day management of the company's business, other than where delegated to other committees. It is chaired by the Chief Executive and attended by the Chairman, the executive directors, the heads of the pools of capital and the Company Secretary.

Investment Management Committee
The Investment Management Committee meets weekly and considers matters relating to the company's investment portfolio and monitors the company's cash requirements and its net asset value per share performance. The Investment Management Committee is chaired by the Chief Executive and is attended by the entire investment team, the Company Secretary and the Deputy Company Secretary.

Investment Approvals Committee
The Investment Approvals Committee considers and formally approves new investments and proposed realisations. This committee meets when required, is chaired by the Chief Executive and is attended by the Chairman, the executive directors, the heads of the pools of capital and the Company Secretary.

Compliance Committee
The Compliance Committee meets weekly to monitor the company's ongoing compliance with the requirements for investment trust status and to approve all investment activity from an investment trust compliance perspective. It also monitors the potential impact of legal and regulatory developments. The Compliance Committee is chaired by the Company Secretary and attended by the Finance Director, the group heads of tax, treasury and finance, the Group Financial Controller/Risk Manager and the Deputy Company Secretary.

Valuation Committee
The Valuation Committee formally reviews valuations of all of the company's unquoted investments at each half-year and full-year. It is chaired by the Chief Executive and attended by the Finance Director, the head of finance, the Chairman of the Audit Committee and observed by KPMG.

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 2012, 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 questionnaires 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 on his performance, the results of which were then considered by the non-executive directors, without the Chairman present. 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. The evaluation of the performance of the Chief Executive was undertaken by the Chairman and the non-executive directors. The performance of the other executive directors was reviewed by the Chairman, Chief Executive and non-executive directors and the performance of all of the executive directors was also separately considered 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 2012 were presented in a report to the board. The main action points arising from the evaluation process were the continuation of the gradual refreshment of the board and the adoption of formal key performance indicators and milestones to enhance the board's monitoring of the progress of the implementation of the revised strategy and the delivery of its objectives. 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 a process of gradual refreshment was already underway.

Directors' conflicts of interest
Each director has a duty under the Companies Act 2006 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 Companies Act 2006 however allows directors of public companies to authorise conflicts and potential conflicts where the articles of association contain a provision to this effect. The Companies Act 2006 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 Companies Act 2006 in relation to directors' conflicts of interest. Each director is required to declare any potential conflict situations which may relate to him or 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, if appropriate, approves these recommendations, again with each director taking no part in relation to his own potential conflict situations.

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 failure or loss. The board confirms that the system of internal control operated by the group accords with the Turnbull Guidance 2005, has been in place throughout the year and up to the date of approval of these financial statements and has been reviewed by the board.

Corporate governance report continued

The board monitors the key risks facing the company through a risk register 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 monitored by way of an agenda item at the weekly meetings of the Investment Management Committee. The risk register 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 the company'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. The Compliance Committee reviews and monitors in detail all aspects of the company's activities which could affect its ability to maintain its investment trust status.

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 the Valuation Committee and selected valuations are then reviewed by the Audit Committee. All members of the board are provided with a copy of the valuations and supporting materials for all of the unquoted investments. All new investment activity and proposed disposals are subject to formal approval by the Investment Approvals Committee.

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. Notwithstanding, the board believes that the monitoring of the company's control procedures could be enhanced by more rigorous testing and therefore an improved internal control assurance programme is being developed which will provide the Audit Committee with more quantitative evidence that the control procedures in place throughout the group are robust and are being properly operated.

Relations with shareholders

The company welcomes dialogue with investors in order to achieve a mutual understanding of objectives. The Chief Executive and the Finance Director regularly hold meetings with institutional investors, private client stockbrokers and fund managers. The Senior Independent Non-Executive Director attends some of these meetings. Any views put forward by shareholders are reported back to the board, which periodically also receives presentations from Caledonia's brokers on shareholder feedback and the general market perception of the company. In addition, the annual general meeting 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.

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 and emoluments, deferred share awards, pensions, share options and performance share scheme 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, Mr Thompson and Mr Woods. All of the members served throughout the year, other than Mr Woods who joined the Remuneration Committee on his appointment as a director of Caledonia on 1 November 2011.

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 group.

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 advised the Remuneration Committee in regard to a consultation with the company's larger institutional shareholders and investor representative bodies on proposed changes to Caledonia's long term incentive arrangements prior to seeking shareholders' approval of them at the 2011 annual general meeting. Towers Watson also assessed 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 2012. In addition, the Remuneration Committee received advice from Freshfields Bruckhaus Deringer in relation to the drafting of the rules of the new 2011 performance share scheme and the updated 2011 deferred bonus plan approved by shareholders at the 2011 annual general meeting. Towers Watson principally advised in relation to the remuneration of executive directors and senior management and Freshfields Bruckhaus Deringer are the company's main legal advisers.

The Remuneration Committee also consulted with the Chairman and the Chief Executive in relation to the remuneration of the executive directors and internal support was provided to the Remuneration Committee by the Company Secretary.

Remuneration policy for executive directors

The Remuneration Committee has adopted a remuneration policy with the following objectives:

- 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.

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 and awards granted under its performance share scheme for which the performance targets have been met and also bonuses deferred into shares, both compulsorily and voluntarily, under the company's deferred bonus plans. 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 joined the company in December 2009.

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 on a total return basis, both in absolute terms and as measured against external benchmarks, 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 2013 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 2013 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 2013 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 plans, 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. For the Chief Executive and the Finance Director, a maximum of 50% of basic salary is determined by reference to the company's performance and 50% by reference to individual performance. For executive directors with responsibility for specific pools of capital, a significant proportion of bonus is linked to the performance and objectives of their individual pools. For these directors, the maximum potential bonus of 100% of basic salary is determined as to 25% by reference to the company's performance, 60% to pool performance and objectives and 15% to individual performance. In all cases, the company performance related element of bonus is determined by reference to the performance of the company's diluted NAV per share on a total return basis compared with that of the FTSE All-Share Total Return 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. Pool performance is measured by reference to pool specific benchmark indices and objectives and individual performance by reference to personal objectives set at the start of the financial year.

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.

Deferral of bonus

The company's bonus arrangements are 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 plans. 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 plans entitle 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. Further details of the company's deferred bonus plans and awards made to executive directors thereunder are set out on pages 50 to 51.

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.

The other executive directors are entitled to receive a fixed percentage of basic salary as employer contributions into the Caledonia Group Personal Pension Plan ('GPPP') or other personal pension arrangements or may, at their choice, receive a cash supplement in lieu of pension contributions, 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 2012 was 22.5% for Mr Wyatt and 17.5% for Mr Cayzer-Colvin and Mr King. For the portion of the financial year until his resignation as a director on 30 September 2011, Mr May was also entitled to receive an employer pension contribution or cash alternative of 17.5% of his basic salary.

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 the GPPP and that the company will not offer participation in any defined benefit arrangements.

Share option and performance share schemes

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 based awards, receivable only if demanding performance conditions are met. Such awards are considered to be a key element of the remuneration package, alongside annual salary, annual bonus and the deferred bonus plans.

As a consequence of its review of Caledonia's executive remuneration structures conducted in 2011, the Remuneration Committee sought and received shareholder approval to establish a new executive performance share scheme to replace the existing executive share option scheme which was established in 2005.

Under the 2011 performance share scheme, participants are 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 is 200% of basic salary, although the Remuneration Committee's general policy is to grant awards of no more than 125% of basic salary.

Further details of the company's executive share option schemes and the 2011 performance share scheme and awards made to executive directors thereunder are set out on pages 51 to 53.

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' emoluments 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 the year ended 31 March 2012, the fee for the Chairman was £167,670. The basic fee for the non-executive directors was £36,250 and additionally fees of £5,100 and £4,450 respectively were paid to the Chairmen of the Audit and Remuneration Committees and £2,100 and £1,450 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. These fees have not been changed for the financial year ending 31 March 2013.

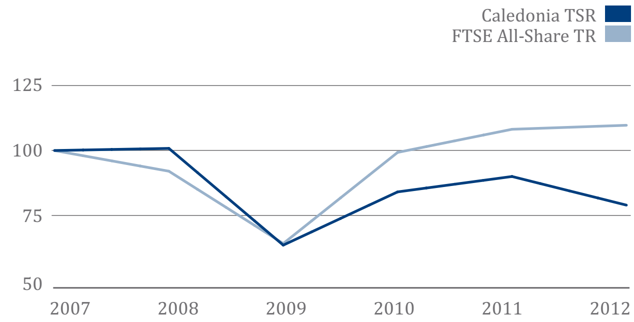
Non-executive directors may also be paid additional fees agreed by the board where they have performed services that, in the opinion of the board, are over and above their normal duties.

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 2012. 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.

TSR growth over five years



Statement on directors' remuneration (audited)

The remuneration of the directors was as follows:

	2012 £'000	2011 £'000
Emoluments	2,439	3,293

Statement on directors' emoluments (audited)

The emoluments of individual directors were as follows:

Name	Fees and salaries £'000	Benefits £'000	Cash bonus £'000	Compensation for loss of office £'000	Total 2012 £'000	Total 2011 £'000
J R H Loudon	168	–	–	–	168	162
W P Wyatt	466	19	–	–	485	721
The Hon C W Cayzer	279	19	–	–	298	450
J M B Cayzer-Colvin	279	19	–	–	298	464
S A King	331	3	100	–	434	536
C M Allen-Jones	45	–	–	–	45	46
M E T Davies	41	–	–	–	41	39
R Goblet d'Alviella	38	–	–	–	38	37
C H Gregson	40	–	–	–	40	38
R D Kent[1]	18	–	–	–	18	–
D G F Thompson	42	–	–	–	42	38
R B Woods[2]	16	–	–	–	16	–
J M May[3]	120	16	–	380	516	588
Former director	–	–	–	–	–	174
	1,883	76	100	380	2,439	3,293

1. Mr Kent was appointed as a director on 1 October 2011.
2. Mr Woods was appointed as a director on 1 November 2011.
3. Mr May resigned as a director on 30 September 2011.

