# Caledonia Investments plc

## Final results for the year ended 31 March 2012

### Highlights

- 7.0% decrease in diluted NAV total return over the year vs 1.4% increase in the FTSE All-Share Total Return index
- 118.9% total shareholder return over ten years (53.4% outperformance vs FTSE All-Share Total Return index)
- Substantial increase in the dividend for the year of 15.6% to 42.9p. Further increases in dividend likely as portfolio income rises
- Significant progress on strategic initiatives to enhance portfolio income, strengthen management and refine investment processes
- Portfolio transition progressing well, £248m invested and £130m realised
- Income & Growth pool successfully established at £111m with target £200m over next two years
- Rod Kent to succeed James Loudon as Chairman from July 2012

| | *31 Mar 2012* | *31 Mar 2011* | *Year 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% |
| Share price | 1486p | 1725p | -13.9% |

| *Net asset value total return* | *1 year* | *5 years* | *9 years* |
|---|---|---|---|
| Caledonia | -7.0% | -4.6% | 153.7% |
| FTSE All-Share | 1.4% | 9.5% | 135.8% |
| Out/(under) performance | -8.4% | -14.1% | 17.9% |

**Will Wyatt, Chief Executive**, commented:

***"We are making good progress in implementing our key initiatives for the business. We have focused on increasing the yield from the portfolio and are pleased that early benefits of this have allowed us to recommend a substantial increase in our dividend of 15.6% whilst maintaining our longstanding commitment to a progressive dividend policy.***

***"Much has been achieved in refocusing our portfolio to a smaller number of larger holdings and our 'pool' strategy has given our managers greater accountability and focus. These are not easy markets, but I am confident that what we are doing will deliver our shareholders a good return over the longer term."***

**24 May 2012**

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# Chairman's statement

## 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.

**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 sub scale 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

## 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 requires 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 capitalisation.

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 this 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 valn £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 manager 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.

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 quoted 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 investments 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.

| Region | 2012 £m | % | 2011 £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 review

The year ended 31 March 2012 again saw significant volatility in the 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 movements

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 re-investment in the year of net cash realised during the previous year. The following table illustrates the components of this movement:

| | £m |
|---|---|
| Opening balance | 1,183.2 |
| Investments | 247.8 |
| Realisations | (129.7) |
| Gains/losses and other | (117.3) |
| Closing balance | 1,184.0 |

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 table shows the distribution of total assets (net assets with borrowings added back) between the pools.

| Pool | 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 of within the Income & Growth pool.

*Investments*
Total investments during the year were £247.8m (2011 - £116.7m), summarised as follows:

| Name | Pool | Cost £m |
|---|---|---|
| *New investments* | | |
| B&W Group | 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 | Inc&Grwth | 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 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 | Inc&Grwth | 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 £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 table 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.

| Region | 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 table 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 | 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 table 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 | 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 29.9%.

The following table illustrates the components of return contributing to the total shareholder return over five years.

| | Index |
|---|---|
| At 31 March 2007 | 100.0 |
| FTSE return | 9.5 |
| Capital shortfall | (5.4) |
| Income shortfall | (9.3) |
| Discount/other | (15.2) |
| At 31 March 2012 | 79.6 |

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 9.5% 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 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 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 |
| B&W Group[1] | Unquoted | UK | Audio equipment | 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.

# Quoted pool

The Quoted pool represents a concentrated portfolio of holdings in listed companies. 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 added new or follow-on holdings, and realised £14.6m with the sale of our holding in Novae.

All of the new companies added to the pool (profiled below) 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 run very well by an experienced management team for a number of years, without taking on debt whilst maintaining very 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 after market. 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 | Geo-graphy | Held since | Equity held % | Residual cost £m | Value £m | Pool % | Income/(expense) recognised in 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.

## Unquoted pool

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

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 portfolio, 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 Securities 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 portfolio 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 where a management restructure 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 portfolio 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 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 year | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Business | Geo-graphy | Held since | 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 |
| B&W Group | 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.

## 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.

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.

### Top investments

| Name | Business | Geo-graphy | Held since | Equity held % | Residual cost £m | Value £m | Pool % | Income/(expense) recognised in year Revenue £m | Income/(expense) recognised in year 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.

## 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 | Geo-graphy | Held since | Equity held % | Residual cost £m | Value £m | Pool % | Income/(expense) recognised in year Revenue £m | Income/(expense) recognised in 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.

# 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.

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 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 of 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 more 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 £55.8m of undrawn commitments. The pool also contains £71.3m 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 | Geo-graphy | Held since | Equity held % | Residual cost £m | Value £m | Pool % | Income/(expense) recognised in 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.

# 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.

| 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 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.