In addition to the amounts shown in the table above, Messrs Wyatt, Cayzer-Colvin and King respectively were paid amounts of £65,209, £17,906 and £50,821 before tax (2011 – £17,655, £nil and £35,383 respectively) in lieu of contributions to their money purchase pension arrangements as described in the statement on directors' pensions below.

Directors' remuneration report continued

During the year, Mr King held external non-executive directorships of The Weir Group (of which he ceased to be a director on 9 May 2012) and TT Electronics and Mr Cayzer-Colvin of The Henderson Smaller Companies Investment Trust, which were unrelated to the company's business and where it had been agreed that they could retain the fees arising therefrom. Mr King received fees from The Weir Group of £60,000 (2011 – £52,500) and from TT Electronics of £16,707 (2011 – £nil). Mr Cayzer-Colvin received fees from The Henderson Smaller Companies Investment Trust of £10,485 (2011 – £nil).

Mr May was employed by Caledonia Group Services Ltd, a wholly-owned subsidiary of the company, under a service contract dated 1 September 2003. For the part of the year until his resignation on 30 September 2011, Mr May was paid an amount in lieu of pension contributions of £18,394 (2011 – £39,411). Following his resignation as a director, Mr May received as compensation a payment in lieu of notice of £380,432, of which £87,376 was paid shortly after the termination of his employment and the balance of £293,056 in April 2012. Mr May also received reimbursement of legal fees of £5,000. The treatment of Mr May's share plan entitlements on termination is set out below.

Directors' deferred share awards

No deferred share awards were granted to executive directors for the year ended 31 March 2012. Where awards are made, the 2011 deferred bonus plan provides that 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.

At the 2011 annual general meeting of the company, shareholders approved the adoption of the 2011 deferred bonus plan, which has replaced the original deferred bonus plan adopted in 2005 for bonus awards for the 2012 financial year onwards. The terms of each plan are similar, other than in respect of the performance targets for matching awards, and are summarised below.

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 under the 2005 deferred bonus plan 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 is compared against different indices as follows:

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

The vesting of matching shares under the 2011 deferred bonus plan is also dependent on the company's performance over the Prescribed Period by reference to two separate performance conditions, both of which relate to the performance of Caledonia's diluted NAV per share on a total return basis. For two-thirds of the matching shares awarded, the performance of diluted NAV per share on a total return basis is compared against the FTSE All-Share Total Return index over the Prescribed Period and, for the other one-third, the comparison is against the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index. In each case, vesting of matching shares is 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. For the purposes of calculating the performance measures, an average of the figures for the Company's NAV per share and the two benchmark indices published over the three months prior to the start and end of the performance period is used to reduce volatility.

There will be no re-testing of the performance conditions under either the 2005 or the 2011 deferred bonus plans.

The reasons why the Remuneration Committee has chosen the above performance conditions for the 2011 deferred bonus plan are set out below in the statement on directors' performance share scheme awards. For both the 2005 and 2011 plans, the Remuneration Committee may amend the performance targets 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. In addition, 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 2012 (or date of resignation if earlier) by directors who served during the year are shown in the following table. In relation to Mr May's deferred share awards, the Remuneration Committee determined in relation to the termination of his employment on 30 September 2011 that, based on the measurement of the performance targets since the grant date to his termination date, 50% of the matching shares granted to him on 21 May 2010 should lapse and 50% should vest, but that the vested shares should be further reduced to reflect the time that had elapsed since the date of grant. The Remuneration Committee determined that the matching awards granted to him on 26 May 2011 should lapse in their entirety. The Remuneration Committee also determined that Mr May's voluntary and compulsory awards granted in 2010 and 2011 should vest immediately and therefore he has a right to call for these, together with the vested 2010 matching shares, in the twelve months following his termination date.

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

Name	Award type	Award date	Opening balance	Number of shares: Awarded	Called	Lapsed	Closing balance	Market price at award	Market price at call	Value at call 2012 £'000	Value at call 2011 £'000	Vesting date
W P Wyatt	Compulsory	26.05.11	–	4,235	–	–	4,235	1734p	–	–		01.04.14
	Matching	26.05.11	–	4,235	–	–	4,235	1734p	–	–		01.04.14
			–	8,470	–	–	8,470			–	–	
The Hon C W Cayzer	Compulsory	26.05.11	–	1,557	–	–	1,557	1734p	–	–		01.04.14
	Matching	26.05.11	–	1,557	–	–	1,557	1734p	–	–		01.04.14
			–	3,114	–	–	3,114			–	–	
J M B Cayzer-Colvin	Compulsory	26.05.11	–	2,335	–	–	2,335	1734p	–	–		01.04.14
	Matching	26.05.11	–	2,335	–	–	2,335	1734p	–	–		01.04.14
			–	4,670	–	–	4,670			–	–	
S A King	Compulsory	26.05.11	–	3,222	–	–	3,222	1734p	–	–		01.04.14
	Matching	26.05.11	–	3,222	–	–	3,222	1734p	–	–		01.04.14
			–	6,444	–	–	6,444			–	–	
J M May[1]	Voluntary	20.05.10	4,945	–	–	–	4,945	1547p	–	–		30.09.11
	Matching	20.05.10	4,945	–	–	(3,823)	1,122	1547p	–	–		30.09.11
	Compulsory	26.05.11	–	2,053	–	–	2,053	1734p	–	–		30.09.11
	Voluntary	26.05.11	–	5,132	–	–	5,132	1734p	–	–		30.09.11
	Matching	26.05.11	–	7,185	–	(7,185)	–	1734p	–	–		30.09.11
			9,890	14,370	–	(11,008)	13,252			–	–	
			9,890	37,068	–	(11,008)	35,950			–	–	

1. Mr May resigned as a director on 30 September 2011.

Statement on directors' pensions (audited)

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

	Row ref	£
Accrued pension at 31 March 2012	a	159,686
Increase in accrued pension during the year	b	10,543
Increase in accrued pension during the year, net of inflation	c	5,323
Transfer value of increase in accrued pension over the year, net of inflation	d	70,929
Transfer value of accrued pension at 31 March 2012	e	2,622,399
Transfer value of accrued pension at 31 March 2011	f	2,077,903
Change in transfer value over the year	g	544,496

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 2012.
2. The transfer value was the present value of the accrued pension and associated benefits at the relevant date. Transfer values are calculated using the transfer value basis as determined by the trustees of the Caledonia Pension Scheme.
3. The transfer value shown in row (d) represented the value of the increase in accrued pension (net of CPI inflation) during the year, as set out in row (c).
4. The change in transfer value over the year shown in row (g) (calculated as row (e) less row (f)) reflected the impact on transfer values of factors beyond the control of the company and the directors, such as movements in stock markets. Disclosed changes in value may therefore be subject to a large degree of volatility and may even be negative. In particular, the transfer values shown as at 31 March 2012 and 31 March 2011 are based on different assumptions reflecting changes in market conditions between those two dates and, for illustration, the 2012 transfer value would have been approximately 13% lower using the 2011 assumptions. These assumptions are however regularly updated and therefore transfer values may fluctuate significantly between any two given points in time.

Mr Wyatt has established his own money purchase pension arrangements into which the company made employer contributions of £30,196 (2011 – £55,275) and in addition to which he elected to receive cash in lieu of pension contributions of £65,209 (2011 – £17,655). Mr King elected to receive his entire pension entitlement by way of cash payments in lieu of pension contributions of £50,821 (2011 – £35,383). Mr Cayzer-Colvin is a member of the GPPP, a defined contribution scheme into which employer contributions of £28,527 (2011 – £33,750) were paid during the year on his behalf, in addition to which he elected to receive cash payments in lieu of pension of £17,906 (2011 – £nil). For the part of the year until his resignation on 30 September 2011, the company paid to Mr May cash in lieu of pension contributions of £18,394 (2011 – £39,411).

Statement on directors' share options (audited)

The company currently has two executive share option schemes – a 1998 scheme under which option grants were made from 1998 to 2004 and a 2005 scheme under which option grants were made from 2005 to 2010. No further option grants have been made under these schemes as all share-based long term incentives for 2011 onwards were awarded under the performance share scheme approved by shareholders in July 2011.

Under the terms of both executive share option 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.

Directors' remuneration report continued

The performance targets for all of the outstanding options under the 1998 scheme have been tested. 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.

The performance targets have been met for all outstanding options shown in the table below granted up to 2006. The options granted in 2009 have failed to achieve the FTSE All-Share index related performance target and accordingly 50% have lapsed.

As at 31 March 2012, the market price of the company's shares was 1486p (2011 – 1725p) and the range during the year was 1337p to 1800p.

Options to acquire ordinary shares in the company held as at 31 March 2012, or date of resignation if earlier, by those directors who served during the year and gains on the exercise of share options were as shown in the following table.

			Number of options					Gains on exercise			
Name	Grant date	Opening balance	Granted	Exercised	Lapsed	Closing balance	Exercise price	2012 £'000	2011 £'000	Exercisable from date	Expiry date
W P Wyatt	05.07.02	6,000	–	–	–	6,000	782.5p	–		05.07.05	05.07.12
	20.11.03	9,000	–	–	–	9,000	945p	–		20.11.06	20.11.13
	26.05.04	9,500	–	–	–	9,500	1055p	–		26.05.07	26.05.14
	19.08.05	13,290	–	–	–	13,290	1580p	–		19.08.08	19.08.15
	01.06.06	6,789	–	–	–	6,789	1878p	–		01.06.09	01.06.16
	29.05.09	25,414	–	–	(12,707)	12,707	1446p	–		29.05.12	29.05.19
	21.05.10	33,936	–	–	–	33,936	1547p	–		21.05.13	21.05.20
		103,929	–	–	(12,707)	91,222		–	–		
The Hon	19.08.05	18,035	–	–	–	18,035	1580p	–		19.08.08	19.08.15
C W Cayzer	01.06.06	8,387	–	–	–	8,387	1878p	–		01.06.09	01.06.16
	29.05.09	25,414	–	–	(12,707)	12,707	1446p	–		29.05.12	29.05.19
	21.05.10	26,179	–	–	–	26,179	1547p	–		21.05.13	21.05.20
		78,015	–	–	(12,707)	65,308		–	–		
J M B Cayzer-Colvin	19.08.05	13,290	–	–	–	13,290	1580p	–		19.08.08	19.08.15
	01.06.06	6,789	–	–	–	6,789	1878p	–		01.06.09	01.06.16
	29.05.09	25,414	–	–	(12,707)	12,707	1446p	–		29.05.12	29.05.19
	21.05.10	26,179	–	–	–	26,179	1547p	–		21.05.13	21.05.20
		71,672	–	–	(12,707)	58,965		–	–		
S A King	21.05.10	30,959	–	–	–	30,959	1547p	–		21.05.13	21.05.20
		30,959	–	–	–	30,959		–	–		
J M May[1]	19.08.05	26,815	–	–	–	26,815	1580p	–		19.08.08	30.09.12
	01.06.06	11,681	–	–	–	11,681	1878p	–		01.06.09	30.09.12
	29.05.09	35,269	–	–	(21,516)	13,753	1446p	–		01.10.11	30.09.12
	21.05.10	38,784	–	–	(21,474)	17,310	1547p	–		21.05.13	21.05.14
		112,549	–	–	(42,990)	69,559		–	–		
		397,124	–	–	(81,111)	316,013		–	–		

1. Mr May resigned as a director on 30 September 2011. Included within the options granted on 21 May 2010 are 294 HMRC approved options, which are only exercisable between 1 October 2011 and 30 September 2012.

In respect of the termination of Mr May's employment, 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 resignation date (being an aggregate of 38,496 shares), would become fully exercisable for a period of one year following his resignation date. In respect of the options over 35,269 shares granted to Mr May in 2009, the Remuneration Committee agreed that, based on the performance targets measured to the date of his resignation, 50% of the shares comprised in the option should vest and 50% should lapse. The vested shares were then further reduced to reflect the period of time that had elapsed since the grant date, leaving options over 13,753 shares which may be exercised within the twelve months following Mr May's resignation date. As regards the options over 38,784 shares granted to Mr May in 2010, options over 1,293 shares were HMRC approved options and the remainder (over 37,491 shares) were unapproved options. The Remuneration Committee determined that 50% of the HMRC approved options should lapse on Mr May's termination date and 50% should vest, with the vested options further reduced to reflect the period that had elapsed since the date of grant. The remaining vested HMRC approved options (over 294 shares) may be exercised by Mr May within the twelve months following his resignation date. In respect of the unapproved options over 37,491 shares, the Remuneration Committee agreed that these should also be reduced to reflect the period of time that had elapsed since the date of grant, but that the remaining options (over 17,016 shares) should be preserved until their normal performance test date, at which point they should vest or lapse to the extent that the performance targets are met or not at that time. Any options that vest following such performance measurement will be exercisable by Mr May in the twelve month period thereafter.

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

Statement on directors' performance share scheme awards (audited)

At the company's annual general meeting held on 21 July 2011, shareholders gave their approval for the adoption of a new performance share scheme to replace the existing 2005 executive share option scheme. Under the performance share scheme, participants are awarded nil-cost options over shares, rather than options based on the current market value of those shares.

Nil-cost options awarded under the 2011 performance share scheme are 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 an award, the benchmark is the FTSE All-Share Total Return index and, for the remaining one-third, the benchmark is the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index. In each case, the performance period is a period of three financial years commencing with the financial year in which the awards are granted. Awards 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 is no re-testing of either performance target and, to the extent that a performance target is not met, the relevant awards will lapse. For the purposes of calculating the performance measures, an average of the figures for the company's NAV per share and the two benchmark indices published over the three months prior to the start and end of the performance period is used to reduce volatility.

For both the 2011 performance share scheme and the 2011 deferred bonus plan, the Remuneration Committee has chosen the FTSE All-Share Total Return index as a performance condition as it believes that this is the best way to incentivise executives to deliver continued strong NAV per share total return performance. This underpins Caledonia's objective of achieving total shareholder return in excess of the FTSE All-Share Total Return index. The FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index has also been chosen as a performance measure for both of the 2011 long term incentive plans as the Remuneration Committee regards it as reflective of the company's aim to provide a long term store of wealth for its shareholders. The Remuneration Committee believes that these targets, tested over a three year period, are significantly challenging and would reward executives for delivering superior performance.

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, awards 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 exercise, the participant will also receive an amount equal to the dividends that would have accrued on the shares comprised in the award during the relevant three or five year period.

Performance share scheme awards held by directors who served during the year ended 31 March 2012 were as follows:

		Number of nil-cost options							Vaue at exercise			
Name	Grant date	Opening balance	Granted	Exercised	Lapsed	Closing balance	Market price at award	Market price at exercise	2012 £'000	2011 £'000	Exercisable from date	Expiry date
W P Wyatt	11.08.11	–	37,682	–	–	37,682	1545p	–	–		11.08.14	11.08.21
The Hon C W Cayzer	11.08.11	–	22,609	–	–	22,609	1545p	–	–		11.08.14	11.08.21
J M B Cayzer-Colvin	11.08.11	–	22,609	–	–	22,609	1545p	–	–		11.08.14	11.08.21
S A King	11.08.11	–	26,738	–	–	26,738	1545p	–	–		11.08.14	11.08.21
		–	109,638	–	–	109,638			–	–		

Governance

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

Directors' service contracts contain provisions whereby the company may, in 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 per annum 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 24 May 2012 and signed on its behalf by:

Mark Davies
Chairman of the Remuneration Committee

Independent auditor's report
to the members of Caledonia Investments plc

We have audited the financial statements of Caledonia Investments plc for the year ended 31 March 2012 set out on pages 56 to 83. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective Responsibilities of Directors and Auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 40, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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

Opinion on Financial Statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2012 and of the Group's and the Parent Company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the EU; 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 part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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, set out on page 40, in relation to going concern;
- the part of the Corporate Governance Report on pages 42 to 46 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review;
- certain elements of the report to shareholders by the Board on directors' remuneration.

J M Mills (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
24 May 2012

Company statement of comprehensive income
for the year ended 31 March 2012

	Note	2012 Revenue £m	2012 Capital £m	2012 Total £m	2011 Revenue £m	2011 Capital £m	2011 Total £m
Revenue							
Investment income	1	33.3	–	33.3	33.2	–	33.2
Gains and losses on fair value investments	8	–	(123.4)	(123.4)	–	72.5	72.5
Gains and losses on derivatives		–	4.4	4.4	–	(0.8)	(0.8)
Total revenue		33.3	(119.0)	(85.7)	33.2	71.7	104.9
Management expenses	2	(11.8)	(0.6)	(12.4)	(9.7)	(0.5)	(10.2)
Guarantee obligations provided	20	–	(7.0)	(7.0)	–	(10.0)	(10.0)
Guarantee obligations released	20	–	10.0	10.0	–	–	–
Profit/(loss) before finance costs		21.5	(116.6)	(95.1)	23.5	61.2	84.7
Treasury interest receivable	3	0.8	–	0.8	0.7	–	0.7
Finance costs	4	(0.6)	–	(0.6)	(0.4)	–	(0.4)
Exchange movements		(0.7)	–	(0.7)	0.5	–	0.5
Profit/(loss) before tax		21.0	(116.6)	(95.6)	24.3	61.2	85.5
Taxation	5	2.0	0.4	2.4	(0.9)	(0.5)	(1.4)
Profit/(loss) and total comprehensive income for the year		23.0	(116.2)	(93.2)	23.4	60.7	84.1
Basic earnings per share	7	39.9p	-201.7p	-161.8p	40.5p	105.0p	145.5p
Diluted earnings per share	7	39.7p	-201.7p	-161.8p	40.4p	104.7p	145.1p

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 63 to 83 are an integral part of these financial statements.

Company statement of financial position
at 31 March 2012

	Note	2012 £m	2011 £m
Non-current assets			
Investments held at fair value through profit or loss	8	1,180.7	1,183.2
Investments in subsidiaries held at cost	8	0.8	0.8
Non-current assets		1,181.5	1,184.0
Current assets			
Derivative financial instruments		2.5	–
Trade and other receivables	15	8.0	3.6
Current tax assets	5	0.9	–
Cash and cash equivalents	16	8.4	101.2
Current assets		19.8	104.8
Total assets		1,201.3	1,288.8
Current liabilities			
Derivative financial instruments		–	(0.8)
Trade and other payables	18	(6.4)	(9.4)
Current tax liabilities		–	(0.5)
Provisions	20	(15.9)	(18.9)
Current liabilities		(22.3)	(29.6)
Non-current liabilities			
Interest-bearing loans and borrowings	17	(45.0)	–
Deferred tax liabilities	13	–	(0.5)
Non-current liabilities		(45.0)	(0.5)
Total liabilities		(67.3)	(30.1)
Net assets		1,134.0	1,258.7
Equity			
Share capital	22	3.2	3.3
Share premium	22	1.3	1.3
Capital redemption reserve	22	1.3	1.2
Capital reserve	22	854.3	992.8
Retained earnings	22	290.6	288.3
Own shares	22	(16.7)	(28.2)
Total equity		1,134.0	1,258.7
Undiluted net asset value per share	7	1989p	2180p
Diluted net asset value per share	7	1977p	2165p

The financial statements on pages 56 to 83 were approved by the board and authorised for issue on 24 May 2012 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 63 to 83 are an integral part of these financial statements.