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 businesses 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 were as follows:

| | £m |
|---|---|
| Opening NAV | 1,258.7 |
| Revenue return | 23.0 |
| Capital return | (116.2) |
| Dividends | (21.8) |
| Other | (9.7) |
| Closing NAV | 1,134.0 |

**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 at £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 the investment portfolio value were as follows:

| | £m |
|---|---|
| Opening balance | 1,183.2 |
| Listed net losses | (88.3) |
| Unlisted net losses | (29.0) |
| Net investment | 118.1 |
| Closing balance | 1,184.0 |

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 table shows the source of valuations across the portfolio:

| | % |
|---|---|
| Market prices | 61 |
| Fund managers | 15 |
| Property valuers | 5 |
| Directors' valuation | 19 |
| | 100 |

### 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 which was largely covered by the year's revenue earnings of £23.0m.

If it is 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 value. 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:

| Pool | £m |
|---|---|
| Quoted | (6.2) |
| Unquoted | (18.4) |
| Asia | (7.6) |
| Property | 1.1 |
| Funds | 40.7 |
| Income & Growth | (100.2) |
| Other | (47.2) |
| | (137.8) |

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.

# 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*<br>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.<br>• Improving the portfolio yield to support an increased dividend component of total return.<br>• Active reduction of small, subscale, illiquid investments. |
| *Market*<br>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. | Market risks and sensitivities are reviewed on a weekly basis and actions taken to balance appropriately risk and return. | • Management of portfolio through distinct pools of capital targeting complementary unique risk return profiles now embedded into operations.<br>• 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.<br>• 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. |
| 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.<br>• 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 potentially new tax rules as well as the potential burden of new regulation. | A Compliance Committee 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 the issues the proposed EU and other legislation brings to the UK investment trust industry. |

| | | |
|---|---|---|
| *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.<br>• 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. External auditors review each valuation. | • The strategic focus on unquoted investments of greater substance and maturity reduces risk and makes benchmark valuation more robust.<br>• 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 institutional and individual shareholders and listen to any concerns they may have.

## Workplace

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

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

| | 2012 Revenue £m | 2012 Capital £m | 2012 Total £m | 2011 Revenue £m | 2011 Capital £m | 2011 Total £m |
|---|---|---|---|---|---|---|
| ***Revenue*** | | | | | | |
| Investment income | 33.3 | - | 33.3 | 33.2 | - | 33.2 |
| Gains and losses on fair value investments | - | (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 | (11.8) | (0.6) | (12.4) | (9.7) | (0.5) | (10.2) |
| Guarantee obligations provided | - | (7.0) | (7.0) | - | (10.0) | (10.0) |
| Guarantee obligations released | - | 10.0 | 10.0 | - | - | - |
| **Profit / (loss) before finance costs** | 21.5 | (116.6) | (95.1) | 23.5 | 61.2 | 84.7 |
| Treasury interest receivable | 0.8 | - | 0.8 | 0.7 | - | 0.7 |
| Finance costs | (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 | 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 | 39.9p | -201.7p | -161.8p | 40.5p | 105.0p | 145.5p |
| Diluted earnings per share | 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.

# Company statement of financial position
# at 31 March 2012

| | 2012<br>£m | 2011<br>£m |
|---|---|---|
| ***Non-current assets*** | | |
| 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 |
| Non-current assets | 1,181.5 | 1,184.0 |
| ***Current assets*** | | |
| Derivative financial instruments | 2.5 | - |
| Trade and other receivables | 8.0 | 3.6 |
| Current tax assets | 0.9 | - |
| Cash and cash equivalents | 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 | (6.4) | (9.4) |
| Current tax liabilities | - | (0.5) |
| Provisions | (15.9) | (18.9) |
| Current liabilities | (22.3) | (29.6) |
| ***Non-current liabilities*** | | |
| Interest-bearing loans and borrowings | (45.0) | - |
| Deferred tax liabilities | - | (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 | 3.2 | 3.3 |
| Share premium | 1.3 | 1.3 |
| Capital redemption reserve | 1.3 | 1.2 |
| Capital reserve | 854.3 | 992.8 |
| Retained earnings | 290.6 | 288.3 |
| Own shares | (16.7) | (28.2) |
| **Total equity** | 1,134.0 | 1,258.7 |
| | | |
| Undiluted net asset value per share | 1989p | 2180p |
| Diluted net asset value per share | 1977p | 2165p |

The financial statements on 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

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

| | Share capital £m | Share premium £m | Capital redemptn 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 |

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

| | 2012 £m | 2011 £m |
|---|---|---|
| ***Revenue*** | | |
| Investment and other income | 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 | (12.4) | (10.2) |
| Trade operating expenses | (107.1) | (126.2) |
| Gain/(loss) on disposal of operations | (1.2) | 10.6 |
| Gain/(loss) on investment property | 0.3 | (0.3) |
| Share of results of joint ventures | (1.0) | (3.8) |
| **Profit / (loss) before finance costs** | (93.7) | 75.7 |
| Treasury interest receivable | 0.7 | 0.4 |
| Finance costs | (2.4) | (2.4) |
| Exchange movements | (0.8) | 0.1 |
| **Profit / (loss) before tax** | (96.2) | 73.8 |
| Taxation | (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 | - | 0.1 |
| Actuarial gains/(losses) on defined benefit pension schemes | (4.9) | 0.7 |
| Tax on other comprehensive income | 1.5 | (0.2) |
| **Total comprehensive income** | (101.6) | 66.9 |
| | | |
| ***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 |
| ***Total comprehensive income attributable to*** | | |
| Owners of the parent | (102.0) | 68.2 |
| Non-controlling interest | 0.4 | (1.3) |
| | (101.6) | 66.9 |
| | | |
| Basic earnings per share | -171.2p | 119.0p |
| Diluted earnings per share | -171.2p | 118.7p |