Company statement of changes in equity
for the year ended 31 March 2012

	Share capital £m	Share premium £m	Capital redemption reserve £m	Capital reserve £m	Retained earnings £m	Own shares £m	Total equity £m
Balance at 1 April 2010	3.3	1.3	1.2	932.1	271.7	(28.0)	1,181.6
Profit and total comprehensive income	–	–	–	60.7	23.4	–	84.1
Transactions with owners of the company							
Contributions by and distributions to owners							
Share-based payments	–	–	–	–	(0.4)	–	(0.4)
Own shares purchased	–	–	–	–	–	(0.2)	(0.2)
Dividends paid	–	–	–	–	(6.4)	–	(6.4)
Total transactions with owners	–	–	–	–	(6.8)	(0.2)	(7.0)
Balance at 31 March 2011	3.3	1.3	1.2	992.8	288.3	(28.2)	1,258.7
Loss and total comprehensive income	–	–	–	(116.2)	23.0	–	(93.2)
Transactions with owners of the company							
Contributions by and distributions to owners							
Exercise of options	–	–	–	–	–	0.6	0.6
Share-based payments	–	–	–	–	1.1	–	1.1
Own shares purchased	–	–	–	–	–	1.3	1.3
Own shares cancelled	(0.1)	–	0.1	(22.3)	–	9.6	(12.7)
Dividends paid	–	–	–	–	(21.8)	–	(21.8)
Total transactions with owners	(0.1)	–	0.1	(22.3)	(20.7)	11.5	(31.5)
Balance at 31 March 2012	3.2	1.3	1.3	854.3	290.6	(16.7)	1,134.0

The accounting policies and notes to the financial statements on pages 63 to 83 are an integral part of these financial statements.

Group statement of comprehensive income
for the year ended 31 March 2012

	Note	2012 £m	2011 £m
Revenue			
Investment income	1	31.4	24.7
Gains and losses on investments held at fair value through profit or loss		(123.3)	62.9
Gains and losses on derivatives used to hedge the fair value of investments		4.3	(0.2)
Revenue from sales of goods and services		115.3	118.2
Total revenue		27.7	205.6
Investment management expenses	2	(12.4)	(10.2)
Trade operating expenses	2	(107.1)	(126.2)
Gain/(loss) on disposal of operations	24	(1.2)	10.6
Gain/(loss) on investment property	11	0.3	(0.3)
Share of results of joint ventures	12	(1.0)	(3.8)
Profit/(loss) before finance costs		(93.7)	75.7
Treasury interest receivable	3	0.7	0.4
Finance costs	4	(2.4)	(2.4)
Exchange movements		(0.8)	0.1
Profit/(loss) before tax		(96.2)	73.8
Taxation	5	(2.0)	(6.2)
Profit/(loss) for the year		(98.2)	67.6
Other comprehensive income			
Exchange differences on translation of foreign operations		–	(1.3)
Transfer to profit or loss on disposal of foreign operations	24	–	0.1
Actuarial gains/(losses) on defined benefit pension schemes	19	(4.9)	0.7
Tax on other comprehensive income	5	1.5	(0.2)
Total comprehensive income		(101.6)	66.9

		2012 £m	2011 £m
Profit/(loss) for the year attributable to			
Owners of the parent		(98.6)	68.8
Non-controlling interest		0.4	(1.2)
		(98.2)	67.6

		2012 £m	2011 £m
Total comprehensive income attributable to			
Owners of the parent		(102.0)	68.2
Non-controlling interest		0.4	(1.3)
		(101.6)	66.9

	Note	2012	2011
Basic earnings per share	7	-171.2p	119.0p
Diluted earnings per share	7	-171.2p	118.7p

Financial statements

The accounting policies and notes to the financial statements on pages 63 to 83 are an integral part of these financial statements.

Group statement of financial position
at 31 March 2012

	Note	2012 £m	2011 £m
Non-current assets			
Investments held at fair value through profit or loss	8	1,088.5	1,095.5
Available for sale investments	8	0.8	0.8
Intangible assets	9	2.6	7.6
Property, plant and equipment	10	76.8	81.1
Investment property	11	14.8	20.5
Interests in joint ventures	12	0.8	2.7
Deferred tax assets	13	5.4	4.7
Employee benefits	19	6.9	–
Non-current assets		1,196.6	1,212.9
Current assets			
Inventories	14	15.0	16.6
Derivative financial instruments		2.5	0.2
Trade and other receivables	15	35.7	28.9
Current tax assets	5	0.7	0.2
Cash and cash equivalents	16	24.6	121.5
Current assets		78.5	167.4
Total assets		1,275.1	1,380.3
Current liabilities			
Interest-bearing loans and borrowings	17	(20.8)	(48.2)
Derivative financial instruments		(0.1)	(0.8)
Trade and other payables	18	(25.3)	(31.0)
Employee benefits	19	(2.3)	(3.7)
Current tax liabilities		(1.2)	(2.6)
Provisions	20	(4.1)	(4.1)
Current liabilities		(53.8)	(90.4)
Non-current liabilities			
Interest-bearing loans and borrowings	17	(84.7)	(30.8)
Employee benefits	19	(15.4)	(7.9)
Deferred tax liabilities	13	(3.1)	(2.0)
Non-current liabilities		(103.2)	(40.7)
Total liabilities		(157.0)	(131.1)
Net assets		1,118.1	1,249.2
Equity			
Share capital	22	3.2	3.3
Share premium	22	1.3	1.3
Capital redemption reserve	22	1.3	1.2
Retained earnings	22	1,121.7	1,267.7
Foreign exchange translation reserve	22	4.3	4.3
Own shares	22	(16.7)	(28.2)
Equity attributable to owners of the parent		1,115.1	1,249.6
Non-controlling interest	22	3.0	(0.4)
Total equity		1,118.1	1,249.2

The financial statements on pages 56 to 83 were approved by the board and authorised for issue on 24 May 2012 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 63 to 83 are an integral part of these financial statements.

Group statement of changes in equity
for the year ended 31 March 2012

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Currency translation reserve £m	Own shares £m	Non-controlling interest £m	Total equity £m
Balance at 1 April 2010	3.3	1.3	1.2	1,206.4	5.4	(28.0)	1.4	1,191.0
Total comprehensive income								
Profit for the year	–	–	–	68.8	–	–	(1.2)	67.6
Other comprehensive income	–	–	–	0.5	(1.1)	–	(0.1)	(0.7)
Total comprehensive income	–	–	–	69.3	(1.1)	–	(1.3)	66.9
Transactions with owners of the company								
Contributions by and distributions to owners								
Share-based payments	–	–	–	(0.4)	–	–	–	(0.4)
Own shares purchased	–	–	–	–	–	(0.2)	–	(0.2)
Dividends paid	–	–	–	(6.4)	–	–	(0.3)	(6.7)
Total contributions and distributions	–	–	–	(6.8)	–	(0.2)	(0.3)	(7.3)
Changes in ownership interests								
Capital contributed	–	–	–	–	–	–	0.6	0.6
Non-controlling interest acquired	–	–	–	(1.2)	–	–	(0.8)	(2.0)
Total changes in ownership interests	–	–	–	(1.2)	–	–	(0.2)	(1.4)
Total transactions with owners	–	–	–	(8.0)	–	(0.2)	(0.5)	(8.7)
Balance at 31 March 2011	3.3	1.3	1.2	1,267.7	4.3	(28.2)	(0.4)	1,249.2
Total comprehensive income								
Loss for the year	–	–	–	(98.6)	–	–	0.4	(98.2)
Other comprehensive income	–	–	–	(3.4)	–	–	–	(3.4)
Total comprehensive income	–	–	–	(102.0)	–	–	0.4	(101.6)
Transactions with owners of the company								
Contributions by and distributions to owners								
Exercise of share options	–	–	–	–	–	0.6	–	0.6
Own shares purchased	–	–	–	–	–	1.3	–	1.3
Share-based payments	–	–	–	1.1	–	–	–	1.1
Own shares cancelled	(0.1)	–	0.1	(22.3)	–	9.6	–	(12.7)
Dividends paid	–	–	–	(21.8)	–	–	(0.3)	(22.1)
Total contributions and distributions	(0.1)	–	0.1	(43.0)	–	11.5	(0.3)	(31.8)
Changes in ownership interests								
Non-controlling interest disposed	–	–	–	–	–	–	3.3	3.3
Non-controlling interest acquired	–	–	–	(1.0)	–	–	–	(1.0)
Total changes in ownership interests	–	–	–	(1.0)	–	–	3.3	2.3
Total transactions with owners	(0.1)	–	0.1	(44.0)	–	11.5	3.0	(29.5)
Balance at 31 March 2012	3.2	1.3	1.3	1,121.7	4.3	(16.7)	3.0	1,118.1

The accounting policies and notes to the financial statements on pages 63 to 83 are an integral part of these financial statements.

Company and group statements of cash flows

for the year ended 31 March 2012

	Note	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Operating activities					
Dividends received		30.6	30.3	27.4	21.6
Interest received		1.1	2.3	0.8	2.7
Cash received from customers		–	–	116.3	123.6
Cash paid to suppliers and employees		(11.9)	(13.8)	(116.9)	(123.6)
Taxes paid		(0.1)	(0.1)	(1.7)	(0.6)
Group relief received/(paid)		0.7	(0.1)	–	–
Net cash flow from operating activities		20.4	18.6	25.9	23.7
Investing activities					
Purchases of investments		(251.7)	(112.9)	(244.6)	(91.4)
Proceeds from disposal of investments		129.0	195.5	126.2	173.4
Net receipts/(payments) from derivative financial instruments		1.1	–	1.3	(0.2)
Purchases of property, plant and equipment		–	–	(1.9)	(3.0)
Purchases of investment property		–	–	(6.4)	(8.8)
Purchases of joint ventures		–	–	–	(0.2)
Proceeds from disposal of joint ventures		–	–	0.9	1.2
Proceeds from disposal of investment property	11	–	–	1.4	–
Purchases of subsidiaries net of cash acquired	23	–	–	(2.6)	(2.2)
Loans advanced		(4.4)	–	(4.4)	–
Proceeds from disposal of subsidiaries net of cash disposed	24	–	–	12.9	15.4
Net cash flow from/(used in) investing activities		(126.0)	82.6	(117.2)	84.2
Financing activities					
Interest paid		(0.5)	(0.3)	(2.3)	(2.2)
Dividends paid to owners of the company		(21.8)	(6.4)	(21.8)	(6.4)
Distributions paid to non-controlling interest		–	–	(0.3)	(0.3)
Proceeds from new borrowings		45.1	–	61.5	0.3
Loans from group companies		2.5	–	–	–
Repayment of borrowings		–	–	(30.3)	(6.8)
Capital contribution by non-controlling interest		–	–	–	0.6
Exercise of share options		0.6	–	0.6	–
Purchase of own shares		(13.1)	(1.6)	(13.1)	(1.6)
Net cash flow from/(used in) financing activities		12.8	(8.3)	(5.7)	(16.4)
Net increase/(decrease) in cash and cash equivalents		(92.8)	92.9	(97.0)	91.5
Cash and cash equivalents at year start		101.2	8.3	121.5	30.5
Exchange movements on cash and cash equivalents		–	–	0.1	(0.5)
Cash and cash equivalents at year end	16	8.4	101.2	24.6	121.5

The accounting policies and notes to the financial statements on pages 63 to 83 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 24 May 2012.

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 19 'Extinguishing Financial Liabilities with Equity Instruments', providing guidance on accounting for such transactions.

The adoption of this Interpretation had no impact on these financial statements.

At the date of authorisation of these financial statements, the following Standards, which have not been applied in these financial statements, were in issue but not yet effective.

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosures of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'
- IAS 27 'Separate Financial Statements'
- IAS 28 'Investments in Associates and Joint Ventures'.

The directors anticipate that the adoption of these Standards in future periods will have no material impact on the financial statements of the company, except to change the presentation of the group results.

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 was the first year in which the presentational guidance in the SORP was adopted.

Under The UK Corporate Governance 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 40. 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.

Accounting policies continued

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.

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 35.

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 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 and performance 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 performance shares and deferred bonus awards
National insurance payable on the exercise of certain employee share options and performance share awards 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 performance share awards and 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.

Accounting policies continued

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.

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 on that date. 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 income

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Dividends from equity shares				
Listed UK	16.7	13.3	16.7	13.3
Listed non-UK	4.2	1.4	4.3	1.4
Unlisted	7.3	6.7	7.5	6.7
Subsidiaries	3.3	8.9	–	–
Interest on loan investments				
Unlisted	1.8	2.6	2.9	3.3
Subsidiaries	–	0.3	–	–
	33.3	33.2	31.4	24.7

2. Expenses

Investing operations
Management expenses

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Personnel expenses	7.7	6.4	7.7	6.4
Depreciation	0.1	0.1	0.1	0.1
Auditor's remuneration	0.1	0.1	0.1	0.1
Other administrative expenses	3.8	3.0	3.8	3.0
Other expenses	0.1	0.1	0.1	0.1
	11.8	9.7	11.8	9.7

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 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Transaction costs	0.6	0.5	0.6	0.5

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 2012 £m	Group 2011 £m
Cost of sales	81.8	68.9
Distribution expenses	3.7	11.6
Administrative expenses	21.6	45.7
	107.1	126.2

Operating expenses included the following items:

	Group 2012 £m	Group 2011 £m
Depreciation	4.1	4.5
Amortisation	1.5	2.5
Impairment loss on goodwill	0.7	12.9
Impairment loss on customer relationships	1.1	2.0
Direct operating expenses of investment property that generated rental income	0.1	0.1
Operating lease rentals (note 25)	1.2	2.3
Auditor's remuneration	0.2	0.2

Further information
Auditor's remuneration

Fees payable to KPMG Audit Plc (2011 – Deloitte LLP) were as follows:

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £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	–	0.3
	0.1	0.4	0.3	0.6

Personnel expenses

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Wages and salaries	5.6	5.9	30.8	36.4
Compulsory social security contributions	0.7	0.7	4.7	5.5
Contributions to defined contribution plans	0.3	0.2	0.8	0.8
Defined benefit pension plans expense (note 19)	–	–	0.1	0.3
Increase in liability for long service leave	–	–	0.1	–
Equity-settled share-based payments (note 19)	1.1	(0.4)	1.1	(0.4)
	7.7	6.4	37.6	42.6

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

	Company 2012 No	Company 2011 No	Group 2012 No	Group 2011 No
Average number of employees	42	41	664	797

3. Treasury interest receivable

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Interest on bank deposits	0.3	0.2	0.4	0.3
Other interest receivable	0.3	0.1	0.3	0.1
Guarantee fees	0.2	0.4	–	–
	0.8	0.7	0.7	0.4

4. Finance costs

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Interest on bank loans and overdrafts	0.6	0.4	2.4	2.3
Other interest costs	–	–	–	0.1
	0.6	0.4	2.4	2.4

5. Taxation

Recognised in comprehensive income

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Current tax expense				
Current year	(1.8)	(1.5)	2.2	1.2
Adjustments for prior years	(0.1)	3.4	(2.0)	4.3
	(1.9)	1.9	0.2	5.5
Deferred tax expense				
Origination and reversal of timing differences	(0.5)	(0.5)	0.2	1.2
Benefit of tax losses recognised	–	–	1.6	(0.5)
	(0.5)	(0.5)	1.8	0.7
Total tax expense/(income)	(2.4)	1.4	2.0	6.2

Reconciliation of effective tax expense

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Profit/(loss) before tax	(95.6)	85.5	(96.2)	73.8
Tax at the domestic rate of 26% (2011 – 28%)	(24.9)	23.9	(25.0)	20.7
Effect of tax rate in foreign jurisdictions	–	–	2.3	6.3
Non-deductible expenses	0.1	0.1	0.8	–
Utilisation of tax losses	–	–	–	(1.4)
Losses for the year unrelieved	0.9	0.3	2.8	2.0
Non-taxable losses/(gains) on investments	29.7	(17.8)	29.5	(21.1)
Non-taxable UK dividend income	(6.4)	(7.6)	(5.5)	(5.1)
Tax exempt revenues	(1.7)	(0.9)	(1.8)	(0.9)
Other timing differences	–	–	0.9	1.4
Under/(over) provided in prior years	(0.1)	3.4	(2.0)	4.3
Tax expense/(income)	(2.4)	1.4	2.0	6.2

Recognised in other comprehensive income

	Group 2012 £m	Group 2011 £m
Deferred tax expense		
Relating to actuarial gains/(losses) on defined benefit pension schemes	(1.5)	0.3
Relating to share options and deferred bonus awards	–	(0.1)
	(1.5)	0.2

Current tax assets

Current tax assets of £0.9m in the company represented loss relief surrender for settlement and £0.7m in the group (2011 – £0.2m in the group) 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:

	2012 p/share	2012 £m	2011 p/share	2011 £m
Final dividend for the year ended 31 March 2011	26.0	15.0	–	–
Interim dividend for the year ended 31 March 2012 (2011)	11.7	6.8	11.1	6.4
	37.7	21.8	11.1	6.4
Proposed final dividend for the year ended 31 March 2012 (2011)	31.2	17.8	26.0	15.0

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 25 July 2012, will be payable on 9 August 2012 to holders of shares on the register on 6 July 2012. The ex-dividend date will be 4 July 2012.

For the purposes of section 1159 of the Corporation Tax Act 2010, the dividends payable for the year ended 31 March 2012 are the interim and final dividends for that year, amounting to £24.6m (2011 – £21.4m).

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 or loss 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 2012 £m	Revenue 2011 £m	Capital 2012 £m	Capital 2011 £m
Profit/(loss) for the year	23.0	23.4	(116.2)	60.7

Notes to the financial statements continued

The profit attributable to shareholders was as follows:

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Profit/(loss) attributable to shareholders (basic and diluted)	(93.2)	84.1	(98.6)	68.8

The weighted average number of shares was as follows:

	Company 2012 000's	Company 2011 000's	Group 2012 000's	Group 2011 000's
Issued shares at year start	58,795	58,795	58,795	58,795
Effect of shares cancelled	(455)	–	(455)	–
Effect of shares held in treasury	(391)	(605)	(391)	(605)
Effect of shares held by the employee share trust	(350)	(373)	(350)	(373)
Shares held by a subsidiary	–	–	(3)	(3)
Basic weighted average number of shares during the year	57,599	57,817	57,596	57,814
Effect of share options and deferred bonus awards	303	144	303	144
Diluted weighted average number of shares during the year	57,902	57,961	57,899	57,958

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, 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 (in the prior year) at the closing mid-market price on the reporting date, the exercise of all outstanding in-the-money share options and the calling of performance share and deferred bonus awards.