# Group statement of financial position at 31 March 2012

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

The financial statements 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

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

| | Share capital £m | Share premium £m | Capital redemptn reserve £m | Retained earnings £m | Currency translatn reserve £m | Own shares £m | Non-con-trolling 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 |

# Company and group statements of cash flows for the year ended 31 March 2012

| | Company | | Group | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | £m | £m | £m | £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 derivatives | 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 | - | - | 1.4 | - |
| Purchases of subsidiaries net of cash acquired | - | - | (2.6) | (2.2) |
| Loans advanced | (4.4) | - | (4.4) | - |
| Proceeds from disposal of subsidiaries net of cash disposed | - | - | 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** | 8.4 | 101.2 | 24.6 | 121.5 |

# Notes to the final results announcement

## 1. General information

Caledonia Investments plc is an investment trust company domiciled in the United Kingdom and incorporated in England, 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.

The financial information included in this announcement has been prepared using accounting policies consistent with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

## 2. Dividends

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

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | p/share | £m | p/share | £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 | 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 – £21.8m).

## 3. 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 | | Capital | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | £m | £m | £m | £m |
| Profit/(loss) for the year | 23.0 | 23.4 | (116.2) | 60.7 |

The profit attributable to shareholders was as follows:

| | Company | | Group | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | £m | £m | £m | £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 | | Group | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | 000's | 000's | 000's | 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 (in the prior year). 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 shares and deferred bonus awards.

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Net assets £m | Number of shares 000's | NAV p/share | Net assets £m | Number of shares 000's | 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 |

## 4. Operating segments

The following is an analysis of the profit or loss before tax and assets for the year analysed by primary operating segments:

| | Profit or loss before tax | | Assets | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | £m | £m | £m | £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 |

## 5. Impairment of assets

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.

## 6. Share-based payments

In the year to 31 March 2012, participating employees in the performance share scheme were awarded options over 226,461 shares at nil-cost (2011 - 245,617 share options at 1547p per share). The weighted average fair value of these shares, taken from their share price at the date of grant, was 1545p per share (2011 – 468p per share weighted average fair value at the date of grant).

Also in the year to 31 March 2012, participating employees in the deferred bonus plan compulsorily and voluntarily applied a proportion of their annual bonuses to purchase 23,632 shares (2011 - 7,707 shares). Matching awards of 23,632 shares were granted (2011 - 7,707 shares), which depend on company performance. The fair value of the bonus deferral shares was measured directly as the bonus foregone and was equivalent to 1734p per share (2011 - 1547p per share). The fair value of the matching shares was also 1734p per share, on a market neutral valuation basis (2011 - 1547p per share).

The IFRS 2 expense included in profit or loss for the year was £1.1m (2011 - £0.4m credit).

## 7. Provisions

During the year, the company recognised a £7.0m bank guarantees 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. Investment provisions have been allocated to the capital reserve. Other provisions in the group related to warranty claims. Provisions are based on an estimate of the expenditure to be incurred as a result of past events. The matters that gave rise to the provisions were expected to be resolved over the next year.

## 8. 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 | 2011 | 2012 | 2011 |
| | £m | £m | £m | £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 |

## 9. Related parties

Caledonia Group Services Ltd, a wholly-owned subsidiary of the company, provides management services to the company. During the year, £11.0m was charged by Caledonia Group Services Ltd to the company (2011 - £9.1m).

## 10. Financial information

The information in this final results announcement does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006 (the 'Act'), but has been derived from the statutory accounts for the year ended 31 March 2012. The auditors have reported on those statutory accounts and their report was not qualified and did not contain statements under section 498 of the Act.

The statutory accounts for the year ended 31 March 2012 will be posted to shareholders on 18 June 2012 and made available for download from the company's website on 19 June 2012. Also, a copy will be delivered to the Registrar of Companies in accordance with section 441 of the Act, following approval by shareholders.

The statutory accounts for the year ended 31 March 2012 include a 'Directors' statement of responsibility' as follows:

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:

Will Wyatt
Chief Executive
24 May 2012

Stephen King
Finance Director
24 May 2012

**END**

*Copies of this statement are available at the company's registered office, Cayzer House, 30 Buckingham Gate, London SW1E 6NN, United Kingdom, or from its website at www.caledonia.com. Neither the contents of the company's website nor the contents of any website accessible from hyperlinks on the company's website (or any other website) is incorporated into, or forms part of, this announcement.*