	2012 Net assets £m	2012 Number of shares 000's	2012 NAV p/share	2011 Net assets £m	2011 Number of shares 000's	2011 NAV p/share
Undiluted	1,134.0	57,009	1989	1,258.7	57,739	2180
Adjustments	2.6	476	(12)	22.8	1,463	(15)
Diluted	1,136.6	57,485	1977	1,281.5	59,202	2165

8. Investments

Company

	2012 £m	2011 £m
Non-current investments		
Investments held at fair value through profit or loss	1,180.7	1,183.2
Investments in subsidiaries held at cost	0.8	0.8
	1,181.5	1,184.0

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 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
Purchases at cost	69.7	103.4	55.6	19.1	247.8
Reclassifications	–	–	(1.1)	1.1	–
Disposal proceeds	(60.6)	(25.5)	(33.0)	(9.5)	(128.6)
Losses on investments	(74.8)	(13.5)	(29.7)	(5.4)	(123.4)
Rolled-up interest	–	–	1.7	–	1.7
Balance at 31 March 2012	497.3	219.4	347.6	117.2	1,181.5

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

	2012 £m	2011 £m
Non-current investments		
Investments held at fair value through profit or loss		
Listed UK securities	497.9	563.0
Listed non-UK securities	226.6	164.3
Unlisted securities	364.0	368.2
	1,088.5	1,095.5
Available for sale investments		
Unlisted securities	0.8	0.8
	1,089.3	1,096.3

9. Intangible assets

Group

	Goodwill £m	Customer relationships £m	Other £m	Total £m
Cost				
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
Acquisition of operations	0.2	0.6	–	0.8
Disposal of operations	(27.7)	(11.8)	(1.2)	(40.7)
Exchange movements	(0.1)	–	–	(0.1)
Balance at 31 March 2012	7.5	2.4	–	9.9
Amortisation and impairment				
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
Amortisation	–	1.5	–	1.5
Impairment	0.7	1.1	–	1.8
Disposal of operations	(25.3)	(11.8)	(1.2)	(38.3)
Balance at 31 March 2012	6.1	1.2	–	7.3
Carrying amounts				
At 31 March 2010	17.3	7.7	–	25.0
At 31 March 2011	4.4	3.2	–	7.6
At 31 March 2012	1.4	1.2	–	2.6

Customer relationships primarily related to identifiable customer related intangible assets acquired on the purchase of the Ermitage group in 2007. During the year the Ermitage group was sold.

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

Impairment charge

The impairment charge for the year of £1.8m (2011 – £14.9m) 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, Amber group. The recoverable amount of the unit has been determined on the basis of value in use based on recent forecasts from the unit management's business plan.

10. Property, plant and equipment

Group

	Property £m	Plant £m	Equipment £m	Total £m
Cost				
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
Acquisition of operations	–	0.4	0.1	0.5
Other acquisitions	0.4	0.9	0.6	1.9
Disposal of operations	–	–	(2.0)	(2.0)
Other disposals	–	(0.2)	–	(0.2)
Exchange movements	(2.6)	(0.4)	(0.2)	(3.2)
Balance at 31 March 2012	91.5	6.8	13.1	111.4
Depreciation and impairment				
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
Depreciation charge	1.8	1.2	1.2	4.2
Disposal of operations	–	–	(1.9)	(1.9)
Other disposals	–	(0.1)	–	(0.1)
Exchange movements	(0.5)	(0.2)	(0.2)	(0.9)
Balance at 31 March 2012	26.3	4.2	4.1	34.6
Carrying amounts				
At 31 March 2010	73.4	4.0	9.6	87.0
At 31 March 2011	68.7	2.8	9.6	81.1
At 31 March 2012	65.2	2.6	9.0	76.8

Security

At 31 March 2012, properties with a carrying amount of £33.0m (2011 – £35.5m) were subject to charges to secure bank loans (note 17).

Notes to the financial statements continued

11. Investment property

Group

	2012 £m	2011 £m
Balance at the year start	20.5	12.3
Additions	6.4	8.5
Disposals	(1.6)	–
Disposal of operations	(10.8)	–
Fair value adjustments	0.3	(0.3)
Balance at the year end	14.8	20.5

During the year an investment property was sold for £1.4m, which had been leased out for £0.2m (2011 - £0.2m) per annum.

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 2012, investment properties with a carrying value of £6.0m (2011 – £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 2012 %	Ownership 2011 %
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 2012 was £1.0m loss (2011 – £3.8m loss).

Summarised financial information of joint ventures was as follows:

	Assets £m	Liabilities £m	Equity £m	Revenue £m	Profit/(loss) £m
2012					
Moredun LP	5.3	(3.2)	2.1	1.6	(2.0)
Willmoreton Properties Ltd	0.1	–	0.1	0.4	(0.7)
	5.4	(3.2)	2.2	2.0	(2.7)
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)

13. Deferred tax assets and liabilities

Company

Recognised deferred tax liabilities

Deferred tax liabilities were attributable to the following:

	Liabilities £m
2012	
Investments	–
2011	
Investments	(0.5)

Movement in temporary differences during the year

	Balance at year start £m	Comprehensive income £m	Balance at year end £m
2012			
Investments	(0.5)	0.5	–
2011			
Investments	(1.0)	0.5	(0.5)

Unrecognised deferred tax assets

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

	2012 £m	2011 £m
Tax losses	1.8	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
2012			
Employee benefits	4.6	(1.7)	2.9
Tax losses	0.5	–	0.5
Other items	0.3	(1.4)	(1.1)
	5.4	(3.1)	2.3
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

Unrecognised deferred tax assets

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

	2012 £m	2011 £m
Tax losses	7.3	5.3

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 £1.2m (2011 – £1.3m) expire within five years and the balance does not expire.

Movement in temporary differences during the year

	Balance at year start £m	Recognised in comprehensive income £m	Recognised in other comprehensive income Taxation £m	Recognised in other comprehensive income Exchange movement £m	Disposed in the year £m	Balance at year end £m
2012						
Investments	(0.5)	0.5	–	–	–	–
Employee benefits	2.3	(0.9)	1.5	–	–	2.9
Tax losses	2.1	(1.6)	–	–	–	0.5
Other items	(1.2)	0.2	–	–	(0.1)	(1.1)
	2.7	(1.8)	1.5	–	(0.1)	2.3
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

14. Inventories

	Group 2012 £m	Group 2011 £m
Raw materials and consumables	4.8	4.0
Work in progress	1.5	0.5
Finished goods	2.5	2.1
Properties held for sale	6.2	10.0
	15.0	16.6

Security

At 31 March 2012, properties held for sale with a carrying value of £1.4m (2011 – £nil) were subject to charges to secure bank loans (note 17).

15. Trade and other receivables

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Trade receivables and prepayments	3.8	3.6	31.5	28.9
Other receivables	4.2	–	4.2	–
	8.0	3.6	35.7	28.9

16. Net cash and cash equivalents

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Bank balances	2.6	0.1	18.8	20.4
Short term deposits	5.8	101.1	5.8	101.1
Cash and cash equivalents	8.4	101.2	24.6	121.5

17. Interest-bearing loans and borrowings

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Non-current liabilities				
Secured bank loans	–	–	3.5	28.0
Unsecured loans	45.0	–	81.1	0.3
Cumulative preference shares	–	–	0.1	0.1
Unsecured bond issues	–	–	–	2.4
	45.0	–	84.7	30.8
Current liabilities				
Current portion of secured loans	–	–	20.8	0.3
Unsecured loans	–	–	–	47.9
	–	–	20.8	48.2

Group bank loans of £24.3m (2011 – £28.3m) were secured by a charge over certain properties of the group (notes 10, 11 and 14).

18. Trade and other payables

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Trade payables	–	–	8.8	7.8
Non-trade payables and accrued expenses	6.4	9.4	16.5	23.2
	6.4	9.4	25.3	31.0

19. Employee benefits

	Group 2012 £m	Group 2011 £m
Non-current assets		
Defined benefit pension asset	6.9	–
Current liabilities		
Short term compensated absences	(0.5)	(0.4)
Profit-sharing bonus	(1.8)	(3.3)
	(2.3)	(3.7)
Non-current liabilities		
Defined benefit pension obligations	(11.2)	(4.7)
National insurance on share options, performance shares and deferred bonus awards	(0.2)	(0.2)
Profit-sharing bonus	(3.3)	(2.4)
Liability for long term service leave	(0.7)	(0.6)
	(15.4)	(7.9)
Total employee liabilities	(17.7)	(11.6)

Notes to the financial statements continued

Defined benefit pension obligations

The group makes contributions to four (2011 – four) plans in the UK and US that provide pension benefits for employees upon retirement.

	Group 2012 £m	2011 £m
Present value of funded obligations	73.3	69.1
Fair value of plan assets	(69.0)	(64.4)
Present value of net obligations	4.3	4.7

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

	Group 2012 £m	2011 £m
Balance at year start	69.1	67.9
Service cost	0.9	0.9
Interest cost	3.5	3.5
Actuarial loss	2.1	0.3
Actual benefit payments	(2.3)	(2.6)
Exchange movements	–	(0.9)
Balance at year end	73.3	69.1

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

	Group 2012 £m	2011 £m
Balance at year start	64.4	60.0
Expected return on assets	4.3	4.1
Actuarial gain/(loss)	(2.8)	1.0
Employer contributions	5.3	2.5
Actual benefit payments	(2.3)	(2.6)
Exchange movements	0.1	(0.6)
Balance at year end	69.0	64.4

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

	Group 2012 £m	2011 £m
Current service cost	0.9	0.9
Interest on obligations	3.5	3.5
Expected return on plan assets	(4.3)	(4.1)
	0.1	0.3

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

	Group 2012 £m	2011 £m
Operating expenses of trading activities	0.1	0.3

Amounts recognised in other comprehensive income were as follows:

	Group 2012 £m	2011 £m
Actuarial gains/(losses) in the year	(4.9)	0.7
Cumulative actuarial losses	12.3	7.4

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

	Group 2012 £m	2011 £m
Plan assets		
Equities	39.9	40.5
Bonds	14.6	13.0
Other assets	14.5	10.9
	69.0	64.4
Expected returns		
Equities	7.0%	7.8%
Bonds	4.0%	5.0%
Other assets	3.4%	3.6%
	5.6%	6.5%

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

	Group 2012 %	2011 %
Discount rate at year end	4.6	5.4
Future salary increases	4.5	4.0
Future pension increases	3.4	3.3
Price inflation	3.1	3.1

The main changes in 2012 relating to pension and other post-retirement obligations concerned the Sterling Industries Pension Scheme. The UK Government announced in July 2010 that inflation as measured by the Consumer Price Index ('CPI') rather than the Retail Prices Index ('RPI') would be used to determine future statutory pension increases for private sector pension schemes. As CPI inflation is generally lower than RPI inflation, the anticipated lower pension payments for pensioners reduced the defined benefit obligation by around £0.7m in 2012, following a reduction of £0.2m when the change was applied to members in the Caledonia and Amber schemes in 2011.

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 health is assumed to be 26.9 years for males and 28.5 years for females who are currently 62 years of age.

Expected contributions to group post-employment benefit plans for the year ended 31 March 2013 were £3.2m (2012 – £3.0m).

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

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Group					
Present value of defined benefit obligations	73.3	69.1	67.9	56.5	57.0
Fair value of plan assets	(69.0)	(64.4)	(60.0)	(47.4)	(56.0)
Deficit in the plan	4.3	4.7	7.9	9.1	1.0
Experience adjustment on plan liabilities	(1.5)	(0.8)	(0.1)	(2.1)	0.2
Experience adjustment on plan assets	(2.8)	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.

At the 2011 annual general meeting, shareholders approved a new performance share scheme to replace the existing share option scheme as the means of delivering long term incentive awards to senior executives. The performance share scheme entitles senior executives to receive options over the company's shares which are exercisable at nil-cost, subject to service and performance conditions. The nil-cost option awards may be exercised between three and ten years after the date of grant, although only two-thirds of the awards may be exercised after three years, with the remaining one-third becoming exercisable five years after grant. Initial grants of awards under this scheme were made in 2011.

The company also has two deferred bonus plans, a 2005 plan and a 2011 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 and voluntary deferral, subject to service and company performance criteria.

The terms and conditions of the grants outstanding as at 31 March 2012 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	8,000
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	113,319
01.06.06	Option grant to senior staff	Note 3	72,830
29.05.09	Option grant to senior staff	Note 3	137,838
21.05.10	Option grant to senior staff	Note 3	220,943
			604,993
Performance share scheme awards			
11.08.11	Award grant to senior staff	Note 4	226,462
			226,462
Deferred bonus awards to senior staff			
21.05.10	Voluntary award	Note 5	7,707
21.05.10	Matching shares	Note 6	3,884
26.05.11	Compulsory award	Note 7	16,165
26.05.11	Voluntary award	Note 5	7,467
26.05.11	Matching shares	Note 6	16,447
			51,670

Vesting conditions are as follows:

1. Three/six years of service and NAV outperforms RPI by 9% or NAV outperforms 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/five years of service and two-thirds vest if NAV total return outperforms the FTSE All-Share Total Return and/or one-third vests if NAV total return outperforms the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return, in each case with vesting increasing incrementally from 10% to 100% on outperformance of 0.5% to 3.5%.
5. Three years of service or earlier termination of employment.
6. 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%.
7. Three years of service.

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

Notes to the financial statements continued

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

	2012		2011	
	Weighted average exercise price p/share	Number of options 000's	Weighted average exercise price p/share	Number of options 000's
Outstanding at the year start	1503	815	1618	796
Granted during the year	–	–	1547	246
Exercised during the year	1545	(38)	1206	(5)
Lapsed during the year	1461	(172)	1972	(222)
Outstanding at the year end	1512	605	1503	815

The options outstanding at 31 March 2012 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 performance share scheme and deferred awards granted was measured indirectly, by reference to the share price at the date of grant.

In the prior year, the fair value of services received in return for share options granted was 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 prior year and parameters used to derive the fair value, were as follows:

	Senior staff	
	2012	2011
Fair value at measurement date	–	468p
Share price	–	1547p
Exercise price	–	1547p
Expected volatility	–	36.6%
Exercise multiple	–	2.0x
Expected dividends	–	2.7%
Risk-free interest rate (based on UK Government bonds)	–	3.0%

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

Under the schemes, share options were granted with service and non-market performance conditions. Such conditions were not taken into account in the fair value measurement of the services received at the dates of grant. There were no market conditions associated with the share option grants.

The fair value of services received in return for deferred share awards was 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	2012 £m	2011 £m	2012 £m	2011 £m
Share options granted in 2006	–	0.1	–	0.1
Share options granted in 2009	–	(0.4)	–	(0.4)
Share options granted in 2010	(0.1)	0.2	(0.1)	0.2
Share options granted in 2011	0.2	0.2	0.2	0.2
Performance share awards granted in 2012	0.5	–	0.5	–
Deferred bonus awards for 2007	–	0.1	–	0.1
Deferred bonus awards for 2008	0.2	(0.5)	0.2	(0.5)
Deferred bonus awards for 2010	0.1	(0.1)	0.1	(0.1)
Deferred bonus awards for 2011	0.2	–	0.2	–
	1.1	(0.4)	1.1	(0.4)

20. Provisions

	Company		Group	
	2012 £m	2011 £m	2012 £m	2011 £m
Balance at the year start	18.9	8.9	4.1	4.0
Bank guarantee provisions				
Released during the year	(10.0)	–	–	–
Increased during the year	7.0	10.0	–	–
Other provisions				
Increased during the year	–	–	–	0.1
Balance at the year end	15.9	18.9	4.1	4.1
Current liabilities	15.9	18.9	4.1	4.1

During the year, the company recognised a £7.0m bank guarantee provision, and released a £10.0m provision related to bank guarantees provided for subsidiary borrowings. In the prior year, a £10.0m bank guarantee provision was recognised. These 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 and currency risk and 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. 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 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 29.

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 and funds were as follows:

	Company		Group	
	2012 £m	2011 £m	2012 £m	2011 £m
Investments held at fair value through profit or loss	1,120.3	1,126.6	1,031.8	1,041.4

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.

	Company		Group	
	2012 £m	2011 £m	2012 £m	2011 £m
Increase in prices	112.0	112.7	103.2	104.1
Decrease in prices	(112.0)	(112.7)	(103.2)	(104.1)

The sensitivity to equity and fund investments has decreased 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 2012, 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		Group	
	2012 £m	2011 £m	2012 £m	2011 £m
Cash and cash equivalents	2.3	0.1	2.6	1.3
Trade and other receivables	4.2	–	6.1	1.9
Trade and other payables	–	–	–	(1.4)

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		Group	
	2012 £m	2011 £m	2012 £m	2011 £m
Sterling depreciates (weakens)	0.5	–	0.7	0.1
Sterling appreciates (strengthens)	(0.4)	–	(0.6)	(0.1)

The exposure to foreign currency has increased during the year due to the increase in foreign cash and cash equivalent balances and increase in foreign trade and other receivables.

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		Group	
	2012 £m	2011 £m	2012 £m	2011 £m
Fixed rate				
Investments in debt instruments	15.0	13.5	24.4	21.8
Interest-bearing loans and borrowings	–	–	(2.7)	(2.4)
Floating rate				
Investments in debt instruments	46.2	43.9	32.3	32.3
Cash and cash equivalents	8.4	101.2	24.6	121.5
Interest-bearing loans and borrowings	(45.0)	–	(102.8)	(76.6)

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.

Notes to the financial statements continued

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Decrease in interest rates	0.7	1.4	1.1	0.8
Increase in interest rates	(0.7)	(1.4)	(1.1)	(0.8)

The company's sensitivity to interest rates has decreased in the year due to the reduction in the book cost of fixed rate debt instruments, but the group's sensitivity has increased due to an increase in variable rate borrowings and reduction in cash and cash equivalents.

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 2012, the financial assets exposed to credit risk were as follows:

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Investments in debt instruments	63.3	63.1	58.8	59.8
Operating and other receivables	8.0	3.6	35.7	28.9
Derivatives	2.5	–	2.5	0.2
Cash and cash equivalents	8.4	101.2	24.6	121.5
	82.2	167.9	121.6	210.4

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. Listed security trades are settled through HSBC Global Custody.

There were no significant concentrations of credit risk to counterparties at 31 March 2012 (2011 – £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 35.

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
2012					
Secured bank loans	21.4	4.0	–	(1.1)	24.3
Unsecured loans	1.3	82.4	–	(2.6)	81.1
Cumulative preference shares	–	–	0.1	–	0.1
	22.7	86.4	0.1	(3.7)	105.5
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

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 shareholders principally through the use of equity capital, although the company will maintain appropriate borrowing facilities, to be used for short term working capital or bridging finance, currently £100m.

The company's total capital at 31 March 2012 was £1,134.0m (2011 – £1,258.7m) comprising equity share capital and reserves. The company was 4.0% geared at the year end (2011 – 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 35. The table below analyses financial instruments held at fair value according to the subjectivity of the valuation method, using 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 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Investments held at fair value				
Level 1	716.7	718.0	724.5	727.3
Level 2	48.9	61.7	19.1	28.0
Level 3	415.1	403.5	344.9	340.2
	1,180.7	1,183.2	1,088.5	1,095.5
Available for sale investments				
Level 2	–	–	0.8	0.8
Derivatives				
Level 2	2.5	(0.8)	2.5	(0.8)

In the prior 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 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Balance at the year start	403.5	355.6	340.2	294.9
Reclassifications	–	22.8	–	22.8
Purchases	69.1	45.5	55.6	28.8
Disposal proceeds	(32.6)	(71.5)	(29.1)	(47.7)
Gains and losses on investments sold in the year	(73.2)	17.8	(36.8)	9.6
Gains and losses on investments held at the year end	48.3	33.3	15.0	31.8
Balance at the year end	415.1	403.5	344.9	340.2

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 2010 and 2011	2.9	0.4	1.3	4.6
Shares cancelled	(0.1)	–	–	(0.1)
Balance at 31 March 2012	2.8	0.4	1.3	4.5

The number of fully paid shares issued was as follows:

	Ordinary shares 2012 000's	Ordinary shares 2011 000's	Deferred ordinary shares 2012 000's	Deferred ordinary shares 2011 000's
Balance at the year start	58,795	58,795	8,000	8,000
Shares cancelled	(1,436)	–	–	–
Balance at the year end	57,359	58,795	8,000	8,000

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

As at 31 March 2012, the issued share capital of the company comprised 57,358,801 ordinary shares (2011 – 58,794,781) and 8,000,000 deferred ordinary shares (2011 – 8,000,000). The ordinary and deferred ordinary shares have a nominal value 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. In respect of the company's ordinary shares that are held by the group, all voting rights are suspended.

Notes to the financial statements continued

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 2012, the capital redemption reserve was £1.3m (2011 and 2010 – £1.2m). The movement of £0.1m arose from the cancellation of 1,435,980 shares in the year (2011 and 2010 – £nil).

Reserves

Company

	Capital reserve 2012 £m	Capital reserve 2011 £m	Revenue reserve 2012 £m	Revenue reserve 2011 £m
Total comprehensive income	(116.2)	60.7	23.0	23.4
Share-based payments	–	–	1.1	(0.4)
Own shares cancelled	(22.3)	–	–	–
Dividends to shareholders	–	–	(21.8)	(6.4)
	(138.5)	60.7	2.3	16.6
Balance at the year start	992.8	932.1	288.3	271.7
Balance at the year end	854.3	992.8	290.6	288.3

Group

	Translation reserve £m	Retained earnings £m	Non-controlling interest £m
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)
Total comprehensive income	–	(102.0)	0.4
Non-controlling interest disposed	–	–	3.3
Non-controlling interest acquired	–	(1.0)	–
Own shares cancelled	–	(22.3)	–
Share-based payments	–	1.1	–
Dividends paid	–	(21.8)	(0.3)
Balance at 31 March 2012	4.3	1,121.7	3.0

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 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Balance at the year start	28.2	28.0	28.2	28.0
Additions	0.7	0.2	0.7	0.2
Shares cancelled	(9.6)	–	(9.6)	–
Disposals	(2.6)	–	(2.6)	–
Balance at the year end	16.7	28.2	16.7	28.2

Company

The company own shares reserve represents the net cost to the employee share trust of acquiring shares to satisfy employee share options, performance share awards and deferred bonus awards and the cost of shares in Caledonia purchased in the market and held in treasury in the prior year.

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 acquired subsidiaries for an aggregate consideration of £3.4m. The group also paid deferred consideration of £0.8m for the purchase of a US subsidiary in 2009 and £0.2m for a non-controlling interest acquired in 2011.

In the prior 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.

The aggregate net assets of subsidiaries acquired in the year were as follows;

	2012 £m	2011 £m
Intangible assets	0.6	–
Investments held at fair value through profit or loss	0.8	–
Property, plant and equipment	0.5	–
Inventories	0.5	–
Trade and other receivables	1.1	–
Cash and cash equivalents	1.8	–
Trade and other payables	(0.9)	–
Deferred tax liabilities	(0.1)	–
Net assets acquired	4.3	–
Goodwill	0.2	–
Fair value of investment held	(1.1)	–
Non-controlling interests acquired	–	2.0
Deferred consideration	1.0	0.2
Consideration	4.4	2.2
Satisfied by		
Cash	4.4	2.2
Cash and cash equivalents acquired	(1.8)	–
Net cash outflow arising on acquisition		
Cash consideration	2.6	2.2

24. Disposal of subsidiaries

The aggregate net assets of subsidiaries sold were as follows:

	2012 £m	2011 £m
Goodwill	2.4	–
Property, plant and equipment	0.1	3.5
Investment property	10.8	–
Inventories	–	1.3
Deferred tax assets	0.1	–
Trade and other receivables	1.5	2.5
Current tax assets	–	0.2
Cash and cash equivalents	1.2	1.1
Interest-bearing loans and borrowings	(2.4)	(0.5)
Trade and other payables	(1.6)	(1.7)
Current employee benefits	–	(0.3)
Current tax liabilities	(0.1)	–
Non-current employee benefits	–	(0.3)
	12.0	5.8
Foreign exchange loss on disposal	–	0.1
Non-controlling interest disposed	3.3	–
Gain/(loss) on disposal	(1.2)	10.6
Total consideration	14.1	16.5
Net cash inflow arising on disposal		
Cash and cash equivalents received	14.1	16.5
Cash and cash equivalents sold	(1.2)	(1.1)
	12.9	15.4

25. Operating leases

Leases as lessee

Non-cancellable operating lease rentals were payable as follows:

	Group 2012 £m	Group 2011 £m
Less than one year	1.2	2.0
Between one and five years	3.4	4.6
More than five years	11.0	11.4
	15.6	18.0

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 2012, £1.2m (2011 – £2.3m) 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 2012 £m	Group 2011 £m
Less than one year	2.5	2.5
Between one and five years	6.2	8.1
More than five years	5.5	1.9
	14.2	12.5

During the year ended 31 March 2012, £2.0m (2011 – £2.2m) was recognised as income in the statement of comprehensive income in respect of operating leases.

26. 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		Group	
	2012 £m	2011 £m	2012 £m	2011 £m
Investments				
Contracted but not called	67.5	66.3	67.5	66.3
Conditionally contracted	12.9	18.6	12.9	18.6
	80.4	84.9	80.4	84.9

At the reporting date, the company had entered into a non-discretionary share buy-back arrangement with JP Morgan Securities to acquire its own shares for cancellation, within certain parameters, up to a limit of £20m. The arrangement terminated on the 23 May 2012.

27. Contingencies

The company has provided guarantees capped at £6.5m and £3.7m to the trustees of the Caledonia Pension Scheme and Sterling Industries Pension Scheme respectively in respect of the liabilities of the participating employers of those schemes.

At 31 March 2012, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

Notes to the financial statements continued

28. Related parties

Identity of related parties

The company and group had a related party relationship with its subsidiaries (note 30), associates (note 31), 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 34.2% of the voting shares of the company as at 31 March 2012 (2011 – 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 51 in the Directors' remuneration report.

The key management personnel compensation was as follows:

	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m
Short term employee benefits	2.0	3.3	2.0	3.3
Post-employment benefits	0.2	0.3	0.2	0.3
Termination benefits	0.4	–	0.4	–
Equity compensation benefits	0.8	(0.4)	0.8	(0.4)
	3.4	3.2	3.4	3.2

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

During the year, the group invoiced and received £0.1m (2011 – £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:

	2012 Amount of transactions £m	2012 Balance at year end £m	2011 Amount of transactions £m	2011 Balance at year end £m
Comprehensive income items				
Guarantee fees receivable	0.2	0.1	0.4	0.1
Dividends receivable on equity shares	3.3	–	8.9	–
Capital distributions receivable	1.1	–	8.3	–
Interest receivable on loan securities	–	–	0.3	–
Management fees payable	(11.0)	(1.0)	(9.1)	0.2
Taxation	1.2	0.5	(0.1)	–
Financial position items				
Investments purchased	–	–	1.8	–
Equity subscribed	5.6	–	14.6	–
Capital contributions	11.1	–	–	–
Loans advanced	(13.3)	20.3	15.0	33.6
Loans received	(2.5)	(2.5)	–	–
Guarantees	19.1	(70.8)	8.2	(89.9)

Associates and joint ventures

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

	2012 Amount of transactions £m	2012 Balance at year end £m	2011 Amount of transactions £m	2011 Balance at year end £m
Company				
Dividends receivable on equity shares	3.8	–	4.6	–
Interest receivable on loan securities	1.9	–	2.6	–
Equity subscribed	16.7	–	0.2	–
Loans advanced	(6.8)	50.7	(8.8)	57.5
Other group companies				
Directors' fees receivable	0.3	0.1	0.3	0.1
Investments purchased	4.5	–	–	–

29. 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. Cash and cash equivalents and other items are not identifiable operating segments.

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 2012 £m	Profit or loss before tax 2011 £m	Assets 2012 £m	Assets 2011 £m
Quoted	(32.2)	30.2	402.7	427.0
Unquoted	(20.7)	57.2	280.4	281.2
Asia	(18.6)	3.3	147.7	159.0
Property	(7.5)	(7.3)	96.7	105.3
Funds	(12.0)	21.5	145.9	198.6
Income & Growth	5.3	–	110.6	12.1
Total revenue/investments	(85.7)	104.9	1,184.0	1,183.2
Cash and cash equivalents	0.8	0.7	8.4	101.2
Other items	(10.7)	(20.1)	(58.4)	(25.7)
Reportable total	(95.6)	85.5	1,134.0	1,258.7
Eliminations	(0.6)	(11.7)	141.1	121.6
Group total	(96.2)	73.8	1,275.1	1,380.3

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
2012				
Revenue	(45.2)	57.1	15.8	27.7
Non-current assets	52.3	4.2	38.5	95.0
2011				
Revenue	85.5	49.0	71.1	205.6
Non-current assets	60.4	4.4	47.1	111.9

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

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

30. Group entities

Significant subsidiaries were as follows:

Name	Country of domicile	Ownership 2012 %	Ownership 2011 %
Amber 2010 Ltd	UK	100	100
Amber Chemical Company 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 Sloane Gardens Ltd	UK	100	100
Caledonia Treasury Ltd	UK	100	100
Easybox Sarl	Luxembourg	100	100
Edinmore Holdings Ltd	UK	100	100
Edinmore Investments Four Ltd	UK	100	100
Ocean Dial Group Ltd	UK	100	
Ocean Dial Gateway to India Ltd	Mauritius	94	94
Sloane Club Holdings Ltd	UK	100	100
Sterling Industries PLC	UK	100	100

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

31. 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 2012 %	Ownership 2011 %
B&W Group Ltd	UK	20	
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
Marwadi Shares & Finance Ltd	India	32	
Omniport Holdings Ltd	UK	39	39
Oval Ltd	UK	24	24
Real Estate Investors PLC	UK	30	30
Satellite Information Services Ltd	UK	23	23
Seven Publishing Group 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:

	2012 £m	2011 £m
Assets	950.8	921.6
Liabilities	(622.0)	(611.1)
Equity	328.8	310.5
Revenues	912.5	729.0
Profit/(loss)	(9.8)	20.3

32. 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 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) 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.investorcentre.com/nz. 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 £11,280 (for the tax year ending 5 April 2013). 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 from 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 from 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.

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

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]
Roderick D Kent[2,4]
David G F Thompson[1,2,3,4]
Robert B Woods CBE[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
Charles H Edwards
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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